

**Half Year Report**  
**December 31, 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>	<b>MCB-Arif Habib Savings &amp; Investments Limited</b> 24th Floor, Centre Point, Off Shaheed-e-Millat Expressway Near K.P.T. Interchange, Karachi.	
<b>Board of Directors</b>	Mian Mohammad 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 Ahmed	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 &amp; Company Secretary</b>	Mr. Abdul Basit	
<b>Trustee</b>	<b>Central Depository Company of Pakistan Ltd.</b> CDC House, 99-B, Block 'B' S.M.C.H.S Main Shahra-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 NRSP Micro Finance Bank Limited	
<b>Auditors</b>	<b>A.F. Ferguson &amp; Co.</b> Chartered Accountants (A Member Firm of PWC Network) State Life Building 1-C I.I. Chundrigar Road, Karachi.	
<b>Legal Advisor</b>	<b>Bawaney &amp; Partners</b> 3rd & 4th Floor, 68 C, Lane 13, Bukhari Commercial Area Phase VI, D.H.A., Karachi	
<b>Transfer Agent</b>	<b>MCB-Arif Habib Savings &amp; Investments Limited</b> 24th Floor, Centre Point, 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 THE MANAGEMENT COMPANY FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

Dear Investor,

On behalf of the Board of Directors, I am pleased to present **MCB Islamic Income Fund** account review for the half ended December 31, 2016.

## ECONOMY AND MONEY MARKET OVERVIEW

Weakness in external account raised concerns in otherwise progressive improvement in headline economic indicators continuing for the last 2 years. Weak trade balance, primarily due to subdued trend in exports and higher imports alongwith weak contribution from services and remittances kept the pressure on overall Current Account balance which widened 92% in 1HFY17 to USD 3.6 billion. It is pertinent to note that partial increase in imports is triggered by machinery imports which have increased by 8.3% alongwith increase in oil import bill which is expected to widen further given recent arrangements from OPEC to support Int'l Crude Oil prices. The cushion to Balance of Payments was bolstered by financial account of USD 3.7 bn where major respite came from the net borrowing of USD 740 million alongwith the inflow materialized in FDI on completion of acquisition of stake in Engro Foods by Freisland Campina. Overall balance of the Balance of Payments stood at USD 225 mn compared to USD 1.5 bn during same period of last year.

Foreign exchange reserves stood at USD 23.2 bn (06<sup>th</sup> Jan 2017). It is pertinent to note that SBP reserves explain most of the volatility in Forex reserves where government borrowing and retirement of loans has net negative balance in 1HFY17 while closing approx USD 1bn lower from peak seen in Oct 16.

Undergoing appreciation of about 0.4% in 1HFY17, PKR continues to remain resilient against USD which also raises concerns given the relative weakness in other developing economies and also reflected from REER as measured by SBP reaching to a high of 126 depicting significant overvaluation.

Fiscal deficit increased to 1.3 % (1QFY17) of GDP as against 1.1% in SPLY due to sharp decline in non-tax revenue. On provisional basis, tax authority has managed to collect PKR 1,460 billion during 1HFY17, recording a shortfall of PKR ~127 billion from the desired target. With annual tax collection target of PKR 3.6 trillion; demanding a growth rate of 17% YoY, and higher development spending, fiscal deficit is likely to exceed 4.5% against budgetary target of 3.8%. Focus of government on development spending is however positive for the overall long term direction and thus slippage on this front is not a major concern.

LSM grew by 3.24% YoY in 5MFY17. The growth is driven through consumer, electrical, automobiles and cement manufacturing.

Inflation continued its upward trajectory with first half averaging 3.88% compared to 2.08% for 1HFY16. The withering of low base effect along with inherent increases in food and housing pricing triggered inflationary pressures. The government kept on absorbing the incremental petrol prices which kept the inflation subdued.

M2 growth posted year to date growth of 5.45% by the end of the year. The deposits grew seasonally by PKR 420 bn in a week supported by year end efforts of banks to expand balance sheet size. Thereafter, the M2 growth has normalized to 3.68%. Moreover, the abnormal accumulation in currency in circulation (CIC) last year triggered after imposition of withholding tax on cash withdrawals has normalized though CIC to M2 ratio is still high at 26% against previous average of 22%. The Net Domestic Assets increased by PKR 518 bn supported by net government sector borrowings of PKR 390 bn.

## FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 5.44% as against its benchmark return of 3.23%.

During the period, the fund had been decreasing its exposure from GoP Ijarah Sukuk, which stood at 11.7% at period-end. The fund was 23.7% invested in Corporate Sukuk while most of the remaining exposure was in cash and bank deposits at relatively attractive rates due to CY end of banks.

The Net Assets of the Fund as at December 31, 2016 stood at Rs. 860 million as compared to Rs. 968 million as at June 30, 2016 registering a decrease of 11.15%.

The Net Asset Value (NAV) per unit as at December 31, 2016 was Rs. 103.4268 as compared to opening NAV of Rs. 100.6677 per unit as at June 30, 2016 registering an increase of Rs. 2.7591 per unit.

## FUTURE OUTLOOK

The reversal in crude oil prices is expected to wither of the fiscal space previously available amid growing import bill. The recent decision by government to revise up petroleum prices in its latest fortnightly decision points towards constricting fiscal liberty.

The recently announced textile package is expected to provide support to the export sector. However, the overvalued currency as depicted from REER still remains a blockade for export competitiveness of the country however the same may remain deferred till the government continues to fund the gap through borrowing.

## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

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The inflationary pressures are also expected to succumb to expected increments in petroleum prices along with its trickle down impact on food inflation. We expect inflation for the year to average ~4.3%. It is pertinent to note inflation for next half of the year is expected to average around 4.8% with inflation for closing months of the year to exceed 5%.

While, we expect interest rates to remain stable in the short term given the stable inflationary trends, exchange rate overvaluation along with weak external account suggest a close review of emerging trends with potential for inflection on either side though biased in favor of monetary tightening.

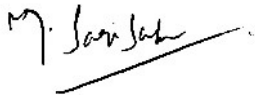
The China Pakistan Economic Corridor is expected to provide much needed impetus to growth with above \$50 billion program expected to spur activity in the construction and power space which would have its trickle down affects. However, the current account is expected to worsen with import bill increasing in the short term along with the Foreign Direct Investment inflows. Profit repatriation in the long term would also be a concern for the balance of payments position.

Pakistan being in an economic expansionary cycle amid better positioning due to lower/stable interest rate environment along with growth trigger in the form China Pakistan Economic Corridor would fare better compared to other Emerging Market economies. The program is expected to favour the construction and allied industrial sectors. Banking sector is also expected to be beneficiary of strong advances growth in a stable interest rate environment. The MSCI specific companies are expected to gain limelight as formal inclusion nears. However, the volatility in global markets lead by uncertainty in global economies after Trump's induction as US President and redemption pressures on emerging market funds would keep the short term market performance in check. But we reiterate our positive stance on 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.

For and on behalf of the Board,



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**Muhammad Saqib Saleem**  
Chief Executive Officer  
February 2, 2017



## عزیز سرمایہ کار

بورڈ آف ڈائریکٹرز کی طرف سے ایم سی بی اسلامک انکم فنڈ کے 31 دسمبر 2016ء کو ختم ہونے والی پہلی ششماہی کے اکاؤنٹس کا جائزہ پیش خدمت ہے۔

### معیشت اور بازار زر کا مجموعی جائزہ

خارجی اکاؤنٹ میں کمزوری نے اہم ترین معاشی علامات میں گزشتہ 2 برسوں سے جاری ترقیاتی بہتری میں خدشات پیدا کیے۔ کمزور تجارتی توازن کے باعث، جس کی بنیادی وجوہات برآمدات کا پست رجحان اور پہلے سے زیادہ درآمدات، بشمول سروسز اور ترسیلات زر کی کمزور کارکردگی ہیں، مجموعی کرنٹ اکاؤنٹ بیلنس پر دباؤ رہا جو 2017ء کی پہلی ششماہی میں 92% بڑھ کر 3.6 بلین ڈالر ہو گیا۔ یاد رہے کہ درآمدات میں جزوی اضافے کی محرک مشینری کی درآمدات ہیں جن میں 8.3% اضافہ ہوا، بشمول تیل کی درآمدات میں اضافے کے، جس میں OPEC کے خام تیل کی بین الاقوامی قیمتوں میں معاونت کے حالیہ اقدامات کے پیش نظر مزید اضافہ متوقع ہے۔ ادائیگیوں کے توازن کے تحفظ کی 3.7 بلین ڈالر کے مالیاتی اکاؤنٹ سے حوصلہ افزائی ہوئی، اور اس ضمن میں اہم ترین پیش رفت 740 ملین ڈالر کے قرض، بشمول اینگرو فوڈز میں Freisland Campina کی حصص داری کی تکمیل پر FDI (غیر ملکی براہ راست سرمایہ کاری) میں اضافے سے ہوئی۔ ادائیگیوں کے توازن کا مجموعی بیلنس 225 ملین ڈالر تھا، جبکہ گزشتہ سال کی اسی مدت کے دوران 1.5 بلین ڈالر تھا۔

زرمبادلہ کے ذخائر 23.2 بلین ڈالر تھے (06 جنوری 2017ء)۔ یاد رہے کہ فوریکس ذخائر میں اتار چڑھاؤ کا سبب SBP (اسٹیٹ بینک آف پاکستان) کے ذخائر ہیں، جہاں 2017ء کی پہلی ششماہی میں حکومت کے قرضوں کے حصول اور قرضوں کی ریٹائرمنٹ کا منفی بیلنس ہے جبکہ اکتوبر 2016ء میں بلند ترین سطح سے تقریباً 1 بلین ڈالر کم پر کلوزنگ ہوئی۔ پاکستانی روپیہ 2017ء کی پہلی ششماہی میں تقریباً 0.4% ترقی کر کے امریکی ڈالر کے مقابلے میں یکدہار رہا، اور اس سے بھی دیگر ترقی پذیر معیشتوں میں کمزوری کو مد نظر رکھتے ہوئے خدشات پیدا ہوئے جن کا اظہار SBP کے پینائش کردہ REER سے ہوا، جو 126 کی بلند سطح پر پہنچا جس سے خطیر اضافے کی عکاسی ہوتی ہے۔

مالیاتی خسارہ (مالی سال 2017ء کی پہلی سہ ماہی میں) غیر ٹیکس آمدنی میں تیزی سے کمی کے باعث GDP (مجموعی غیر ملکی پیداوار) کے 1.3% تک بڑھ گیا، بالمقابل SPLY میں 1.1% کے ٹیکس اتھارٹی 2017ء کی پہلی ششماہی کے دوران عارضی بنیادوں پر 1,460 بلین روپے جمع کر سکی، جو مطلوبہ ہدف سے 127 بلین روپے کم ہے۔ 3.6 ٹریلین روپے سالانہ ٹیکس کے ہدف کے پیش نظر، جو YoY 17% کی ترقیاتی شرح اور ترقیاتی کاموں میں زیادہ خرچ کرنے کا تقاضہ کرتا ہے، مالیاتی خسارے میں بجٹ کے 3.8% کے ہدف کے مقابلے میں 4.5% اضافہ متوقع ہے۔ تاہم ترقیاتی کاموں پر خرچ کرنے پر حکومتی توجہ مجموعی طور پر طویل المیعاد سمت میں مثبت ہے، چنانچہ اس گوشے میں انحطاط بڑا مسئلہ نہیں ہے۔

LSM میں 5MFY17 میں 3.24% YoY ترقی ہوئی جس کے اسباب کمزور یومر، الیکٹریکل، آٹوموبائلز اور سیمنٹ مینوفیکچرنگ ہیں۔

افراط زر میں بدستور اضافہ ہوتا رہا؛ پہلی ششماہی میں افراط زر کا اوسط 33.8% تھا جبکہ 2016ء کی پہلی ششماہی میں 2.08% تھا۔ پہلے سے پست base effect میں بتدریج کمی اور اشیائے خورد و نوش اور ہاؤسنگ کی قیمتوں میں فی نفسہ اضافے افراط زر کے دباؤ کے محرک بنے۔ حکومت پٹرول کی بڑھتی ہوئی قیمتوں کا اثر جذب کرتی رہی جس کے باعث افراط زر کی سطح پست رہی۔ M2 ترقی میں سال کے اختتام تک 5.45% year to date ترقی ہوئی۔ اختتام سال پریکٹوں کی بیلنس شیٹ کا حجم وسیع کرنے کی کوششوں کی مدد سے ڈپازٹس میں ایک ہفتے میں 420 بلین روپے مسمی ترقی ہوئی۔ اس کے بعد M2 ترقی 3.68% کی عمومی سطح تک پہنچ گئی۔ علاوہ ازیں، گزشتہ سال نقد رقم نکالنے پر وہولڈنگ ٹیکس عائد کرنے کی وجہ سے زیر گردش روپے (CIC) میں جو غیر معمولی انبار لگ گیا تھا وہ عمومی سطح پر آ گیا ہے، اگرچہ CIC کا M2 سے تناسب اب 2.6% ہے جو گزشتہ اوسط 2.2% سے زیادہ ہے۔ حکومتی سیکٹر کی 390 بلین

روپے قرضوں کی net حصول کی مدد سے net مقامی اثاثہ جات میں 518 ملین روپے اضافہ ہوا۔

## فنڈ کی کارکردگی

زیر جائزہ مدت کے دوران فنڈ کا ایک سال پر محیط منافع مقررہ معیار 3.23% کے مقابلے میں 5.44% تھا۔

دورانِ مدت فنڈ نے حکومت پاکستان کے اجارہ سگ میں اپنی شمولیت میں کی، جو اختتامِ مدت پر 11.7% تھی۔ فنڈ کی سرمایہ کاری 23.7% کارپوریٹ سگ میں تھی جبکہ باقی کا بڑا حصہ نقد اور بینک ڈپازٹس میں بینکوں کے CY end کے باعث نسبتاً کم کٹشٹ شرحوں پر تھا۔

31 دسمبر 2016ء کو فنڈ کے net اثاثہ جات کی مالیت 860 ملین روپے تھی، جو 30 جون 2016ء پر 968 ملین روپے مالیت کے مقابلے میں 11.15% کم ہے۔

31 دسمبر 2016ء کو net اثاثہ جاتی قدر (NAV) فی یونٹ 103.4268 روپے تھی، جو 30 جون 2016ء پر 100.6677 روپے قدر کے مقابلے میں 2.7591 روپے

یونٹ زیادہ ہے۔

## مستقبل کا منظر

خام تیل کی قیمتوں کی واپسی سے بڑھتے ہوئے درآمداتی بل کے ماحول میں دستیاب مالیاتی خلاء کے بتدریج ختم ہونے کا امکان ہے۔ حکومت کے تازہ ترین پندرہ روزہ فیصلہ جاتی نکات میں پٹرول کی قیمتوں پر نظر ثانی کا حالیہ فیصلہ مالیاتی آزادی پر قدغن کی طرف اشارہ کر رہا ہے۔

حالیہ اعلان کردہ ٹیکسٹائل کیلک سے برآمدات کے شعبے کو معاونت فراہم ہونے کی توقع ہے۔ تاہم مطلوبہ سے زیادہ قدر کا حامل روپیہ، جیسا کہ REER سے ظاہر ہوتا ہے، ابھی تک ملک کی برآمداتی مسابقت کی صلاحیت کے لئے ایک رکاوٹ ہے۔ تاہم ممکن ہے کہ یہ نوبت تب تک نہ آئے جب تک حکومت قرض کی حصول کے ذریعے اس خلیج کو پُر کرنا جاری رکھے گی۔

پٹرول کی قیمتوں میں اضافوں اور اشیائے خورد و نوش کے افراط زر پر ان کے اثر سے متوقع طور پر افراط زر کے دباؤ کا بھی زور ٹوٹ جائے گا۔ ہماری توقع ہے کہ اس سال کے افراط زر کا اوسط 4.3% ہوگا۔ یہاں یہ بات قابل ذکر ہے کہ دوسری ششماہی میں افراط زر کا اوسط تقریباً 4.8% متوقع ہے، اور سال کے اختتامی مہینوں میں افراط زر 5% سے زیادہ ہوگا۔

اگرچہ ہمیں اُمید ہے کہ افراط زر کے مستحکم رجحانات کے پیش نظر مختصر میعاد میں انٹریٹ کی شرحیں مستحکم رہیں گی، لیکن زرمبادلہ کی شرح کی مطلوبہ سے زیادہ قدر، اور اس کے ساتھ کمزور خارجی اکاؤنٹ سے مستقبل میں ابھرنے والے رجحانات کا باریک بین جائزے کا اندازہ ہوتا ہے، وہ رجحانات جو مالیاتی عناصر کو گس دینے کی حمایت کی طرف جھکے ہونے کے باوجود دونوں جانب مرض پھیلا سکتے ہیں۔

چین پاکستان معاشی راہداری سے ترقی کے لیے بے حد مطلوب قوت حاصل ہونے کا امکان ہے؛ 50 بلین ڈالر سے زائد کا یہ پروگرام متوقع طور پر تعمیرات اور توانائی کی خلاء میں سرگرمیاں پیدا

کرنے کا محرک بنے گا اور اس کے اثرات دیگر شعبوں پر بھی مرتب ہوں گے۔ تاہم مختصر میعاد میں درآمداتی بل میں اضافے کے ساتھ غیر ملکی براہ راست سرمایہ کاریوں کی آمدات سے کرنٹ

اکاؤنٹ میں مزید انحطاط متوقع ہے۔ طویل میعاد میں منافع کی وطن واپسی بھی ادائیگیوں کے توازن کی صورتحال کے لیے ایک خدشہ ہوگی۔



پاکستان انٹریسٹ کی پست / مستحکم شرح کے ماحول اور اس کے ساتھ چین پاکستان معاشی راہداری کی صورت میں ترقی کے محرک کے باعث بہتر مقام بنانے اور معاشی توسیعی چکر میں ہونے کی وجہ سے اُبھرتی ہوئی مارکیٹ کی دیگر معیشتوں کے مقابلے میں بہتر کارکردگی کا مظاہرہ کرے گا۔ اُمید کی جارہی ہے کہ اس پروگرام سے تعمیرات اور متعلقہ صنعتی شعبوں کو معاونت فراہم ہوگی۔ بینکاری کے شعبے کو بھی ایڈوانسز کی مضبوط ترقی اور انٹریسٹ کی مستحکم شرح کے ماحول سے متوقع طور پر فائدہ ہوگا۔ باقاعدہ شمولیت کے قریب آنے پر MSCI سے مخصوص کمپنیوں کا منظر عام پر آنا متوقع ہے۔ تاہم ٹرمپ کے امریکی صدر بننے کے بعد عالمی معیشتوں میں غیر یقینی حالات کے نتیجے میں عالمی مارکیٹس میں عدم استحکام اور اُبھرتی ہوئی مارکیٹ کے فنڈز پر redemption کے دباؤ سے مارکیٹ کی مختصر المیعاد کارکردگی متاثر ہوگی۔ لیکن ہم مارکیٹ کے بارے میں اپنے مثبت نظریے کا اعادہ کرتے ہیں۔

اظہار تشکر

بورڈ فنڈ کے گراں قدر سرمایہ کاروں، سکیورٹیز اینڈ ایڈاپٹیشن کمیشن آف پاکستان اور فنڈ کے ٹرسٹیز کی مسلسل معاونت اور پشت پناہی کے لئے شکریہ ادا ہے۔ علاوہ ازیں، ڈائریکٹر مینجمنٹ ٹیم کی کوششوں کو بھی خراج تحسین پیش کرتے ہیں۔

برائے بورڈ اور بورڈ کی جانب سے



محمد ثاقب سلیم

چیف ایگزیکٹو آفیسر

02 فروری 2017ء

## TRUSTEE REPORT TO THE UNIT HOLDERS

### CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED

#### Head Office:

CDC House, 99-B, Block 'B',  
S.M.C.H.S. Main Shahra-e-Faisal,  
Karachi - 74400, Pakistan.

Tel: (92-21) 111-111-500

Fax: (92-21) 34326020 - 23

URL: [www.cdcPakistan.com](http://www.cdcPakistan.com)

Email: [info@cdcpak.com](mailto:info@cdcpak.com)



### TRUSTEE REPORT TO THE UNIT HOLDERS

#### MCB ISLAMIC INCOME FUND

#### Report of the Trustee pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We Central Depository Company of Pakistan Limited, being the Trustee of MCB Islamic Income Fund (the Fund) are of the opinion that MCB-Arif Habib Savings and Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the six months period ended December 31, 2016 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

**Aftab Ahmed Diwan**

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi: February 17, 2017



# AUDITOR'S REPORT TO THE UNIT HOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION



A.F.FERGUSON & CO.

## INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION TO THE UNIT HOLDERS

### Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **MCB Islamic Income Fund** (the Fund) as at December 31, 2016 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds and condensed interim cash flow statement together with the notes forming part thereof (here-in-after referred to as the 'condensed interim financial information'), for the half year ended December 31, 2016. The Management Company (MCB-Arif Habib Savings and Investments Limited) is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' funds and condensed interim cash flow statement for the quarters ended December 31, 2016 and December 31, 2015 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2016.

### Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2016 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

### Other matter

The condensed interim financial information of the Fund for the half year ended December 31, 2015 was reviewed and the financial statements of the Fund for the year ended June 30, 2016 were audited by another firm of Chartered Accountants who had expressed an unmodified conclusion and opinion thereon vide their reports dated February 4, 2016 and August 5, 2016 respectively.

Chartered Accountants

Engagement Partner: **Noman Abbas Sheikh**

Dated: February 17, 2017

Karachi

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network  
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan  
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>

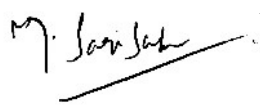
■ KARACHI ■ LAHORE ■ ISLAMABAD

# CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES

## AS AT DECEMBER 31, 2016

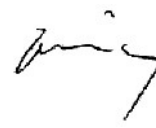
	Note	(Unaudited) December 31, 2016	(Audited) June 30, 2016
		(Rupees in '000)	
<b>ASSETS</b>			
Balances with banks	4	516,465	270,361
Investments	5	419,531	720,660
Receivable against issue of units		1,659	-
Profit receivable		9,651	6,276
Deposits, prepayments and other receivables		126	237
<b>Total assets</b>		947,432	997,534
<b>LIABILITIES</b>			
Payable to the Management Company	6	902	640
Payable to the Central Depository Company of Pakistan Limited - Trustee		165	152
Payable to the Securities and Exchange Commission of Pakistan		385	837
Payable against redemption of units		17,280	-
Advance against issue of units		44,000	-
Accrued expenses and other liabilities	7	24,492	27,800
<b>Total liabilities</b>		87,224	29,429
<b>NET ASSETS</b>		860,208	968,105
<b>UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>		860,208	968,105
<b>CONTINGENCIES AND COMMITMENTS</b>	8		
		(Number of units)	
<b>NUMBER OF UNITS IN ISSUE</b>		8,317,073	9,616,837
		(Rupees)	
<b>NET ASSET VALUE PER UNIT</b>		103.4267	100.6677

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.



Chief Executive Officer

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

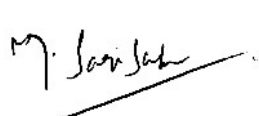


Director

# CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

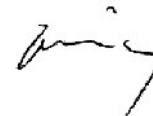
	Note	Half year ended December 31		Quarter ended December 31	
		2016	2015	2016	2015
		----- (Rupees in '000) -----			
<b>Income</b>					
Capital gain / (loss) on sale of investments - net		2,472	(2,352)	2,413	(2,955)
Income from government securities		8,601	19,141	2,543	7,501
Income from unlisted debt securities - sukuk certificates		4,596	4,794	2,613	2,460
Profit on bank deposits		13,034	15,723	7,741	8,187
Profit on musharika certificates		1,967	-	1,967	-
Back end load		2	-	-	-
Net unrealised appreciation / (diminution) on remeasurement of investments classified as 'financial assets at fair value through profit or loss'		3,826	5,084	2,698	6,244
<b>Total income</b>		<b>34,498</b>	<b>42,390</b>	<b>19,975</b>	<b>21,437</b>
<b>Expenses</b>					
Remuneration of the Management Company	6.1	3,346	3,958	1,894	1,780
Sindh sales tax and federal excise duty on remuneration of the Management Company		435	1,276	246	574
Remuneration of the Central Depository Company of Pakistan Limited - Trustee		862	986	433	466
Sindh sales tax on remuneration of the Trustee		112	93	56	65
Annual fee to the Securities and Exchange Commission of Pakistan		385	457	195	222
Amortisation of preliminary expenses and floatation costs		-	101	-	51
Auditors' remuneration		329	348	166	177
Settlement and bank charges		129	94	66	67
Fees and subscription		166	147	83	74
Shariah advisory fee		450	107	225	107
Allocated expenses	10	579	123	292	123
Printing and related charges		86	39	40	(10)
Legal and professional charges		30	-	15	-
<b>Total expenses</b>		<b>6,909</b>	<b>7,729</b>	<b>3,711</b>	<b>3,696</b>
		<b>27,589</b>	<b>34,661</b>	<b>16,264</b>	<b>17,741</b>
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		(949)	(217)	(968)	225
- arising from other income		(3,640)	(3,880)	(3,701)	(3,841)
		(4,589)	(4,097)	(4,669)	(3,616)
<b>Net income for the period before taxation</b>		<b>23,000</b>	<b>30,564</b>	<b>11,595</b>	<b>14,125</b>
Taxation	11	-	-	-	-
<b>Net income for the period after taxation</b>		<b>23,000</b>	<b>30,564</b>	<b>11,595</b>	<b>14,125</b>
<b>Earnings per unit</b>					
	12				

The annexed notes 1 to 17 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 (UN-AUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016**

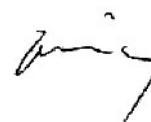
	Note	Half year ended		Quarter ended	
		December 31		December 31	
		2016	2015	2016	2015
		----- (Rupees in '000) -----			
<b>Net income for the period after taxation</b>		23,000	30,564	11,595	14,125
<b>Other comprehensive income</b>					
<i>Items that may be reclassified subsequently to income statement</i>					
Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'available-for-sale'		(114)	-	(204)	-
<b>Total comprehensive income for the period</b>		<u>22,886</u>	<u>30,564</u>	<u>11,391</u>	<u>14,125</u>

The annexed notes 1 to 17 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 (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

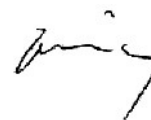
	Half year ended December 31		Quarter ended December 31	
	2016	2015	2016	2015
	----- (Rupees in '000) -----			
<b>Undistributed income brought forward</b>	6,828	2,919	18,532	19,247
Net income for the period after taxation	23,000	30,564	11,595	14,125
Net element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - transferred to the Distribution Statement	(806)	(435)	(1,105)	(324)
<b>Undistributed income carried forward</b>	<u>29,022</u>	<u>33,048</u>	<u>29,022</u>	<u>33,048</u>

The annexed notes 1 to 17 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 HOLDER'S FUND (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

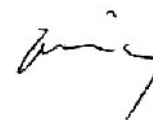
	Half year ended December 31		Quarter ended December 31	
	2016	2015	2016	2015
	----- (Rupees in '000) -----			
<b>Net assets at the beginning of the period</b>	968,105	1,261,061	1,024,733	1,220,187
Issue of 5,433,167 units (2015: 3,109,531 units) 3,637,585 units (2015: 1,857,394 units) for the half year and quarter ended respectively	554,803	302,508	373,183	189,261
Redemption of 6,732,931 units (2015: 5,381,526 units) 5,385,680 units (2015: 3,557,390 units) for the half year and quarter ended respectively	(690,175)	(534,241)	(553,768)	(363,200)
	(135,372)	(231,733)	(180,585)	(173,939)
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 capital (gains) / losses transferred to the Income Statement:				
- arising from capital loss / (gain) and unrealised loss / (gain)	949	217	968	(225)
- arising from other income	3,640	3,880	3,701	3,841
- amount representing unrealised capital (gains) / losses transferred to the distribution statement	806	435	1,105	324
	5,395	4,532	5,774	3,940
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to the distribution statement	(806)	(435)	(1,105)	(324)
Capital gain / (loss) on sale of investments - net	2,472	(2,352)	2,413	(2,955)
Net unrealised appreciation / (diminution) on remeasurement of investments classified as 'financial assets at fair value through profit or loss'	3,826	5,084	2,698	6,244
Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'available-for-sale'	(114)	-	(204)	-
Other income (net of expenses)	16,702	27,832	6,484	10,836
Total comprehensive income for the period	22,886	30,564	11,391	14,125
<b>Net assets as at the end of the period</b>	<b>860,208</b>	<b>1,063,989</b>	<b>860,208</b>	<b>1,063,989</b>

The annexed notes 1 to 17 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 (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

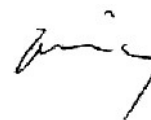
	Half year ended December 31		Quarter ended December 31	
	2016	2015	2016	2015
	----- (Rupees in '000) -----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period before taxation	23,000	30,564	11,595	14,125
<b>Adjustments for non-cash charges and other items</b>				
Net unrealised (appreciation) / diminution in fair value of investments classified as 'at fair value through profit or loss'	(3,826)	(5,084)	(2,698)	(6,244)
Amortisation of preliminary expenses and floatation costs	-	101	-	51
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)	949	217	968	(225)
- arising from other income	3,640	3,880	3,701	3,841
	4,589	4,097	4,669	3,616
	23,763	29,678	13,566	11,548
<b>Decrease / (increase) in assets</b>				
Investments	404,841	(79,569)	391,419	(26,763)
Profit receivable	(3,375)	11,581	192	(703)
Deposits, prepayments and other receivables	111	108	83	75
	401,577	(67,880)	391,694	(27,391)
<b>Increase / (decrease) in liabilities</b>				
Payable to the Management Company	262	(271)	208	(1)
Payable to the Central Depository Company of Pakistan Limited - Trustee	13	21	5	(3)
Payable to the Securities and Exchange Commission of Pakistan	(452)	(741)	195	222
Accrued expenses and other liabilities	(3,308)	(5,551)	(6,539)	(1,183)
	(3,485)	(6,542)	(6,131)	(965)
<b>Net cash generated from / (used in) operating activities</b>	421,855	(44,744)	399,129	(16,808)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net receipts from issuance of units	597,144	302,508	415,524	189,260
Net payments against redemption of units	(672,895)	(534,241)	(536,488)	(363,201)
<b>Net cash used in financing activities</b>	(75,751)	(231,733)	(120,964)	(173,941)
<b>Net increase / (decrease) in cash and cash equivalents</b>	346,104	(276,477)	278,165	(190,749)
Cash and cash equivalents at the beginning of the period	270,361	517,006	338,300	431,278
<b>Cash and cash equivalents at the end of the period</b>	13 616,465	240,529	616,465	240,529

The annexed notes 1 to 17 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 STATEMENTS (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 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 (which merged with and into Arif Habib Investments Limited with effect from June 27, 2011) as the Management Company and the Central Depository Company of Pakistan Limited (CDC) as the Trustee. Pursuant to the merger of MCB-Asset Management Company Limited 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 Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on January 25, 2011 and was executed on March 7, 2011. According to the Trust Deed, the first accounting period of the Fund commenced from May 1, 2011 i.e. the date on which the trust property was first paid or transferred to the Trustee.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 24th Floor, Centre Point, off. Shaheed-e-Millat Expressway, near KPT interchange, Karachi, Pakistan.

The Fund is an open-end collective investment scheme categorised as a "Shariah Compliant (Islamic) Income" scheme by the Board of Directors of the Management Company pursuant to Circular 7 of 2009 dated March 6, 2009 issued by the SECP. It 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.

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 Limited (PACRA) has assigned a long-term rating of "AM2++" with a stable outlook (2015: AM2+ with a stable outlook) to the Management Company on June 8, 2016.

Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as the 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 approved accounting standards as applicable in Pakistan for interim financial reporting. The 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 SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP differ with the requirements of the IFRSs, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.
- 2.1.2** The disclosures made in this condensed interim financial information have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'. This condensed interim financial information does not include all the information and disclosures required in a full set of financial statements and should be read in conjunction with the annual published audited financial statements of the Fund for the year ended June 30, 2016.
- 2.1.3** This condensed interim financial information is unaudited. However, a limited scope review has been performed by the statutory auditors in accordance with the requirements of the Code of Corporate Governance. In compliance with Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the directors of the Management Company declare that this condensed interim financial information gives a true and fair view of the state of affairs of the Fund as at December 31, 2016.
- 2.1.4** The comparatives in the condensed interim statement of assets and liabilities presented in the condensed interim financial information as at December 31, 2016 have been extracted from the audited financial statements of the Fund for the year ended June 30, 2016, whereas the comparatives in the condensed interim income statement, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement have been extracted from the unaudited condensed interim financial information of the Fund for the half-year ended December 31, 2015.

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

## 2.2 Functional and presentation currency

This condensed interim financial information has been presented in Pak Rupees which is the functional and presentation currency of the Fund.

## 3 SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES, ESTIMATES AND JUDGMENTS AND CHANGES THEREIN

### 3.1 The accounting policies applied for the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual published audited financial statements of the Fund for the year ended June 30, 2016.

The preparation of this condensed interim financial information in conformity with approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in the application of its accounting policies. The estimates, judgments and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future years if the revision affects both current and future period.

The significant estimates, judgments and assumptions made by the management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that were applied in the financial statements of the Fund as at and for the year ended June 30, 2016. The development in relation to estimation of provision in respect of Workers' Welfare Fund is given in note 7.1.

The financial risk management objectives and policies are consistent with those disclosed in the annual published audited financial statements of the Fund for the year ended June 30, 2016.

### 3.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current period

There are certain amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2016 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are, therefore, not detailed in this condensed interim financial information.

### 3.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

There are certain amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2017 but are considered not to be relevant or will not have any significant effect on the Fund's operations and are, therefore, not detailed in this condensed interim financial information.

		(Unaudited) December 31, 2016	(Audited) June 30, 2016
	Note	(Rupees in '000)	
<b>4 BALANCES WITH BANKS</b>			
Balances with banks			
- in saving accounts	4.1	512,931	84,241
- in current accounts	4.2	3,534	186,120
		516,465	270,361
<b>4.1</b>	These carry profit at rates ranging between 5.09% and 6.10% (June 30, 2016: 5.07% and 6.50%) per annum and include Rs 3.254 million (June 30, 2016: Rs 1.148 million) maintained with MCB Bank Limited, a connected person / related party.		
<b>4.2</b>	These include Rs 1.679 million (June 30, 2016: Rs 184.193 million) maintained with MCB Bank Limited, a connected person / related party.		

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

		(Unaudited) December 31, 2016	(Audited) June 30, 2016
5	INVESTMENTS	Note	(Rupees in '000)
	<b>'At fair value through profit and loss' - held for trading</b>		
	Government securities - GoP ijara sukus	5.1.1	105,523
	Unlisted debt securities - sukuk certificates	5.1.2	214,008
			319,531
	<b>Available-for-sale</b>		
	Government securities - GoP ijara sukus	5.2	-
	<b>Loans and receivables</b>		
	Certificates of Musharika	5.3	100,000
			419,531
			558,065
			113,115
			671,180
			49,480
			-
			720,660

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

### 5.1.1 Government securities - Government of Pakistan (GoP) Ijara sukus

Issue date	Profit rate (%)	Tenor	Face value				Carrying value as at December 31, 2016	Market value as at December 31, 2016	Unrealised appreciation / (diminution) as at December 31, 2016	Market value as a percentage of net assets	Market value as a percentage of total investments
			As at July 1, 2016	Purchased during the period	Disposed / matured during the period	As at December 31, 2016					
(Rupees in '000)											
June 25, 2014	3.89%	3 years	347,500	-	347,500	-	-	-	-	-	-
December 18, 2015	5.46%	3 years	212,500	-	109,500	103,000	103,646	105,523	1,877	12.27%	25.15%
March 29, 2016	5.59%	3 years	-	110,000	110,000	-	-	-	-	-	-
Total December 31, 2016							103,646	105,523	1,877		
Total June 30, 2016							559,080	558,065	(1,015)		

### 5.1.2 Unlisted debt securities - sukuk certificates

Issuer	Number of certificates				Carrying value as at December 31, 2016	Market value as at December 31, 2016	Unrealised appreciation/ (diminution) as at December 31, 2016	Market value as a percentage of net assets	Market value as a percentage of total investments	Investments as a percentage of total issue size
	As at July 1, 2016	Purchased during the period	Disposed / matured during the period	As at December 31, 2016						
--- (Rupees in '000) ---										
Engro Fertilizers Limited (face value Rs 5,000)	23,600	-	-	23,600	110,059	109,858	(201)	12.77%	26.19%	3.69%
Meezan Bank Limited (face value Rs 1,000,000)	-	100	-	100	102,000	104,150	2,150	12.11%	24.83%	1.43%
<b>Total December 31, 2016</b>					<b>212,059</b>	<b>214,008</b>	<b>1,949</b>			
<b>Total June 30, 2016</b>					<b>113,107</b>	<b>113,115</b>	<b>8</b>			

#### 5.1.2.1 Significant terms and conditions of sukuk certificates held as at December 31, 2016 are as follows:

Particulars	Issue date	Maturity date	Offered rate	Profit rate	Issue rating	Secured / unsecured
Engro Fertilizers Limited	July 9, 2014	July 9, 2019	6 month kibar + 1.75%	7.81%	AA-	Secured
Meezan Bank Limited	September 22, 2016	September 22, 2026	6 month kibar + 0.50%	6.56%	AA-	Secured

## 5.2 Available-for-sale

### Government securities - Government of Pakistan (GoP) ijara sukus

Issue date	Profit rate (%)	Face value				Carrying value as at December 31, 2016	Market value as at December 31, 2016	Unrealised appreciation/ (diminution) as at December 31, 2016	Market value as a percentage of net assets	Market value as a percentage of total investments
		As at July 1, 2016	Purchased during the period	Disposed / matured during the period	As at December 31, 2016					
(Rupees in '000)										
June 25, 2014	3.89%	50,000	-	50,000	-	-	-	-	-	-
Total June 30, 2016						49,366	49,480	114		



# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

5.3 These carry mark-up at the rate of 6.15% and are due to mature latest by March 14, 2017.

	Note	(Unaudited) December 31, 2016	(Audited) June 30, 2016
<b>6</b>			
<b>PAYABLE TO THE MANAGEMENT COMPANY</b>			(Rupees in '000)
Management fee payable	6.1	652	376
Sindh sales tax payable on management fee		85	53
Front-end load payable		2	56
Shariah advisor fee payable		76	76
Allocated expenses		87	79
		902	640

6.1 As per the amendments made in the NBFC Regulations, 2008 vide SRO 1160(1)/2015 dated November 25, 2015, the Management Company is entitled to a remuneration equal to an amount not exceeding 1.50% of the average annual net assets in case of income schemes. Previously, the Management Company was entitled to a remuneration during the first five years of the Fund, of an amount not exceeding 3% of the average annual net assets of the Fund and, thereafter, of an amount equal to 2% of such assets. During the half year ended December 31, 2016, the Management Company has charged its remuneration at the rate of 10% of the gross earnings of the Fund subject to a minimum of 0.25% of the average daily net assets of the Fund and a maximum of 1.50% per annum of the average annual net assets of the Fund as prescribed under the NBFC Regulations, 2008. The fee is payable to the Management Company monthly in arrears.

	Note	(Unaudited) December 31, 2016	(Audited) June 30, 2016
<b>7</b>			
<b>ACCRUED EXPENSES AND OTHER LIABILITIES</b>			(Rupees in '000)
Federal excise duty and other related taxes payable on management fee	7.1	8,639	8,639
Federal excise duty and other related taxes payable on sales load	7.1	3,028	3,028
Provision for Workers' Welfare Fund	7.2	11,490	11,490
Sales load payable to MCB Bank Limited - related party		3	-
Zakat payable		403	403
Auditors' remuneration		325	449
Printing charges payable		70	115
Capital gain tax payable		239	287
Withholding tax payable on dividend		-	3,222
Sindh sales tax payable on allocated expenses		153	67
Others		142	100
		24,492	27,800

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 were already subject to provincial sales tax on services levied by the Sindh Revenue Board, which is being charged to the Fund, the Management Company was of the view that further levy of FED was not justified.

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

During the half year ended December 31, 2016, the SHC passed an order whereby all notices, proceedings taken or pending, orders made, duty recovered or actions taken under the Federal Excise Act, 2005 in respect of the rendering or providing of services (to the extent as challenged in any relevant petition) were set aside. In response to this, the Deputy Commissioner Inland Revenue has filed a Civil Petition for leave to appeal in the Supreme Court of Pakistan. Which is pending adjudication.

With effect from July 1, 2016, FED on services provided or rendered by non-banking financial institutions dealing in services which are subject to provincial sales tax has been withdrawn by the Finance Act, 2016.

## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

In view of the above, the Fund has discontinued making further provision in respect of FED on remuneration of the Management Company with effect from July 1, 2016. However, as a matter of abundant caution the provision for FED made for the period from June 13, 2013 till June 30, 2016 amounting to Rs 11.667 million (June 30, 2016: Rs 11.667 million) is being retained in the condensed interim financial information of the Fund as the matter is pending before the Supreme Court of Pakistan. Had the said provision for FED not been recorded in the condensed interim financial information of the Fund, the net asset value of the Fund as at December 31, 2016 would have been higher by Rs 1.4028 per unit (June 30, 2016: Rs 1.2132).

**7.2** The Finance Act, 2008 had introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance) as a result of which it was construed that all Collective Investment Schemes (CISs) / mutual funds whose income exceeded Rs 0.5 million in a tax year were 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 was higher. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honourable Sindh High Court (SHC) challenging the applicability of WWF on CISs which is pending adjudication. Similar cases were disposed of by the Peshawar and the Lahore High Courts in which these amendments were declared unlawful and unconstitutional. However, these decisions were challenged in the Supreme Court of Pakistan.

Subsequently, the Finance Act, 2015 introduced an amendment under which CISs / mutual funds have been excluded from the definition of "industrial establishment" subject to WWF under the WWF Ordinance. Consequently, mutual funds are not subject to this levy after the introduction of this amendment which is applicable from tax year 2016. Accordingly, no further provision in respect of WWF was made with effect from July 1, 2015.

On November 10, 2016 the Supreme Court of Pakistan (SCP) has passed a judgment declaring the amendments made in the Finance Acts 2006 and 2008 pertaining to WWF as illegal citing that WWF was not in the nature of tax and could, therefore, not have been introduced through money bills. Accordingly, the aforesaid amendments have been struck down by the SCP. The Federal Board of Revenue has filed a petition in the SCP against the said judgment, which is pending hearing. While the petitions filed by the CISs on the matter are still pending before the SHC, the Mutual Funds Association of Pakistan (MUFAP) (collectively on behalf of the asset management companies and their CISs) has taken legal and tax opinions on the impact of the SCP judgement on the CISs petition before the SHC. Both legal and tax advisors consulted were of the view that the judgment has removed the very basis on which the demands were raised against the CISs. Therefore, there was no longer any liability against the CISs under the WWF Ordinance and that all cases pending in the SHC or lower appellate forums will now be disposed of in light of the earlier judgement of the SCP.

Furthermore, as a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) had been passed by the government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.50 million, is required to pay Sindh Workers' Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income. The matter was taken up by the MUFAP with the Sindh Revenue Board (SRB) collectively on behalf of various asset management companies (including the Management Company of the Fund) whereby it was contested that mutual funds should be excluded from the ambit of the SWWF Act as these were not industrial establishments but were pass through investment vehicles and did not employ workers. The SRB held that mutual funds were included in the definition of financial institutions as per the Financial Institution (Recovery of Finances) Ordinance, 2001 and were, hence, required to register and pay SWWF under the SWWF Act. Thereafter, MUFAP has taken up the matter with the Sindh Finance Ministry to have CISs / mutual funds excluded from the applicability of SWWF.

In view of the above developments regarding the applicability of Federal and SWWF on CISs / mutual funds and considering the legal opinion obtained on these matters, MUFAP has recommended the following to all its members on January 12, 2017:

- based on legal opinion, the entire provision against WWF held by the CISs till June 30, 2015 should be reversed on January 12, 2017; and
- as a matter of abundant caution, the provision in respect of SWWF should be made with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from May 21, 2015) on January 12, 2017.

Accordingly, on January 12, 2017 the provision for WWF was reversed and the provision for SWWF was made for the period from May 21, 2015 to January 12, 2017. Thereafter, the provision for SWWF is being made on a daily basis going forward.

The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on January 12, 2017 and the SECP vide its letter dated February 1, 2017 has advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosures in the financial statements of the CISs/ mutual funds. Accordingly, the Fund has recorded these adjustments in its books on January 12, 2017.

The cumulative net effect of the above two adjustments if these had been made on December 31, 2016 would have resulted in an increase in the net asset value per unit of the Fund by Rs 1.2207.

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

## 8 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at December 31, 2016 and June 30, 2016.

## 9 TOTAL EXPENSE RATIO

The Total Expense Ratio (TER) of the Fund as at December 31, 2016 is 0.68% which includes 0.10% representing government levies on the Fund such as sales taxes, annual fee to the SECP, etc. This ratio is within the maximum limit of 2% prescribed under the NBFC Regulations for a collective investment scheme categorised as an income scheme.

## 10 ALLOCATED EXPENSES

In accordance with the provisions of the NBFC Regulations, 2008 (amended vide S.R.O 1160(I) / 2015 dated November 25, 2015), the Management Company of the Fund is entitled to reimbursement of fees and expenses in relation to registrar services, accounting, operation and valuation services related to the Fund upto a maximum of 0.1% of the average annual net assets of the Scheme or actual, whichever is less. Accordingly, with effect from November 27, 2015 the Management Company has charged expenses at the rate of 0.1% per annum of the average annual net assets of the Fund being lower than actual expenses chargeable to the Fund for the period.

## 11 TAXATION

The income of the Fund is exempt from income tax under clause (99) of Part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders as cash dividend. Furthermore, as per Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute not less than 90% of its accounting income for the year derived from sources other than capital gains as reduced by such expenses as are chargeable thereon to the unitholders. Since the management intends to distribute the required minimum percentage of income earned by the Fund during the year ending June 30, 2017 to the unit holders in the manner as explained above, no provision for taxation has been made in this condensed interim financial information during the period.

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.

## 12 EARNINGS PER UNIT

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

		------(Unaudited)-----'			
		Half Year Ended		Quarter Ended	
		December 31,	December 31,	December 31,	December 31,
		2016	2015	2016	2015
Note		------(Rupees)-----			

## 13 CASH AND CASH EQUIVALENTS

Balances with banks	4	516,465	240,529	516,465	240,529
Certificate of Musharika	5.3	100,000	-	100,000	-
		<u>616,465</u>	<u>240,529</u>	<u>616,465</u>	<u>240,529</u>

## 14 TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Related parties / connected persons of the Fund include MCB-Arif Habib Savings and Investments Limited (being the Management Company) and its related entities, the Central Depository Company of Pakistan Limited (being the Trustee of the Fund), other collective investment schemes and pension schemes managed by the Management Company, any person or trust beneficially owning (directly or indirectly) ten percent or more of the capital of the Management Company or the net assets of the Fund and directors, key management personnel and officers of the Management Company.

Transactions with related parties / connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

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

The details of transactions carried out by the Fund with connected persons / related parties and balances with them at the period / year end are as follows:

	Half year ended December 31	
	2016	2015
	(Rupees in '000)	
<b>14.1 Transactions during the period</b>		
<b>MCB-Arif Habib Savings and Investments Limited - Management Company</b>		
Remuneration (including indirect taxes)	3,781	5,234
Allocated expenses (including indirect taxes)	579	123
Shariah advisory fee	450	107
<b>MCB Bank Limited - Parent of the Management Company</b>		
Profit on bank deposits	32	442
Bank charges	17	18
Sale of securities having a face value of Rs 150,000,000 (2015: Nil) and Rs 100,000,000 (2015: Nil) during the half year and quarter ended respectively	151,183	-
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration (including indirect taxes)	974	1,079
<b>Adamjee Life Assurance Company Limited (Amanat Fund)</b>		
Issue of 1,354,041 units (2015: 294,261 units)	138,800	30,000
Redemption of 2,133,599 units (2015: 1,274,940 units)	220,200	130,000
<b>Fatima Fertilizer Company Limited Workers Gratuity Fund - Retirement Benefit Scheme of a group company</b>		
Issue of 43,946 units (2015: 24,691 units)	4,510	2,514
Redemption of 51,895 units (2015: 2,744 units)	5,322	280
<b>Directors and key management personnel of the Management Company</b>		
Issue of 113,287 units (2015: 59,529 units)	11,579	6,015
Redemption of 97,012 units (2015: 65,653 units)	9,917	6,630
	(Unaudited)	(Audited)
	December 31,	June 30,
	2016	2016
	(Rupees in '000)	
<b>14.2 Amounts outstanding as at period / year end</b>		
<b>MCB-Arif Habib Savings and Investments Limited - Management Company</b>		
Management fee payable	652	376
Sindh sales tax payable on management fee	85	53
Front-end load payable	2	56
Shariah advisor fee payable	76	76
Allocated expenses	87	79
<b>MCB Bank Limited - Parent of the Management Company</b>		
Balances with bank	4,933	185,341
Front-end load payable	3	-
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	146	133
Sindh sales tax payable on trustee fee	19	19
Security deposit	100	100
<b>Adamjee Life Assurance Company Limited (Amanat Fund)</b>		
Outstanding 104,431 units (June 30, 2016: 883,989 units)	10,801	88,989
<b>Fatima Fertilizer Company Limited Workers Gratuity Fund - Retirement Benefit Scheme of a group company</b>		
Outstanding 58,548 units (June 30, 2016: 66,497 units)	6,055	6,694

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

	(Unaudited) December 31, 2016 (Rupees in '000)	(Audited) June 30, 2016
<b>MCB Pakistan Stock Market Fund</b>		
Receivable against issue of units	99	-
Payable against redemption of units	6,221	-
<b>Alhamra Islamic Active Allocation Fund and</b>		
Payable against redemption of units	10,815	-
<b>Pakistan International Element Islamic Asset Allocation Fund</b>		
Receivable against issue of units	44	-
Payable against redemption of units	25	-
<b>MCB Pakistan Islamic Stock Fund</b>		
Receivable against issue of units	50	-
Payable against redemption of units	160	-
<b>Pakistan Income Enhancement Fund</b>		
Receivable against issue of units	740	-
<b>Directors and key management personnel of the Management Company</b>		
Outstanding 60,450 units (June 30, 2016: 44,175 units)	6,252	4,447

## 15 FAIR VALUE MEASUREMENT

Fair value is the amount for which an asset could be exchanged, or liability can be settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Fair value of investments is determined as follows:

- Investments in government securities are valued on the basis of average rates of brokers as announced by the Financial Markets Association of Pakistan.
- Listed and unlisted debt securities, other than government securities, are valued on the basis of prices announced by the Mutual Funds Association of Pakistan (MUFAP) which are calculated in accordance with the provisions contained various circulars issued by the Securities and Exchange Commission of Pakistan. The said circular prescribes a valuation methodology which, in case of currently traded securities, is based on weighted average prices during the 15 days preceding the valuation date and in case of thinly or non-traded securities, on the basis of discount coupon method which takes into consideration credit risk and maturities of the instruments.
- The fair value of all other financial assets and financial liabilities of the Fund approximate their carrying amounts due to short term maturities of these instruments.

### Fair value hierarchy

International Financial Reporting Standard 13, 'Fair Value Measurement' requires the Fund to classify assets using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted price (unadjusted) in an active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

# NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

As at December 31, 2016 and June 30, 2016, the Fund held the following assets measured at fair value:

	As at December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<b>At fair value through profit and loss</b>				
- Government securities - GoP ijara sukuks	-	105,523	-	105,523
- Unlisted debt securities - sukuk certificates	-	214,008	-	214,008
	As at June 30, 2016			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<b>At fair value through profit and loss</b>				
Government securities - GoP ijara sukuks	-	558,065	-	558,065
Unlisted debt securities - sukuk certificates	-	113,115	-	113,115
<b>Available-for-sale</b>				
Government securities - GoP ijara sukuks	-	49,480	-	49,480

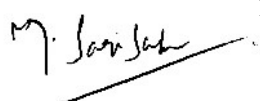
For financial instruments that are recognised at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the half-years ended December 31, 2016 and 2015 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

## 16 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information has been authorised for issue by the Board of Directors of the Management Company in the meeting held on February 02, 2017.

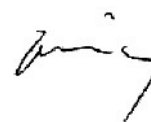
## 17 GENERAL

- 17.1** Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison and better presentation. No significant rearrangements or reclassifications have been made in this condensed interim financial information during the current period.
- 17.2** Figures of the condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement for the quarters ended December 31, 2016 and December 31, 2015 have not been subject to limited scope review by the statutory auditors of the Fund.
- 17.3** Figures have been rounded off to the nearest thousand Rupee unless otherwise stated.



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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