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13-48 / 1091
February 01, 2022

The Board of Directors
MCB - Arif Habib Savings and Investments Limited
Adamjee House,
MCB-AH Savings, 2nd Floor,
I.I Chandrigar Road,
Karachi.

Dear Board Members,

Review of draft condensed interim financial information of:

- **ALHAMRA ISLAMIC INCOME FUND (AHIIF);**
- **ALHAMRA ISLAMIC PENSION FUND (ALHIPF);**
- **PAKISTAN INCOME FUND (PIF);**
- **PAKISTAN PENSION FUND (PPF);**
- **MCB PAKISTAN ASSET ALLOCATION FUND (PAAF);**
- **MCB PAKISTAN SOVEREIGN FUND (PSF)**

For the half year ended December 31, 2021

We are pleased to enclose the draft condensed interim financial information of **AHIIF, ALHIPF, PAAF, PIF, PPF and PSF** (collectively referred to as 'the Funds') for the half year ended December 31, 2021 prepared by the management of MCB-Arif Habib Savings and Investments Limited (the Management Company) together with our draft review report thereon. We have initialed the draft condensed interim financial information and the draft review reports for the purpose of identification only and we shall be pleased to issue our final review reports, in the present or amended form, after we have received / completed the following:

a. The condensed interim financial information, with or without modifications, approved by the Board of Directors of the management company (the Board) and signed on its behalf by the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and a Director of the Management Company duly authorized for this purpose;

b. Specific approval of the Board for the items listed in Annexure B;

c. Management representation letters for the half year ended December 31, 2021 duly signed by the CEO and CFO of the Management Company;

d. Copy of minutes of meeting of the Board approving these condensed interim financial information;

e. The final draft of "other financial and non-financial information" to be printed in the interim financial reports of the Funds as required by ISA 720 "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements" to consider whether it, including the manner of its presentation, is materially consistent with the information appearing in the enclosed draft condensed interim financial information; and

The enclosed draft condensed interim financial information shall remain and be deemed un-reviewed unless these have been approved by the Board and signed by the CEO, CFO and one director authorized to do so on its behalf and the review reports on these condensed interim financial information have been signed by us.

2. Responsibilities of the auditors and the Board of Directors in relation to the half year condensed interim financial information of the Fund

The responsibilities of the independent auditors, in a review of condensed interim financial information are explained in Section 249 of the Companies Act, 2017, Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and International Standard on Review Engagements 2410 – 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. While the auditors are responsible to plan and perform the review of condensed interim financial information in accordance with the relevant auditing standard for interim review reporting, the responsibility for the preparation and presentation of condensed interim financial information is primarily that of the Company's management with oversight of the Board. The review of condensed interim financial information does not relieve the Board of its responsibilities.

The review primarily 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. Our responsibility is to express a conclusion on these condensed interim financial information based on our review.

3. Significant matters highlighted during the review

Our review has highlighted certain significant matters which are set forth in the ensuing paragraphs. These matters came to our knowledge during the conduct of normal review procedures designed primarily with a view to enable us to express a conclusion on the Funds' condensed interim financial information. The matters set forth cannot; therefore, be expected to include all possible issues that an audit or more extensive special examination may have highlighted. This letter also includes some important communications to you that we are required to make under ISA 260 - Communication with Those Charged with Governance.

3.1 Tax issues related to various funds

3.1.1 Tax notice received by Alhamra Islamic Income Fund for the financial year 2018

ALHIIF has received a notice from the Federal Board of Revenue (FBR) under sub section (9) of the Income Tax Ordinance, 2001 with respect to the Section 122, on July 08, 2020 stating that the return filed by the fund has declared Rs. 137 million as exempt business income despite the fact that the fund distributed zero amount from accounting income as per cash flow statement and statement of movement in unit holders' fund of audited financial statements for the year ended June 30, 2018. FBR has concluded that the fund did not fulfill the condition of distribution of 90% of accounting income among its unit holders under clause (99) of part I of the Second Schedule. Management informed us that FBR neither considered the subsequent payment of cash dividend which was approved by the Board of Directors on July 4, 2018 nor considered the distributions made during the year to outgoing unitholders on redemption of units

The fund has filed appeal with the Commissioner Inland Revenue- Appeals to grant stay on January 15, 2021 in respect of the tax demand notice received and has also filed petition in the Sindh High Court dated January 16, 2021 to grant stay against the tax demanded. Sindh High Court in its decision dated January 18, 2021 has stated that the department shall not enforce the recovery of tax demanded.

3.1.2 Income Tax Order passed by ACIR against Pakistan Sovereign Fund for tax year 2015

During the financial year 2020-2021 an ex-parte income tax order was passed for tax year 2015 through which a tax demand of Rs. 309,896,010 was raised by the concerned Additional Commissioner Inland Revenue (ACIR) of Federal Board of Revenue (FBR) by rejecting the Fund's claim for income tax exemption under clause (99) contained in Part I of the Second Schedule to the Income Tax Ordinance, 2001. The order was passed by misconstruing that the Fund allegedly distributed less than 90% of its income to its unitholders which is the sole criterion for income tax exemption claim under clause (99). Whilst reaching this conclusion the ACIR neither considered element of loss nor excluded capital gains (realized or unrealized) while calculating income available for distribution.

The appeal was filed with the CIRA against the order and the Assessment Order as issued by ACIR has been remanded back by CIRA. Remand Back Order u/s 129(1) of ITO, 2001 was issued on 25 Nov 2021, after which no order has yet been issued from FBR.

Management is confident that the ultimate outcomes will be in favor of the Fund and therefore, no provisioning in this regard is made in this condensed interim financial information.

Chairman of FBR through its letter dated February 25, 2021 under section 7 of the FBR Act, 2007 stated that based on the opinion received from different professional bodies, the income already paid on units redeemed are to be considered as distribution of income. However, he has advised to examine/evaluate the exemption claims of mutual funds in views of the legal position.

We recommend that the Board of the Management Company should closely monitor the situation and take appropriate measures to protect the interest of the unit holders including applying to the relevant appellant forum in consultation with legal adviser.

3.2 Federal Excise Duty (FED) on remuneration of the Management Company

There has been no development during the current period in respect of the status of applicability of Federal Excise Duty on the Funds as disclosed in the respective notes to the financial statements. For detailed disclosure, please refer the respective notes to the annual audited financial statements of the Funds for the year ended June 30, 2021.

In view of above, the management company, being prudent, is carrying provision for FED for the period from January 13, 2013 to June 30, 2015. However, the management company of the fund has not made any further provision for FED after the year ended June 30, 2015. The aggregate balance of FED provision in the books of accounts of the fund as on December 31, 2021 is mentioned in Annexure 'A'. Had the provision not been made, the impact on net asset value (NAV) per unit of the Funds would have been, is presented in Annexure 'A' to this letter.

3.3 Reversal of Provision of SWWF

During the period, SRB through its letter dated August 12, 2021 has intimated MUFAP that the mutual funds do not qualify as Financial Institutions / Industrial Establishments and are therefore, not liable to pay the SWWF contributions. Accordingly, all Asset Management Companies, in consultation with SECP, reversed the cumulative provision for SWWF, on August 13, 2021.

The Funds have also reversed the provision during the first quarter, however we will obtain specific representation on this matter.

3.4 Other matters

We have been informed by the management that there were no material contingencies, commitments and transactions with associated undertakings / related parties other than those disclosed in the enclosed condensed interim financial information of the funds.

We wish to place on record our appreciation for the courtesy and co-operation extended to us by staff of the Management Company during the course of our review.

Yours truly,

Yousuf adil
Chartered Accountants

Annexure A

Fund-wise amounts of provision for FED on December 31, 2021 in their books

Fund Name	**FED provision as at December 31, 2021**	**Per unit decrease in net assets value**
	Rupees in 000	**Rupees**
Alhamra Islamic Income Fund	11,667	0.1597
Alhamra Islamic Pension Fund		
-Equity Sub Fund	1,452	1.41
-Debt Sub-Fund	1,032	0.67
-Money Market Sub-Fund	548	0.35
MCB Pakistan Asset Allocation Fund	35,200	2.52
Pakistan Income Fund	9,449	0.113
Pakistan Pension Fund		
-Equity Sub Fund	2,420	1.43
-Debt Sub-Fund	2,405	1.56
-Money Market Sub-Fund	1,151	0.57
MCB Pakistan Sovereign Fund	33,198	2.62

Annexure - B

List of Items requiring specific approval of The Board of Directors as referred to in paragraph 1(b) of our letter no. 13-48 / 1091 dated February 01, 2022

	AHIIF	ALHIPF	PAAF	PIF	PPF	PSF
	(Rupees in '000')					
At fair value through profit or loss:						
Purchase of Government securities - Treasury Bills	-	-	33,091,000	63,602,350	15,950,000	10,270,000
Sale of Government securities - Treasury Bills	-	-	33,091,000	62,252,350	15,945,000	10,595,000
Purchase of Government securities – Pakistan Investment Bond	-	-	1,300,000	1,050,000	1,850,000	700,000
Sale of Government securities – Pakistan Investment Bond	-	-	1,300,000	1,850,000	1,728,500	700,000
Purchase of Government securities – Pakistan Investment Bond FRB	-	-	750,000	4,600,000	-	1,980,000
Sale of Government securities – Pakistan Investment Bond FRB	-	-	750,000	4,125,000	-	1,580,000
Purchase of Government securities – GoP Ijara Sukuk	889,480	-	-	-	-	-
Sale of Government securities – GoP Ijara Sukuk	704,410	-	-	-	-	-
Purchase of listed debt securities - Term Finance Certificates	-	440	-	-	-	-
Sale of listed debt securities – Term Finance Certificates	-	530	-	-	6,435	-
Purchase of unlisted debt securities - Term Finance Certificates	-	-	-	170,593	-	-
Sale of unlisted debt securities - Term Finance Certificates	-	-	-	85,780	-	-
Purchase of listed equity securities	-	342,009	740,070	11,817,725	416,479	-
Sale of listed equity securities	-	372,121	422,785	11,864,880	290,293	-
Investment in Commercial Papers	529,694	63,266	-	-	-	-
Investment in Term Deposit Receipt	700,000	-	-	-	-	-
Maturity of Term Deposit Receipt	3,200,000	-	-	-	-	-
Investment made and matured in Bai Muajjal	1,370,061	-	-	-	-	-
Reversal of Provision of SWWF	24,787	10,098	15,700	18,571	15,317	13,419