



MCB-ARIF HABIB
Savings and Investments Limited

AM2
BY FACRA

HALF YEAR REPORT

DECEMBER
2018
(UNAUDITED)

Half Year Report for Funds Under Management of
MCB-Arif Habib Savings and Investments Limited

Pakistan Income Fund

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FUND'S INFORMATION

Management Company	MCB-Arif Habib Savings & Investments Limited 24th Floor, Centre Point, Off Shaheed-e-Millat Expressway Near K.P.T. Interchange, Karachi.	
Board of Directors	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 Qamar Beg	Chairman Vice Chairman Chief Executive Officer Director Director Director Director Director Director
Audit Committee	Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Mirza Qamar Beg Mr. Nasim Beg	Chairman Member Member Member
Risk Management Committee	Mr. Mirza Qamar Beg Mr. Ahmed Jahangir Mr. Nasim Beg	Chairman Member Member
Human Resource & Remuneration Committee	Dr. Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Muhammad Saqib Saleem	Chairman Member Member Member Member
Chief Executive Officer	Mr. Muhammad Saqib Saleem	
Chief Operating Officer & Company Secretary	Mr. Muhammad Asif Mehdi Rizvi	
Chief Financial Officer	Mr. Abdul Basit	
Trustee	Central Depository Company of Pakistan Ltd. CDC House, 99-B, Block 'B'S.M.C.H.S Main Shahra-e-Faisal Karachi Tel: (92-21) 111-111-500 Fax: (92-21) 34326053 Web: www.cdcpakistan.com	
Bankers	MCB Bank Limited Habib Metropolitan Bank Limited Bank Al-Falah Limited Faysal Bank Limited United Bank Limited Allied Bank Limited Silk Bank Limited Bank Al-Habib Limited NRSP Micro Finance Bank Limited Mobilink Micro Finance Bank Limited U Micro Finance Bank Limited Khushali Micro Finance Bank Limited Telenor Micro Finance Bank Limited Finca Micro Finance Bank Limited JS Bank Limited Zarai Traqiati Bank Limited Habib Bank Limited First Mirco Finance Bank Limited National Bank of Pakistan	
Auditors	Deloitte Yousuf Adil Chartered Accountants Cavish Court, A-35, Block 7 & 8, KCHSU, Shahrah-e-Faisal, Karachi-75350.	
Legal Advisor	Bawaney & Partners 3rd & 4th Floor, 68 C, Lane 13, Bukhari Commercial Area Phase VI, D.H.A., Karachi	
Transfer Agent	MCB-Arif Habib Savings & Investments Limited 24th Floor, Centre Point, Off Shaheed-e-Millat Expressway Near K.P.T. Interchange, Karachi.	
Rating	AM2++ Asset Manager Rating assigned by PACRA	

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE HALF YEAR ENDED DECEMBER 31, 2018

Dear Investor,

On behalf of the Board of Directors, We are pleased to present **Pakistan Income Fund's** Half Yearly Report for the period ended December 31, 2018.

MARKET & ECONOMIC REVIEW

Economy and Money Market Review

FY19 started off with a positive note as smooth completion of election process resulted in a sigh of relief for the market participants. The new regime inherited many economic challenges particularly on the external front. To cope with the underlying challenges, major policy actions (currency depreciation of 15% along with interest rate hike of 250 bps) were taken to address the imbalances. Furthermore, major success came through diplomatically engaging with the friendly allies. As a result, Pakistan secured BOP support package from Saudi Arabia, UAE and China amounting to USD 14 billion while Saudi Arabia & UAE committed foreign direct investment of USD 20-30 billion.

Average CPI for the first half of current fiscal year clocked in at 6.0%. Nevertheless, it is expected to jack up during the second half, owing to a low base effect and lagged impact of currency adjustments. Furthermore, government is yet to adjust electricity prices as the gap between base tariff and actual cost of generation has widened significantly. We expect CPI to average 8.5% for the 2HFY19 after accounting for electricity adjustments.

Current Account Deficit for the first six months clocked in at ~USD 8 billion which is an improvement of 4.4% from same period last year. CAD was well supported by remittances growth of 10%. However, the improvement in the external position was masked by the higher oil prices and payments for the previous periods reflected in current accounts. The non-oil imports have shown encouraging trend, declining by ~5% over the previous year. Reflecting the elevated oil prices and limited financial flows, reserves declined by ~USD 2.7 bn during the period leading to rupee depreciation of ~13.7%.

The focus of government to stabilize aggregate demand has taken its toll on large scale manufacturing which posted a decline of 0.9% YoY in the first five months of FY19. The decline has been led by reduction in production of oil products followed by slow down in autos, pharmaceuticals, consumer products. LSM growth is reflecting the overall slowdown in economy as envisaged by the steps taken by authorities to control the external imbalances.

The yield curve showed an upward trajectory during the half year as market players continued to expect further monetary tightening. During the first 6 months, State Bank of Pakistan increased the policy rate by 350 bps in line with the expectations of most of the market. Most of PIB auctions during the period under review were rejected by State Bank of Pakistan due to thin volume and participation at higher levels. The 3 year, 5 year and 10 year PIB were accepted in the PIB auction held in December '18 at 12.25%, 12.70% and 13.15% respectively. Two Floater rate PIB auction were conducted during 1HFY19. The first was accepted at a benchmark rate +70 bps. The second was rejected due to higher level of participation. Concerns over external front kept market participants at bay from longer tenor Treasury instruments with persistence towards accumulation in papers having maturity below or equal to 3 months.

Liquidity remained comfortable throughout the period owing to regular OMOs conducted by SBP. During the second quarter, 117.7 billion worth of floater rate GOP Ijara Sukuk matured. No fresh GOP Ijara Sukuk were issued whereas SBP conducted auction of Bai Muajjal in which 72.55 billion was accepted out of total participation of 76.55.

FUND PERFORMANCE

During the period under review, the fund generated an annualized return of 7.16% as against its benchmark return of 9.17%.

At period-end, the fund was 39.9% invested in TFCs and 53.4% in Cash. Weighted average maturity of the fund stands at 2.0 year at period end as per outlook on the monetary cycle.

The Net Assets of the Fund as at December 31, 2018 stood at Rs. 1,501 million as compared to Rs. 1,519 million as at June 30, 2018 registering a decrease of 0.06%.

The Net Asset Value (NAV) per unit as at December 31, 2018 was Rs. 55.7185 as compared to opening NAV of Rs. 56.3297 per unit as at June 30, 2018 registering a decrease of Rs. 0.6112 per unit.

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE HALF YEAR ENDED DECEMBER 31, 2018

MARKET & ECONOMY - FUTURE OUTLOOK

The government has managed to arrange adequate financial flows for the next half year supported by deferred payment facilities, loans and deposits from friendly nations. However, the external account balance needs to improve further to reach sustainable levels for future funding of deficits. The exports are expected to show an improved trend supported by lagged impacts of currency depreciation, tax refunds to exporters, better energy supplies and energy price parity with regional peers. Imports are expected to slow down in second half of the year as effects of the one-off adjustments and oil prices neutralize along with impact of currency depreciation becomes further visible. Current account deficit for FY19 is expected to be ~USD 13 bn with CAD for next half year to slow down to ~USD 5 bn compared with first half of ~USD 8 bn. Subsequently, we expect normalize PKR/USD adjustment of around 5% in next half given the REER is close to its fundamental value.

The government has announced to approach the IMF for an economic program for balance of payments support. IMF program would lead to better policy management relative to dealing with the structural issues in the economy along with responsible fiscal management. Besides, entrance into IMF program would allow Pakistan to secure financial flows from other multilateral agencies which would allow better external account management.

Inflationary pressures are expected to become more visible in second half of the year as lagged impacts of currency depreciation, gas price increase and electricity price adjustments are incorporated. However, most of the monetary tightening has been done to reflect the upcoming inflationary pressures and room for further tightening would remain in the range of 50 bps.

For the remaining year, the economic growth is expected to remain on a slower trajectory as currency adjustments and tighter monetary policy will rein on the consumption patterns. However, increased power supply along with the documentation of economy will provide a respite to the economic managers during this critical juncture. We share the optimism on better governance & long term prospects for economic revival amid more focused and sincere efforts to address chronic issues on economic front by the new government; however, the path is likely to be tough and with a number of potentially unpopular policy steps.

We believe equity markets preempted the economic conditions and as such it is important to consider whether all the economic developments are priced in or not. Therefore, overall valuations and fundamentals of universe companies do play an important role. The overall strategy should tilt towards defensive sectors (E&Ps, Power, Fertilizers) while sector which will benefit from changing dynamics on macro front such as rising interest rates (Commercial Banks) should be overweight. In addition to that, government's strong focus on reviving exports should provide a boost to the outlook of export oriented sectors such as Textiles & IT. Despite being negative on cyclical sectors, we believe there will be distressed assets and quality companies which should be looked into as they have a tendency to provide abnormal returns.

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
February 18, 2019



Nasim Beg
Vice Chairman / Director

ڈائریکٹر رپورٹ
برائے ششماہی اختتام پذیر 31 دسمبر 2018ء

کلاں معاشیات کے میدان میں تبدیل ہوتے ہوئے محرکات مثلاً انٹریٹ کی شرحوں میں اضافے سے مستفید ہوں گے (کمرشل بینک) ان کا وزن زیادہ ہونا چاہیے۔ علاوہ ازیں، برآمدات کی بحالی پر حکومت کی بھرپور توجہ کی بدولت برآمداتی شعبوں مثلاً ٹیکسٹائل اور IT کے لیے مستقبل کے امکانات روشن ہوں گے۔ گردش شعبوں کے حوالے سے منفی سوچ کے باوجود ہم سمجھتے ہیں کہ کچھ اثاثہ جاتی اور quality کمپنیاں مشکلات سے دو چار ہوں گی جن پر توجہ دی جانی چاہیے کیونکہ یہ غیر معمولی منافع کی صلاحیت رکھتی ہیں۔

اظہار تشکر

بورڈ فنڈ کے قابل قدر سرمایہ کاروں، سکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان، اور فنڈ کے ٹرسٹیز کی مسلسل پشت پناہی اور تعاون کے لئے شکر گزار ہے۔ علاوہ ازیں، ڈائریکٹر مینجمنٹ ٹیم کی کاوشوں کو بھی سراہتے ہیں۔
من جانب ڈائریکٹرز،



نسیم بیگ
وائس چیئرمین / ڈائریکٹر



محمد ثاقب سلیم
چیف ایگزیکٹو آفیسر
18 فروری، 2019ء

پاکستان نے Bai Muajjal کی نیلامی منعقد کی جس میں 76.55 بلین کی کل شرکت میں سے 72.55 بلین قبول کیے گئے۔

فنڈ کی کارکردگی

زیر جائزہ مدت کے دوران فنڈ کا ایک سال پر محیط منافع 7.16% تھا، جبکہ بیچ مارک منافع 9.17% تھا۔

اختتام مدت پر فنڈ کی 39.9% سرمایہ کاری ٹرم فنانس سرٹیفکیٹس (TFCs) میں اور 53.4% نقد میں تھی۔ اختتام مدت پر فنڈ کی ویسٹڈ ایوریج میچورٹی مالیاتی چکر کے مستقبل کے امکانات کے مطابق 2.0 سال کی سطح پر تھی۔

31 دسمبر 2018ء کو فنڈ کے net اثاثہ جات 1,501 ملین روپے تھے، جو 30 جون 2018ء کو 1,519 ملین روپے کے مقابلے میں 0.06% کمی ہے۔ 31 دسمبر 2018ء کو Net اثاثہ جاتی قدر (NAV) فی یونٹ 55.7185 روپے تھی، جو 30 جون 2018ء کو 56.3297 روپے فی یونٹ ابتدائی NAV کے مقابلے میں 0.6112 روپے فی یونٹ کمی ہے۔

بازار اور معیشت - مستقبل کا منظر

حکومت اگلی ششماہی کے لیے خاطر خواہ مالیاتی فراہمی کا انتظام کر پائی ہے جس کی معاونت دوست ممالک کی طرف سے تاخیر سے ادائیگی کی سہولیات، قرضوں اور deposits سے ہوتی ہے۔ تاہم کاروباری اکاؤنٹ کے توازن میں مزید بہتری درکار ہے تاکہ مستقبل میں مالیات کی فراہمی اور خساروں کی قابل بقاء سطحوں تک رسائی ہو سکے۔ برآمدات میں بہتری کا رجحان متوقع ہے جس کی معاونت روپے کی قدر میں کمی، برآمد کاروں کو ٹیکس کی واپسی، توانائی کی بہتر فراہمیوں اور توانائی کی قیمتوں میں علاقائی فریقوں سے مساوات کے سبب اثر سے ہوگی۔ درآمدات میں سال کے نصف آخر میں سبب رومی متوقع ہے کیونکہ یکبارگی کی پیشیوں اور تیل کی قیمتوں کے اثرات توازن پیدا کریں گے، اور ساتھ ساتھ روپے کی قدر میں کمی کا اثر مزید واضح ہوگا۔ مالی سال 2019ء میں کرنٹ اکاؤنٹ کا متوقع خسارہ 13 بلین ڈالر ہے، اور اگلے نصف سال کے لیے CAD نصف اول کے 8 بلین ڈالر کے مقابلے میں سبب رومی کا شکار ہو کر 5 بلین ڈالر رہ جائے گا۔ بعد ازاں، اگلے نصف سال میں REER کے بنیادی قدر کے قریب ہونے کی صورت میں پاکستانی روپے امریکی ڈالر میں تقریباً 5% ایڈجسٹمنٹ متوقع ہے۔

حکومت نے اعلان کیا ہے کہ ادائیگیوں کے توازن میں معاونت کے معاشی پروگرام کے لئے آئی ایم ایف سے رجوع کیا جائے گا۔ آئی ایم ایف پروگرام کی بدولت پالیسی کے انتظام میں بہتری ہوگی جس سے معیشت کی ساخت سے متعلق مسائل سے نمٹنا جاسکے گا اور ذمہ دارانہ مالیاتی انتظام ممکن ہو سکے گا۔ علاوہ ازیں، آئی ایم ایف پروگرام میں داخل ہونے سے پاکستان کو دیگر کثیر الجہت ایجنسیوں سے مالیات حاصل کرنے میں مدد ملے گی جس کی بدولت خارجی اکاؤنٹ کا بہتر انتظام ممکن ہو سکے گا۔

افراط زر کے دباؤ سال کے نصف آخر میں مزید واضح ہونے کی توقع ہے کیونکہ کرنسی کی قدر میں کمی، گیس کی قیمت میں اضافے اور بجلی کی قیمتوں میں کمی بیشی کے سبب اثرات کا احاطہ کیا جائے گا۔ تاہم مالیاتی تنگی کا اکثر حصہ مکمل کیا جا چکا ہے جس میں آنے والے افراط زر کے دباؤ کی عکاسی ہوتی ہے، اور مزید تنگی 50 bps کی حد میں رہے گی۔

سال کے باقی حصے میں معاشی ترقی متوقع طور پر نسبتاً سبب رومی کا شکار رہے گی کیونکہ کرنسی میں کمی بیشی اور مالیاتی پالیسی میں مزید تنگی صرفی رجحان پر حاوی رہے گی۔ تاہم بجلی کی پہلے سے زیادہ فراہمی کے ساتھ ساتھ معیشت کی دستاویزی کی بدولت اس مشکل موڑ پر معاشی منتظمین کو سہولت فراہم ہوگی۔ نئی حکومت معاشی میدان کے دیرینہ مسائل کے حل پر توجہ دینے کی زیادہ مرکوز اور مخلص کاوشیں کر رہی ہے، چنانچہ ہم بہتر حکومت داری اور معاشی بحالی کے طویل المیعاد امکانات کے حوالے سے پُر امید ہیں؛ تاہم راستہ متوقع طور پر دشوار اور ممکنہ ناپسندیدہ پالیسی اقدامات سے پُر ہوگا۔

ہم سمجھتے ہیں کہ ایکویٹی مارکیٹس نے معاشی حالات کی قبل از وقت حفاظت کی؛ چنانچہ یہ دیکھنا ضروری ہے کہ تمام معاشی ترقیات قیمت شدہ ہیں یا نہیں۔ لہذا مجموعی تخمینہ جات اور عالمگیر کمپنیوں کی بنیاديات اہم کردار ادا کرتی ہیں۔ مجموعی لانچ عمل کا جھکاؤ دفاعی شعبوں کی طرف ہونا چاہیے (E&Ps، بجلی، کھاد)، جبکہ وہ شعبے جو

ڈائریکٹرز رپورٹ برائے ششماہی اختتام پذیر 31 دسمبر 2018ء

عزیز سرمایہ کار

بورڈ آف ڈائریکٹرز کی جانب سے پاکستان انکم فنڈ کی 31 دسمبر 2018ء کو اختتام پذیر ہونے والی مدت کی ششماہی رپورٹ پیش خدمت ہے۔

بازار اور معیشت کا جائزہ

معیشت اور بازار زر کا جائزہ

مالی سال 2019ء کا آغاز مثبت فضا سے ہوا کیونکہ انتخابی عمل کی بلار کاؤٹ تکمیل کے نتیجے میں مارکیٹ کے فریقوں نے اطمینان کا سانس لیا۔ نئی حکومت کو متعدد معاشی مسائل وراثت میں ملے، خاص طور پر خارجی میدان میں۔ درپیش مشکلات سے نہر آزماتے ہوئے اہم پالیسی اقدامات کیے گئے (روپے کی قدر میں 15% کمی کے ساتھ ساتھ انٹریسٹ کی شرح میں 250 bps اضافہ) تاکہ عدم توازن سے نمٹا جاسکے۔ مزید برآں، اہم ترین کامیابی دوست اتحادیوں سے سفارتی تعلقات قائم کرنے سے حاصل ہوئی۔ نتیجتاً، پاکستان کو سعودی عرب، متحدہ عرب امارات اور چین سے ادائیگیوں کے توازن میں معاونت کے لیے 14 بلین ڈالر کے پیکیج حاصل ہوئے، جبکہ سعودی عرب اور متحدہ عرب امارات نے 20 سے 30 بلین ڈالر کی براہ راست غیر ملکی سرمایہ کاری کا وعدہ کیا۔

موجودہ مالی سال کی پہلی ششماہی کے لیے CPI کا اوسط 6% تھا۔ لیکن دوسری ششماہی میں پست base effect اور کرنسی میں کمی بیشی کے سبب اثر کے باعث اس اوسط میں اضافہ متوقع ہے۔ مزید برآں، حکومت کی طرف سے بجلی کی قیمتوں میں کمی بیشی ہونا باقی ہے کیونکہ پیداوار کی بنیادی چنگی اور اصل قیمت کے درمیان فاصلے میں اچھا خاصا اضافہ ہو گیا ہے۔ مالی سال 2019ء کی دوسری ششماہی کے لیے CPI کا اوسط بجلی میں کمی بیشی کے اثر کا احاطہ کرنے کے بعد 8.5% متوقع ہے۔

پہلے چھ ماہ میں کرنٹ اکاؤنٹ کا خسارہ 8 بلین ڈالر تھا، جو گزشتہ سال کی مماثل مدت کے مقابلے میں 4.4% بہتری ہے۔ CAD کو ترسیل زر میں 10% اضافے کی بھرپور معاونت حاصل ہوئی۔ تاہم تیل کی بلند قیمتیں اور موجودہ اکاؤنٹس میں سابقہ مدتوں کی ادائیگیوں کی عکاسی خارجی صورتحال میں بہتری کی بھرپور اثر پذیری میں رکاوٹ بنے۔ Non-oil درآمدات میں گزشتہ سال کی نسبت 5% کمی حوصلہ افزا رہا۔ تیل کی بلند قیمتوں اور محدود مالی بہاؤ کی عکاسی کرتے ہوئے دوران مدت ذخائر میں 2.7 بلین ڈالر کمی، اور اس کے نتیجے میں روپے کی قدر میں 13.7% کمی ہوئی۔

مجموعی مانگ کو مستحکم کرنے کی حکومتی توجہ کے نتیجے میں بڑے پیمانے پر ہونے والی مینوفیکچرنگ (LSM) متاثر ہوئی جس میں مالی سال 2019ء کے ابتدائی پانچ ماہ میں 0.9% YoY کمی ہوئی۔ اس کمی کی وجہ تیل کی مصنوعات کی پیداوار میں کمی اور اس کے باعث گاڑیوں، دواسازی اور صارفی مصنوعات میں سست روی ہے۔ LSM میں ترقی معیشت میں مجموعی سست روی کی عکاسی کر رہی ہے جس کی پیش بینی خارجی عدم توازن پر قابو پانے کے لیے حکام کے اقدامات سے ہوتی ہے۔ دوران ششماہی مالیاتی تنگی میں اضافے کے حوالے سے مارکیٹ کے فریقوں کی توقع برقرار رہی، چنانچہ پیداواری خم بلندی کی طرف مائل ہوا۔ ابتدائی چھ ماہ کے دوران اسٹیٹ بینک آف پاکستان نے پالیسی کی شرح کو بازار کے زیادہ تر حصے کی توقعات کے مطابق بڑھا کر 350 bps کر دیا۔ زیر جائزہ مدت کے دوران پاکستان انویسٹمنٹ بانڈز (PIB) کی اکثر نیلامیوں کو اسٹیٹ بینک آف پاکستان نے کمزور حجم اور بلند سطح پر شرکت کے باعث مسترد کر دیا۔ تین سالہ، پانچ سالہ اور دس سالہ PIB کو دسمبر 2018ء میں ہونے والی نیلامی میں بالترتیب 12.25%، 12.70% اور 13.15% پر قبول کیا گیا۔ مالی سال 2019ء کی پہلی ششماہی کے دوران Two Floater شرح کے PIB کی نیلامیاں منعقد ہوئیں۔ پہلی کو بیچ مارک شرح 70 bps + پر قبول کیا گیا۔ دوسری کو شرکت کی بلند سطح کے باعث مسترد کر دیا گیا۔ خارجی صورتحال پر خدشات کے باعث طویل تر میعاد کے ٹریڈر انٹرنیشنل میں بازار کی شرکت متاثر ہوئی اور 3 ماہ یا اس سے کم مدت کے دستاویزات میں بدستور اضافہ ہوا۔

اسٹیٹ بینک آف پاکستان کے باقاعدگی سے منعقدہ OMOs کی بدولت نقدیت پوری مدت کے دوران سہل سطح پر رہی۔ دوسری سہ ماہی کے دوران 117.7 بلین مالیت کے حکومت پاکستان کے فلوئڈ ریٹ اجارہ سلک کی مدت مکمل ہوئی۔ حکومت پاکستان کے تازہ اجارہ سلک کا اجراء نہیں کیا گیا جبکہ اسٹیٹ بینک آف

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
Email: info@cdcpak.com



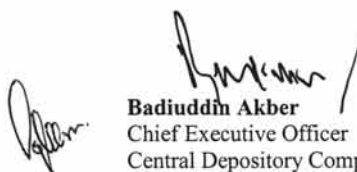
TRUSTEE REPORT TO THE UNIT HOLDERS

PAKISTAN 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 Pakistan 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, 2018 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.



Badiuddin Akber
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: February 20, 2019





Deloitte Yousuf Adil
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Shahrah-e-Faisal
Karachi-75350
Pakistan

Tel: +92 (0) 21 3454 6494-7
Fax: +92 (0) 21- 3454 1314

www.deloitte.com

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

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **Pakistan Income Fund** (the Fund) as at December 31, 2018, and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim cash flow statement and condensed interim statement of movement in unit holders' fund together with the notes forming part thereof (here-in-after referred to as the 'interim financial information'), for the half year ended December 31, 2018. The Board of the Management Company (MCB Arif Habib Savings and Investments Limited) is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim income statement for the quarters ended December 31, 2018 and 2017 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2018.

Scope of Review

We conducted our review in accordance with 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 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.


Chartered Accountants

Engagement Partner
Hena Sadiq

Dated: February 20, 2019
Place: Karachi

Member of
Deloitte Touche Tohmatsu Limited

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2018

		(Un-audited) December 31, 2018	(Audited) June 30, 2018
	Note	----- (Rupees in '000) -----	
ASSETS			
Balance with banks	5	812,334	616,193
Investments	6	616,164	580,656
Profit receivable		21,776	17,401
Advances, deposit and prepayments		8,830	80,725
Receivable against margin trading system		54,767	242,107
Receivable from National Clearing Company of Pakistan Limited		7,060	-
Total assets		1,520,931	1,537,082
LIABILITIES			
Payable to the Management Company		2,021	1,413
Payable to the Central Depository Company of Pakistan Limited - Trustee		200	198
Payable to the Securities and Exchange Commission of Pakistan		613	1,124
Payable against redemption of units		47	47
Accrued expenses and other liabilities	7	16,585	15,422
Total liabilities		19,466	18,204
NET ASSETS		1,501,465	1,518,878
Unit holders' fund (as per statement attached)		1,501,465	1,518,878
Contingencies and commitments	8		
		(Number of units)	
Number of units in issue		26,947,312	26,964,052
		(Rupees)	
NET ASSET VALUE PER UNIT		55.7185	56.3297

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

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



Chief Executive Officer



Chief Financial Officer



Director

CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2018

		Half year ended December 31,		Quarter ended December 31,	
		2018	2017	2018	2017
Note		(Rupees in '000)			
INCOME					
	Income from government securities	2,465	1,691	1,403	560
	Capital loss on sale of investments - net	164	(693)	(432)	(568)
	Income from term finance certificates	26,790	12,265	14,634	6,757
	Profit on bank deposit and term deposit receipts	37,820	34,607	19,958	15,789
	Dividend income	-	1,596	-	907
	Income from margin trading system	7,225	6,056	2,956	2,580
	Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' - net	6.8 (3,122)	(2,439)	(1,283)	(2,520)
	Other income	8	-	-	-
	Total income	71,350	53,083	37,236	23,505
EXPENSES					
	Remuneration of the Management Company	7,225	12,027	3,771	5,785
	Sindh Sales Tax and Federal Excise Duty on remuneration of the Management Company	939	1,563	490	751
	Remuneration of the Central Depository Company of Pakistan Limited - Trustee	1,123	1,110	544	542
	Sindh Sales Tax on remuneration of Trustee	146	144	71	70
	Securities and Exchange Commission of Pakistan - annual fee	613	601	292	289
	Allocated expense	923	906	439	436
	Provision for Sindh Workers' Welfare Fund	7.1 1,159	687	614	292
	Settlement and bank charges	441	490	210	224
	Brokerage expense	12	399	3	185
	Legal, professional and other charges	90	83	51	30
	Professional charges on marginal trading system	770	821	302	397
	Auditors' remuneration	353	424	208	155
	Other Charges	341	163	146	35
	Total expenses	14,135	19,418	7,141	9,191
	Net income for the period before taxation	57,215	33,665	30,095	14,314
	Taxation	9 -	-	-	-
	Net income for the period	57,215	33,665	30,095	14,314
Allocation of net income for the period:					
	Net income for the period	57,215		30,095	
	Income already paid on units redeemed	(17,156)		(14,742)	
		40,059		15,353	
Accounting income available for distribution					
	- Relating to capital gains	-		-	
	- Excluding capital gains	40,059		15,353	
		40,059		15,353	

Earnings per unit

10

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

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



Chief Executive Officer



Chief Financial Officer



Director

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2018**

	<u>Half year ended December 31,</u>		<u>Quarter ended December 31,</u>	
	2018	2017	2018	2017
	----- (Rupees in '000) -----			
Net income for the period after taxation	57,215	33,665	30,095	14,314
Other comprehensive income for the period				
Unrealised appreciation in fair value of investments classified as 'available for sale'	-	323	-	370
Total comprehensive income for the period	57,215	33,988	30,095	14,684

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

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



Chief Executive Officer



Chief Financial Officer



Director

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND (UN-AUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

	Half year ended December 31,				
	2018				2017
	(Rupees in '000)				
	Capital Value	Undistributed income	Unrealised appreciation / (diminution) 'available for sale' investments	Total	Total
Net assets at beginning of the period	1,354,270	164,570	38	1,518,878	1,721,961
Issue of 29,486,860 units (2017: 4,760,475 units)					
- Capital value (at net asset value per unit at the beginning of the period)	1,583,990	-	-	1,583,990	255,936
- Element of income	27,393	-	-	27,393	1,565
Total proceeds on issuance of units	1,611,383	-	-	1,611,383	257,501
Redemption of 29,503,601 units (2017: 10,573,260 units)					
- Capital value (at net asset value per unit at the beginning of the period)	(1,584,889)	-	-	(1,584,889)	(568,446)
- Amount paid out of element of income					
- Relating to 'Net income for the period after taxation'	(15,140)	(17,156)	-	(32,296)	(5,292)
Total payments on redemption of units	(1,600,029)	(17,156)	-	(1,617,185)	(573,738)
Total comprehensive income for the period	-	57,215	(38)	57,177	33,988
Final distribution for the year ended June 30, 2018 (including additional units) at the rate of Rs. 2.5511 per unit (Declared on July 04, 2018)	(25,134)	(43,654)	-	(68,788)	-
Net income / (loss) for the period less distribution	(25,134)	13,561	(38)	(11,611)	33,988
Net assets at end of the period	1,340,490	160,975	-	1,501,465	1,439,712
Undistributed income brought forward					
- Realised		166,783			116,258
- Unrealised		(2,213)			4,516
		164,570			120,774
Accounting income available for distribution					
- Relating to capital gains		-			-
- Excluding capital gains		40,059			29,109
		40,059			29,109
Net income for the period after taxation		-			-
Cash distribution for the period		(43,654)			-
Undistributed income carried forward		160,975			149,883
Undistributed income carried forward					
- Realised		164,097			152,322
- Unrealised		(3,122)			(2,439)
		160,975			149,883
				(Rupees)	(Rupees)
Net assets value per unit at beginning of the period				56.3297	53.7626
Net assets value per unit at end of the period				55.7185	54.9169

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

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



Chief Executive Officer



Chief Financial Officer



Director

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

	Half year ended December 31,	
	2018	2017
	----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period before taxation	57,215	33,665
Adjustments for non cash and other items:		
Unrealised diminution in value of investments classified as 'at fair value through profit or loss' - net	3,122	2,439
Provision against Sindh Workers' Welfare Fund	-	687
	60,337	36,791
(Increase) / decrease in assets		
Investments	(38,668)	(142,735)
Profit receivable	(4,375)	257
Receivable against margin trading system	-	(75,081)
Advances, deposit and prepayments	71,895	12,185
Receivable against margin trading system	187,340	-
Receivable from National Clearing Company of Pakistan Limited	(7,060)	-
	209,132	(205,374)
Increase / (decrease) in liabilities		
Payable to the Management Company	608	(167)
Payable to the Central Depository Company of Pakistan Limited - Trustee	2	(3)
Payable to the Securities and Exchange Commission of Pakistan	(511)	(318)
Accrued expenses and other liabilities	1,163	(1,840)
	1,262	(2,328)
Net cash generated from / used in operating activities	A 270,731	(170,911)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issuance of units	1,611,383	257,501
Payments on redemption of units	(1,617,185)	(574,004)
Distribution during the period	(68,788)	-
Net cash used in financing activities	B (74,590)	(316,503)
Net increase / (decrease) in cash and cash equivalents during the period	A + B 196,141	(487,414)
Cash and cash equivalents at beginning of the period	616,193	1,344,719
Cash and cash equivalents at end of the period	812,334	857,305

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

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



Chief Executive Officer



Chief Financial Officer



Director

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 Pakistan Income Fund (the Fund) was established under a Trust Deed executed between Arif Habib Investments Limited (now, MCB - Arif Habib Savings and Investments Limited) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on October 23, 2001 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on February 28, 2002 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules) repealed by the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules).
- 1.2 The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non Banking Finance Companies (Establishment and Regulations) Rules 2003 through a certificate of registration issued by 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.
- 1.3 The Fund is an open-ended mutual fund and has been categorised as "Income Scheme". The Fund 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 units are listed on the Pakistan Stock Exchange.
- 1.4 The Fund primarily invests in money market and other short-term instruments which include short-term corporate debt and government securities, repurchase agreements and spread transactions. The Fund may also invest a portion of the fund in medium term assets in order to provide higher return to the unit holders.
- 1.5 The Pakistan Credit Rating Agency (PACRA) Limited has assigned Management quality rating of AM2++ dated October 08, 2018 to the Management Company and "A+(f)" as stability rating dated December 28, 2018 to the Fund.
- 1.6 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. STATEMENT OF COMPLIANCE

- 2.1 This condensed interim financial information has been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of :
- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
 - Provisions of and directives issued under the Companies Act 2017 along with part VIIIA of the repealed Companies Ordinance, 1984 ; and
 - 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 requirements of the Trust Deed.

Where provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations and requirements of the Trust Deed differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations and the requirements of the Trust Deed have been followed.

- 2.2 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, 2018.
- 2.3 In compliance with Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the directors of the Management Company hereby declare that this condensed interim financial information gives a true and fair view of the state of the Fund's affairs as at December 31, 2018.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

2.4 This condensed interim financial information 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, unless otherwise specified.

3. SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

The accounting policies and methods of computation adopted in preparation of this condensed interim financial information are same as those applied in preparation of financial statements of the Fund as at and for the year ended June 30, 2018, except as described in note 3.1 below.

The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed interim financial information, significant judgments made by management in applying accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the financial statements as at and for the year ended June 30, 2018.

Amendments to certain existing standards and interpretations on approved accounting standards effective during the period were not relevant to the Fund's operations and did not have any impact on the accounting policies of the Fund and therefore not disclosed in this condensed interim financial information.

3.1 Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Fund has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after July 01, 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Fund has elected not to restate comparatives in respect of the classification and measurement of financial instruments. The comparatives in the condensed interim statement of assets and liabilities presented in the condensed half year financial information as at December 31, 2018 have been extracted from the audited financial statements of the Fund for the year ended June 30, 2018, whereas the comparatives in the condensed half year income statement, condensed half year statement of movement in unit holders' fund and condensed half year cash flow statement have been extracted from the audited condensed half financial information of the Fund for the period ended December 31, 2017.

Additionally, the Fund adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the Fund's financial statements are described below except the General Hedge Accounting which the Fund does not apply. The Fund has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Fund has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is July 01, 2018. Accordingly, the Fund has applied the requirements of IFRS 9 to instruments that continue to be recognised as at July 01, 2018 and has not applied the requirements to instruments that have already been derecognised as at July 01, 2018. Comparative amounts in relation to instruments that continue to be recognised as at July 01, 2018 have not been restated as allowed by IFRS 9.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

2.3 In compliance with Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the directors of the Management Company hereby declare that this condensed interim financial information gives a true and fair view of the state of the Fund's affairs as at December 31, 2018.

2.4 This condensed interim financial information 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, unless otherwise specified.

3. SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND JUDGEMENTS

The accounting policies and methods of computation adopted in preparation of this condensed interim financial information are same as those applied in preparation of financial statements of the Fund as at and for the year ended June 30, 2018, except as described in note 3.1 below.

The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed interim financial information, significant judgments made by management in applying accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the financial statements as at and for the year ended June 30, 2018.

Amendments to certain existing standards and interpretations on approved accounting standards effective during the period were not relevant to the Fund's operations and did not have any impact on the accounting policies of the Fund and therefore not disclosed in this condensed interim financial information.

3.1 Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Fund has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after July 01, 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Fund has elected not to restate comparatives in respect of the classification and measurement of financial instruments. The comparatives in the condensed interim statement of assets and liabilities presented in the condensed half year financial information as at December 31, 2018 have been extracted from the audited financial statements of the Fund for the year ended June 30, 2018, whereas the comparatives in the condensed half year income statement, condensed half year statement of movement in unit holders' fund and condensed half year cash flow statement have been extracted from the audited condensed half financial information of the Fund for the period ended December 31, 2017.

Additionally, the Fund adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on the Fund's financial statements are described below except the General Hedge Accounting which the Fund does not apply. The Fund has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Fund has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is July 01, 2018. Accordingly, the Fund has applied the requirements of IFRS 9 to instruments that continue to be recognised as at July 01, 2018 and has not applied the requirements to instruments that have already been derecognised as at July 01, 2018. Comparative amounts in relation to instruments that continue to be recognised as at July 01, 2018 have not been restated as allowed by IFRS 9.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Fund may make the following irrevocable election/designation at initial recognition of a financial asset;
- the Fund may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Fund may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Fund has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. Please see para (b) below for applicability of impairment requirements of IFRS 9.

The Management has reviewed and assessed the Fund's existing financial assets as at July 01, 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Fund's financial assets as regards their classification and measurement:

- there is no change in the measurement of the Fund's investments in corporate bonds that were held for trading under IAS 39; those instruments were and continue to be measured at FVTPL;
- there is no change in the measurement of the Fund's investments in government securities that were held for trading under IAS 39; those instruments were and continue to be measured at FVTPL;
- the Fund's investments in government securities (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been reclassified as at FVTPL. The change in fair value on these investments will be recognised in the income statement;

Para (d) below tabulates the change in classification of the Fund's financial assets upon application of IFRS 9.

None of the other reclassifications of financial assets have had any impact on the Fund's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

(b) Impairment of financial assets

The SECP/Commission has through its letter no. SCD/AMCW/RS/MUFAP/2017-148 dated November 21, 2017 has deferred the applicability of the impairment requirements of IFRS 9 for debt securities on mutual funds. Therefore the Fund will not be subject to the impairment provisions of IFRS 9.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Profit and other comprehensive income reported for half year ended December 31, 2018 have not been affected as the Fund did not have any financial liabilities designated as at FVTPL.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the Fund's financial liabilities.

Please refer to para (d) below for further details regarding the change in classification upon the application of IFRS 9.

(d) Disclosures in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the Fund had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Fund has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Fund has elected to designate as at FVTPL at the date of initial application of IFRS 9.

4. FINANCIAL RISK MANAGEMENT

The Fund's risk management policies are consistent with those disclosed in the financial statements of the Fund as at and for the year ended June 30, 2018.

		(Un-audited)	(Audited)
		December 31,	June 30,
		2018	2018
		---- (Rupees in '000) ----	
5.	BALANCE WITH BANKS	Note	
	- in saving accounts	5.1	812,325
	- in current accounts	5.2	9
			<hr/>
			812,334
			616,193

5.1 These carry profit at the rates ranging between 8% to 12% (June 30, 2018: 3.75% to 8.10%) per annum and include Rs 3.005 million (June 30, 2018: Rs 2.876 million) maintained with MCB Bank Limited (a related party).

5.2 These are maintained with MCB Bank Limited, a connected person / related party.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2018**

		(Un-audited) December 31, 2018	(Audited) June 30, 2018
	Note	---- (Rupees in '000) ----	
6. INVESTMENTS			
<i>At fair value through profit or loss</i>			
Listed debt securities - Term Finance Certificates	6.1	49,985	52,093
Unlisted debt securities - Term Finance Certificates	6.2	346,981	272,300
Listed debt securities - Sukuks Certificates	6.3	100,005	100,200
Unlisted debt securities - Sukuks Certificates	6.4	109,354	113,980
Government securities - Treasury Bills	6.5	9,839	34,621
		616,164	573,194
<i>Available for sale</i>			
Government securities - Pakistan Investment Bond	6.6.1	-	7,462
		616,164	580,656
6.1 Listed debt securities - Term Finance Certificates			
Market value as at period / year end	6.1.1	149,756	151,864
Provision at July 1, 2018		(99,771)	(96,373)
		-	(3,398)
		-	(3,398)
	6.1.2	(99,771)	(99,771)
		49,985	52,093

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2018**

6.1.1 Listed debt securities - Term Finance Certificates

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

Name of investee company	Number of certificates				As at December 31, 2018			Market value*** as a percentage of net assets	Market value*** as a percentage of total investment
	As at July 1, 2018	Purchased during the period	Matured during the period	Disposed off during the period	As at December 31, 2018	Carrying value**	Market value / (diminution)		
Commercial banks									
Bank Alfalah Limited (20-02-13 issue)	10,381	-	-	-	10,381	52,083	49,985	3.33	8.11
Investment Banks / Investment Companies / Securities Companies									
Trust Investment Bank Limited (04-07-08 issue)	10,000	-	-	-	10,000	18,743	18,743	-	-
- Due but not received									
Real Estate investment and services									
Pace Pakistan Limited (15-02-08 issue)	10,000	-	-	-	10,000	49,940	49,940	-	-
- Due but not received									
Technology & Communication									
Telecard Limited (27-05-05 issue)	19,975	-	-	-	19,975	31,088	31,088	-	-
- Due but not received									
As at December 31, 2018						151,854	149,756	(2,098)	
As at June 30, 2018						153,051	151,864	987	

*** Carrying value before provision

**** Market value after provision

6.1.2 Owing to continuous default on repayment of coupon by the issuer, the Fund had classified the said investment as non-performing. The Fund has recognised full provision against outstanding principal in accordance with applicable provisioning circular issued by the Securities and Exchange Commission of Pakistan and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Fund has suspended further accrual of mark-up there against.

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2018**

6.2 Unlisted debt securities - Term Finance Certificates

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

Name of investee company	Number of certificates				As at December 31, 2018				Market value as a percentage of total investment
	As at July 1, 2018	Purchased during the period	Matured during the period	Disposed during the period	As at December 31, 2018	Carrying value	Market value	Appreciation / (diminution)	
									(Rupees in '000) %
Commercial banks									
Askari Bank Limited (30-9-14 issue)	19,000	-	-	-	19,000	94,885	94,374	(511)	15.32
Bank AL Habib Limited (17-03-16 issue)	15,500	-	-	-	15,500	77,310	82,033	4,723	13.31
Bank of Punjab (23-04-18 issue)	-	-	650	-	650	64,987	60,574	(4,413)	9.83
Investment Company									
Jahangir Siddiqui & Company Limited (06-03-2018 issue)	20,000	2,000	-	-	22,000	109,998	110,000	2	17.85
Total as at December 31, 2018						347,180	346,981	(199)	
Total as at June 30, 2018						273,130	272,300	(830)	

6.3 Listed debt securities - Sukuks Certificates

Certificates have a face value of Rs 100,000 each unless stated otherwise

Name of investee company	Number of certificates				As at December 31, 2018				Market value as a percentage of total investment
	As at July 1, 2018	Purchased during the period	Matured during the period	Disposed during the period	As at December 31, 2018	Carrying value	Market value	Appreciation / (diminution)	
									(Rupees in '000) %
Investment Banks / Investment Companies / Securities Companies									
Dawood Hercules Corporation Limited (16-11-17 issue)	1,000	-	-	-	1,000	100,200	100,005	(195)	16.23
Dawood Hercules Corporation Limited (01-03-2018 issue)	250	-	-	-	250	25,016	25,000	(16)	4.06
Total as at December 31, 2018						125,216	125,005	(211)	
Total as at June 30, 2018						100,000	100,200	200	

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

6.4 Unlisted debt securities - Sukuks Certificates

Certificates have a face value of Rs 100,000 each unless stated otherwise

Name of investee company	Number of certificates				As at December 31, 2018			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2018	Purchased during the period	Matured during the period	Disposed during the period	As at December 31, 2018	Carrying value	Appreciation / (diminution)		
								(Rupees in '000)	%
Oil and Gas									
Byco Petroleum Pakistan Limited (18-01-2017 issue)	10	-	-	-	10	998	1,001	3	0.16
Chemical									
Ghani Gasses Limited	480	-	-	-	480	33,970	33,992	22	5.52
Miscellaneous									
International Brands Limited	500	-	-	-	500	50,000	49,361	(639)	8.01
Total as at December 31, 2018						84,968	84,354	(614)	
Total as at June 30, 2018						114,380	113,980	(400)	

6.5 Government securities - Treasury Bills

Security	Issue Date	Face value			As at December 31, 2018			Market value as a percentage of net assets	Market value as a percentage of total investments
		As at July 1, 2018	Purchased during the period	Matured / Sold during the period	As at December 31, 2018	Carrying value	Appreciation / (diminution)		
								(Rupees in '000)	%
Treasury bills - 3 months	7-Jun-18	35,000	-	35,000	-	-	-	-	-
Treasury bills - 3 months	2-Aug-18	-	35,000	35,000	-	-	-	-	-
Treasury bills - 3 months	11-Oct-18	-	25,000	25,000	-	-	-	-	-
Treasury bills - 3 months	11-Oct-18	-	10,000	10,000	-	-	-	-	-
Treasury bills - 3 months	6-Dec-18	-	10,000	-	10,000	9,839	9,839	0.66	1.60
As at December 31, 2018						9,839	9,839	-	
As at June 30, 2018						34,617	34,621	4	

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2018**

6.6 Available for Sale

6.6.1 Government securities - Pakistan investment bonds

Security	Issue Date	Face Value				As at December 31, 2018		Market value as a percentage of net assets	Market value as a percentage of total investments
		As at July 01, 2018	Purchased during the period	Matured / Sold during the period	As at December 31, 2018	Carrying value	Appreciation / (diminution)		
Pakistan Investment Bond - 10 years	30-Aug-08	7,400	-	-	7,400	-	-	-	-
As at December 31, 2018						-	-	-	-
As at June 30, 2018						34,617	34,621	4	

6.7 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

In accordance with Clause (v) of the investment criteria laid down for 'Income Scheme' in Circular no. 7 of 2009, the Fund is required to invest in any security having rating not lower than the investment grade (credit rating of BBB and above). However, as at December 31, 2018, the Fund is non-compliant with the above mentioned requirement in respect of the following investments. The securities were in compliance of the Circular (i.e. investment grade) at the time of purchase and were subsequently downgraded to non investment grade by MUFAP on default by respective issuer in repayment of coupon due on respective dates. The Fund holds 100% provision against such investment as enumerated below:

Category of non-compliant investment	Type of investment / Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of gross assets	
					Percentage of net assets	Percentage of gross assets
Rupees in '000				%		
Investment in debt securities	a) Trust Investment Bank Limited (note 6.1.1)	18,743	18,743	-	0.01	0.01
	b) Pace Pakistan Limited (note 6.1.1)	49,940	49,940	-	0.03	0.03
	c) Telecard Limited (note 6.1.1)	31,088	31,088	-	0.02	0.02

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2018**

	Note	(Un-audited) December 31, 2018 (Rupees in '000)	(Audited) 30 June 2018
6.8 Net unrealised appreciation in value of investments at fair value through profit or loss			
Market value of investments	6.1, 6.2, 6.3, 6.3, 6.4, 6.5	715,935	573,194
Carrying value of investments	6.1, 6.2, 6.3, 6.3, 6.4, 6.5	(719,057)	(575,407)
		(3,122)	(2,213)

7. ACCRUED EXPENSES AND OTHER LIABILITIES

Provision for Sindh Workers' Welfare Fund	7.1	5,417	4,258
Provision for Federal Excise Duty and related tax on	7.2		
- Management fee		9,210	9,210
- Sales load		239	239
Brokerage		14	38
Capital gain tax		154	65
Auditors' remuneration		279	426
Printing and related expenditure		29	40
Other		1,243	1,146
		16,585	15,422

7.1 Provision for Sindh Workers' Welfare Fund

There is no change in the status of the SWWF as reported in the annual financial statements of the Fund for the year ended June 30, 2018. Had the provision for SWWF not been recorded in the condensed half year financial information of the Fund, the net asset value of the Fund as at December 31, 2018 would have been higher by Re. 0.2010 per unit (June 30, 2018 Re. 0.1579 per unit).

7.2 Federal Excise Duty and related tax payable

There is no change in the status of the appeal filed by the Federal Board of Revenue in the Honorable Supreme Court of Pakistan in respect of levy of Federal Excise Duty as reported in the annual financial statements of the Fund for the year ended June 30, 2018. 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 September 30, 2018 would have been higher by Re. 0.2613 per unit (June 30, 2018: Re. 0.3416 per unit).

8. CONTINGENCIES AND COMMITMENTS

There are no contingencies as at December 31, 2018 (June 30, 2018: Nil).

9. TAXATION

The Fund's income is exempt from Income Tax as per Clause 99 of Part I of the Second Schedule of the Income Tax Ordinance, 2001 subject 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. 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 management intends to distribute at least 90% of income to be earned during current year to the unit holders, therefore, no provision for taxation has been recorded in this condensed interim financial information.

10. 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.

11. TRANSACTIONS WITH CONNECTED PERSONS

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

Remuneration to the Management Company and Trustee are determined in accordance with the provisions of the NBFC Regulations and the Trust Deed of the Fund. All other transactions with connected persons are in the normal course of business and are carried out on agreed terms.

11.1 Transactions during the period with connected persons / related parties in units of the Fund:

For the six months ended December 31, 2018					
	As at July 01, 2018	Issued for cash	Bonus	Redeemed	As at December 31, 2018
(Rupees in '000)					

Associated Companies:

Adamjee Insurance Co Limited Employees Gratuity Fund	-	79,367	-	-	79,367	-	4,271	-	-	4,601
Nishat Mills Limited Employees Provident Fund Trust	-	6,283,645	-	6,283,645	-	-	342,400	-	344,723	-
Mandate Under Discretionary Portfolio	307,168	646,479	-	542,961	410,686	17,303	34,989	-	29,635	23,806
Key management personnel	4,294	7,636	-	11,930	-	242	400	-	653	-

For the six months ended December 31, 2017

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**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2018**

11.2 Details of transactions with the connected persons / related parties during the period are as follows:

	(Unaudited) December 31, 2018	(Un-audited) December 31, 2017
	----- (Rupees in '000) -----	
MCB-Arif Habib Savings and Investments Limited - Management Company		
Remuneration including indirect taxes	7,225	13,590
Sindh sales tax on remuneration of the Management Company	939	
Allocated expenses including indirect taxes	923	906
Central Depository Company of Pakistan Limited		
Remuneration of the trustee (including indirect taxes)	1,269	1,254
CDC settlement charges	164	17
MCB Bank Limited		
Profit on bank deposits	113	33
Bank charges	9	7
Nishat Chunian Limited		
Dividend income	-	8
Arif Habib Limited		
Brokerage expense*	-	3

*The amount disclosed represents the amount of brokerage paid to connected persons and not the purchase or sale value of securities transacted through them. The purchase or sale value has not been treated as transaction with connected persons as the ultimate counter parties are not the connected persons.

	(Un-audited) December 31, 2018	(Audited) June 30, 2018
	----- (Rupees in '000) -----	
11.3 Amount outstanding as at period end / year end		
MCB - Arif Habib Savings & Investment Limited - Management Company		
Remuneration payable	1,261	963
Sale tax payable on remuneration to the Management Company	164	126
Sales load payable	473	202
Allocated expenses payable excluding related taxes	123	122
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	177	175
Sindh Sales tax payable on remuneration of Trustee	23	23
Security deposits	200	200
MCB Bank Limited		
Bank deposit held	3,005	2,876
Accrued profit on bank deposit	11	5
Sales load payable	108	-
Silkbank Limited		
Bank balance	533,316	274,323
Profit receivable	3,559	1,812
Next Capital Limited		
Brokerage payable	-	9
Arif Habib Limited		
Brokerage payable	-	3

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

12. EXPENSE RATIO

The expense ratio of the Fund from July 1 2018 to December 31 2018 is 0.87%, the total expense ratio includes 0.18% representing government levy and SECP fee. This ratio is within the maximum limit of 2% prescribed under the NBFC Regulations for a collective investment scheme categorised as an aggressive fixed income fund.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is the amount for which an asset could be exchanged, or liability 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.

Financial assets which are trade able in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

International Financial Reporting Standard 7 - Financial Instruments : Disclosure requires an entity shall classify fair value measurements 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 prices (unadjusted) in active markets for identical assets or liabilities.

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 assets or liability that are not based on observable market data (that is, unobservable inputs).

	-----December 31, 2018 (Un-audited) -----			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Investment classified				
- at fair value through profit or	606,325	9,839	-	616,164
	<u>606,325</u>	<u>9,839</u>	<u>-</u>	<u>616,164</u>
	-----June 30, 2018 (Audited) -----			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Investment classified				
- at fair value through profit or	52,093	573,194	-	625,287
- available for sale	-	7,462	-	7,462
	<u>52,093</u>	<u>580,656</u>	<u>-</u>	<u>632,749</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2018

The following table shows the carrying amounts of financial assets and financial liabilities:

December 31, 2018 (Un-audited)					
Carrying amount					
Fair value through profit or loss	Fair value through other comprehensive income	At amortised cost	Other financial assets / liabilities	Total	
----- (Rupees in '000) -----					
On-balance sheet financial instruments					
Financial assets measured at fair value					
Investments					
- Listed debt securities					
- Term Finance Certificate	49,985	-	-	-	49,985
- Sukuks Certificates	100,005	-	-	-	100,005
- Unlisted debt securities					
- Term Finance Certificate	346,981	-	-	-	346,981
- Sukuks Certificates	109,354	-	-	-	109,354
- Government securities	9,839	-	-	-	9,839
	616,164	-	-	-	616,164
Financial assets not measured at fair value					
Balance with banks					
	-	-	-	812,334	812,334
Profit receivable					
	-	-	-	21,776	21,776
Advances, deposits and prepayments					
	-	-	-	8,830	8,830
Receivable against margin trading system					
	-	-	-	54,767	54,767
Receivable from National Clearing Company of Pakistan Limited					
	-	-	-	7,060	7,060
	-	-	-	904,767	904,767
Financial liabilities not measured at fair value					
Payable to the Management Company					
	-	-	-	2,021	2,021
Payable to the Trustee					
	-	-	-	200	200
Payable to the Securities and Exchange Commission of Pakistan					
	-	-	-	613	613
Payable against redemption of units					
	-	-	-	47	47
Accrued expenses and other liabilities					
	-	-	-	16,585	16,585
	-	-	-	19,466	19,466

**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2018**

	June 30, 2018 (Audited)				
	Carrying amount				
	Held for trading	Available for sale	Loans and receivables	Other financial assets / liabilities	Total
	----- (Rupees in '000) -----				
On-balance sheet financial instruments					
Financial assets measured at fair value					
Investments					
- Listed debt securities					
- Term Finance Certificate	52,093	-	-	-	52,093
- Sukuks Certificates	100,200	-	-	-	100,200
- Unlisted debt securities					
- Term Finance Certificate	272,300	-	-	-	272,300
- Sukuks Certificates	113,980	-	-	-	113,980
- Government securities	34,621	7,462	-	-	42,083
	573,194	7,462	-	-	580,656
Financial assets not measured at fair value					
Balance with banks	-	-	-	616,193	616,193
Profit receivable	-	-	-	17,401	17,401
Advances, deposits and prepayments	-	-	-	80,725	80,725
Receivable against margin trading system	-	-	-	242,107	242,107
	-	-	-	956,426	956,426
Financial liabilities not measured at fair value					
Payable to the Management Company	-	-	-	1,413	1,413
Payable to the Trustee	-	-	-	198	198
Payable to the Securities and Exchange Commission of Pakistan	-	-	-	1,124	1,124
Payable against redemption of units	-	-	-	47	47
Accrued expenses and other liabilities	-	-	-	15,422	15,422
	-	-	-	18,204	18,204

14. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on February 18, 2019 by the Board of Directors of the Management Company.

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



Chief Executive Officer



Chief Financial Officer



Director

MCB-Arif Habib Savings and Investments Limited

Head Office: 24th Floor, Centrepont, Off Shaheed-e-Millat Expressway, Near K.P.T. Interchange, Karachi-74900
UAN: (+92-21) 11-11-62224 (11-11-MCB-AH), 111-468-378 (111-INVEST), Fax: (+92-21) 35316080, 35316081,
URL: www.mcbah.com, Email: info@mcbah.com