

Half Year Report
December 31, 2016
(Unaudited)



Funds Under Management
of
MCB-Arif Habib Savings and Investments Limited
Rated: AM2++ by PACRA

MCB PAKISTAN SOVEREIGN 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 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
Audit Committee	Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Nasim Beg	Chairman Member Member Member
Human Resource & Remuneration Committee	Dr. Syed Salman Ali Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir	Chairman Member Member Member
Chief Executive Officer	Mr. Muhammad Saqib Saleem	
Chief Financial Officer & Company Secretary	Mr. Abdul Basit	
Trustee	Central Depository Company of Pakistan Ltd. CDC House, 99-B, Block 'B' S.M.C.H.S Main Shakra-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 United Bank Limited Bank Al-Habib Limited Allied Bank Limited Bank Al Falah Limited Faysal Bank Limited NIB Bank Limited Zarai Taraqati Bank Limited JS Bank Limited	
Auditors	Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountant Progressive Plaza, Beaumont Road, P.O. Box 155411 Karachi, Sindh-75530, Pakistan.	
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 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 Pakistan Sovereign Fund** accounts review for half year 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 along with 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% along with 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 along with 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 (06th Jan 2017). It is pertinent to note that SBP reserves explain most of the volatility in For-ex 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 4.14% as against its benchmark return of 5.68%. At period-end, the fund was 48.7% invested in cash and bank deposits and 49.4% in PIBs.

The Net Assets of the Fund as at December 31, 2016 stood at Rs. 3,842 million as compared to Rs. 8,691 million as at June 30, 2016 registering a decrease of 55.79%.

The Net Asset Value (NAV) per unit as at December 31, 2016 was Rs. 54.31 as compared to opening NAV of Rs. 53.2 per unit as at June 30, 2016 registering an increase of Rs. 1.11 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

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.

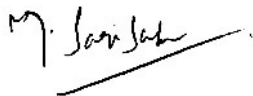
The China Pakistan Economic Corridor is expected to provide much needed impetus to growth with above \$50 billion program expected to spur activity in the construction and power space which would have its trickle down affects. However, the current account is expected to worsen with import bill increasing 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,



Muhammad Saqib Saleem
Chief Executive Officer
February 2, 2017

عزیز سرمایہ کار

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

معیشت اور بازار 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 درآمد 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 کلوڑنگ 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 پیمائش 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 YoY 3.24% ترقی ہوئی جس کے اسباب کنزیومر، الیکٹریکل، آٹوموبائلز اور سیمینٹ 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 پر بینکوں کی بیلنس شیٹ کا حجم وسیع کرنے کی کوششوں کی مدد سے ڈپازٹس میں ایک ہفتے میں 420

بلین روپے موبی 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 بلین روپے اضافہ ہوا۔

فنڈ کی کارکردگی

زیر جائزہ مدت کے دوران فنڈ کا ایک سال پر محیط منافع مقررہ معیار 5.68% کے مقابلے میں 4.14% تھا۔ اختتام مدت پر فنڈ کی سرمایہ کاری 48.7 فیصد نقد اور بینک ڈپازٹس میں، اور 49.4 فیصد PIBs میں تھی۔

31 دسمبر 2016ء کو فنڈ کے net اثاثہ جات کی مالیت 3,842 ملین روپے تھی، جو 30 جون 2016ء پر 8,691 ملین روپے مالیت کے مقابلے میں 55.79% کم ہے۔
31 دسمبر 2016ء کو net اثاثہ جاتی قدر (NAV) فی یونٹ 54.31 روپے تھی، جو 30 جون 2016ء پر 53.2 روپے فی یونٹ قدر کے مقابلے میں 1.11 روپے فی 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 ہوجانے 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 پیکیج 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 حصولی 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 انٹریسٹ 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 ابھرتی 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 ابھرتی ہوئی مارکیٹ کے فنڈز پر redemption کے دباؤ سے مارکیٹ کی مختصر المیاد 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، سیکورٹیز اینڈ ایکسچینج 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 Shahr-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

MCB PAKISTAN SOVEREIGN 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 Pakistan Sovereign 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



EY Ford Rhodes
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530
Pakistan

Tel: +9221 3565 0007-11
Fax: +9221 3568 1965
ey.khi@pk.ey.com
ey.com/pk

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

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **MCB Pakistan Sovereign Fund (the Fund)** as at **31 December 2016**, the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim distribution statement and condensed interim statement of movement in unit holders' fund and notes to the accounts for the half year then ended (here-in-after referred to as "interim financial information"). Management Company is responsible for the preparation and presentation of this 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 interim financial information based on our review.

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 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: Shabbir Yunus

Date: 02 February 2017

Karachi

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2016

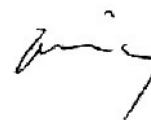
		(Un-Audited) December 31, 2016	(Audited) June 30, 2016
	Note	----- (Rupees in '000) -----	
ASSETS			
Balances with banks		3,519,015	4,148,521
Investments	5	3,568,082	9,270,198
Profit receivable		133,590	122,930
Advances and prepayments		2,085	2,163
Total assets		<u>7,222,772</u>	<u>13,543,812</u>
LIABILITIES			
Payable to the Management Company		3,354	7,134
Payable to the Trustee		395	610
Annual fee payable to the Securities and Exchange Commission of Pakistan (SECP)		2,744	6,164
Payable against purchase of investments		3,282,702	1,990,062
Payable against conversion of units		-	2,769,378
Accrued and other liabilities	6	91,357	79,196
Total liabilities		<u>3,380,552</u>	<u>4,852,544</u>
NET ASSETS		<u>3,842,220</u>	<u>8,691,268</u>
Unit holders' fund (as per statement attached)		<u>3,842,220</u>	<u>8,691,268</u>
Contingencies and commitments	7		
		----- (Number of units) -----	
NUMBER OF UNITS IN ISSUE		<u>70,747,974</u>	<u>163,363,463</u>
		----- (Rupees) -----	
NET ASSETS VALUE PER UNIT		<u>54.31</u>	<u>53.20</u>

The annexed notes from 1 to 13 form an integral part of these condensed interim financial statements.



Chief Executive Officer

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



Director

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

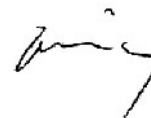
		Half year ended		Quarter ended	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Note		----- (Rupees in '000) -----			
Income					
		(43,008)	61,472	2,851	36,458
		234,035	275,427	85,294	140,578
		26,588	12,071	16,584	8,045

The annexed notes from 1 to 13 form an integral part of these condensed interim financial statements.



Chief Executive Officer

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



Director

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

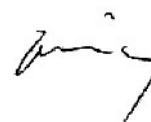
	Half year ended		Quarter ended	
	December 31,	December 31,	December 31,	December 31,
	2016	2015	2016	2015
	----- (Rupees in '000) -----			
Net income for the period after taxation	107,029	311,601	35,172	150,452
Other comprehensive (loss) / income:				
To be reclassified to profit or loss account in subsequent periods				
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'available-for-sale'	(26,176)	3,711	(36,150)	(12,337)
Other comprehensive (loss) / income for the period	(26,176)	3,711	(36,150)	(12,337)
Total comprehensive income / (loss) for the period	80,853	315,312	(978)	138,115

The annexed notes from 1 to 13 form an integral part of these condensed interim financial statements.



Chief Executive Officer

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



Director

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

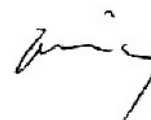
	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	----- (Rupees in '000) -----			
Undistributed (loss) / income brought forward				
comprises of:				
- Realised (loss) / income	(291,619)	156,410	(277,457)	570,601
- Unrealised income / (loss)	348	113	(202)	1,135
Undistributed (loss) / income brought forward - net	(291,271)	156,523	(277,659)	571,736
Element of (loss) / income and capital (losses) / gains included in the prices of units sold less those in units redeemed - amount representing unrealised (loss) / income	(299,126)	294,377	(240,881)	40,313
Net income for the period	107,029	311,601	35,172	150,452
	(192,097)	605,978	(205,709)	190,765
Undistributed (loss) / income carried forward	(483,368)	762,501	(483,368)	762,501
Undistributed (loss) / income carried forward				
comprises of:				
- Realised (loss) / income	(483,368)	762,617	(483,570)	763,752
- Unrealised income / (loss)	-	(116)	202	(1,251)
	(483,368)	762,501	(483,368)	762,501

The annexed notes from 1 to 13 form an integral part of these condensed interim financial statements.



Chief Executive Officer

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

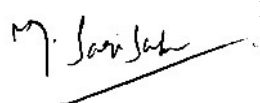


Director

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDER'S FUND (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

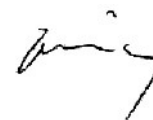
	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(Rupees in '000)			
Net assets at beginning of the period	8,691,268	3,192,984	7,781,718	7,255,009
Issue of 59,491,350 (2015: 185,722,909) units and 4,567,945 (2015: 77,248,754) units for the half year and quarter ended respectively	3,175,455	10,028,648	240,891	4,236,201
Redemption of 152,106,839 (2015: 95,135,996) units and 78,520,684 (2015: 59,823,865) units for the half year and quarter ended respectively	(8,174,096)	(5,183,708)	(4,233,691)	(3,295,418)
	(4,998,641)	4,844,940	(3,992,800)	940,783
Element of loss / (income) and capital losses / (gains) included in the prices of units sold 'less those in 'units redeemed':				
- amount representing loss / (gain) and capital losses / (gains)				
- transferred to income statement:				
- from realised / unrealised capital gains	(32,529)	(2,646)	(26,618)	(1,015)
- arising from other loss / (income)	101,269	(18,579)	80,898	(881)
- amount representing unrealised loss / (income) and capital losses / (gains) that forms part of unit holder's fund transferred to distribution statement	299,126	(294,377)	240,881	(40,313)
	367,866	(315,602)	295,161	(42,209)
Net income / (loss) for the period transferred from the distribution statement:				
Net (loss) / gain on sale of investments	(43,008)	61,472	2,851	36,458
Net unrealised appreciation / (diminution) on revaluation of investments 'at fair value through profit or loss - held-for-trading'	-	(116)	202	(1,251)
Other income for the period	150,037	250,245	32,119	115,245
Element of (loss) / income and capital (losses) / gains included in the prices of units sold less those in units redeemed - amount representing unrealised (loss) / income	(299,126)	294,377	(240,881)	40,313
	(192,097)	605,978	(205,709)	190,765
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'available-for-sale'	(26,176)	3,711	(36,150)	(12,337)
Net assets at end of the period	3,842,220	8,332,011	3,842,220	8,332,011
	(Number of units)			
NUMBER OF UNITS IN ISSUE	70,747,974	150,767,720	70,747,974	150,767,720
	(Rupees)			
NET ASSETS VALUE PER UNIT	54.31	55.26	54.31	55.26

The annexed notes from 1 to 13 form an integral part of these condensed interim financial statements.



Chief Executive Officer

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



Director

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

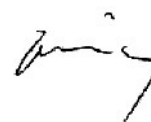
	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	----- (Rupees in '000) -----			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period before taxation	107,029	311,601	35,172	150,452
Adjustments for:				
Net unrealised (appreciation) / diminution on revaluation of investments 'at fair value through profit or loss - held-for-trading'	-	116	(202)	1,251
Element of loss / (income) and capital losses / (gains) included in the prices of units sold less those in units redeemed:				
- from realised / unrealised capital gains	(32,529)	(2,646)	(26,618)	(1,015)
- arising from other loss / (income)	101,269	(18,579)	80,898	(881)
	175,769	290,492	89,250	149,807
Decrease / (increase) in assets				
Investments	3,685,878	(4,431,447)	1,182,030	(528,715)
Profit receivable	(10,660)	(184,818)	(116,763)	(199,927)
Advances and prepayments	78	50	84	67
	3,675,296	(4,616,215)	1,065,351	(728,575)
(Decrease) / increase in liabilities				
Payable to the Management Company	(3,780)	3,675	(4,347)	3,443
Payable to the Trustee	(215)	296	(278)	139
Annual fee payable to SECP	(3,420)	(1,756)	1,023	1,705
Payable against purchase of investments	1,292,640	(1,069,911)	743,462	-
Payable against conversion of units	(2,769,378)	102,470	(27,420)	102,470
Accrued and other liabilities	12,161	(10,506)	10,806	(106,081)
	(1,471,992)	(975,732)	723,246	1,676
Net cash generated from / (used in) operating activities	2,379,073	(5,301,455)	1,877,847	(577,092)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts from issuance of units	3,175,455	10,028,648	240,891	4,236,201
Payments on redemption of units	(8,174,096)	(5,183,708)	(4,233,691)	(3,295,418)
Net cash (used in) / generated from financing activities	(4,998,641)	4,844,940	(3,992,800)	940,783
Net (decrease) / increase in cash and cash equivalents during the period	(2,619,568)	(456,515)	(2,114,953)	363,691
Cash and cash equivalents at beginning of the period	6,138,583	1,382,582	5,633,968	562,376
Cash and cash equivalents at end of the period	3,519,015	926,067	3,519,015	926,067

The annexed notes from 1 to 13 form an integral part of these condensed interim financial statements.



Chief Executive Officer

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



Director

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

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 MCB Pakistan Sovereign Fund (the Fund) was established under a Trust Deed executed between Arif Habib Investments Limited (AHIL), as Management Company and Habib Metropolitan Bank Limited as Trustee. The Trust Deed was executed on December 24, 2002 and was approved by SECP on January 07, 2003 in accordance with the Asset Management Companies Rules, 1995 (AMC Rules), [repealed by the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules)].
- 1.2 The Board of Directors have approved that the Fund should be categorised as "Income Scheme" as per the categories defined by SECP Circular No. 7 of 2009 dated March 06, 2009.
- 1.3 During the year ended June 30, 2010, Habib Metropolitan Bank Limited retired as the Trustee of the Scheme and Central Depository Company of Pakistan Limited (CDC) was appointed as the new Trustee with effect from November 23, 2009. The SECP approved the appointment of CDC as the Trustee in place of Habib Metropolitan Bank Limited and further approved the amendments to the Trust Deed vide its letter number SCD/NBFC-11/MF-RS/MSPF/981/2009 dated 3 November 2009. Accordingly, the Trust Deed of the Scheme was revised through a supplemental Deed executed between the Management Company, Habib Metropolitan Bank Limited and CDC.
- 1.4 Pursuant to the merger of MCB Asset Management Company Limited with and into Arif Habib Investments Limited (AHIL), the name of AHIL has been changed to MCB-Arif Habib Savings and Investments Limited.
- 1.5 The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through certificate of registration issued by 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.
- 1.6 MCB Pakistan Sovereign Fund has a policy of investing in Pakistani rupee denominated debt securities issued by the government of Pakistan and reverse repurchase transaction in government securities. In addition, the Fund can also invest in sub-scheme of the Fund.
- 1.7 The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units of the Fund can be transferred to / from the Funds managed by the Management Company and can also be redeemed by surrendering to the Fund. The units are listed on the Pakistan Stock Exchange Limited.
- 1.8 Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of 'AM2++' dated June 08, 2016 to the Management Company and a stability rating of 'AA- (f)' dated December 09, 2016 to the Fund. The Fund consists of a 'Perpetual' (the scheme). In addition, the Fund had also issued other sub-scheme which matured as follows:

Name of sub-scheme	Maturity date of sub-scheme
MetroBank - Pakistan Sovereign Fund - (December 2012)	December 31, 2012
MetroBank - Pakistan Sovereign Fund - (December 2007)	December 31, 2007
MetroBank - Pakistan Sovereign Fund - (December 2005)	December 31, 2005
MetroBank - Pakistan Sovereign Fund - (December 2003)	December 31, 2003

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

- 1.9 Title to the assets of the Fund are held in the name of Central Depository Company of Pakistan Limited, as the Trustee of the Fund.

2. BASIS OF PREPARATION

- 2.1 These condensed interim financial statements for the half year ended December 31, 2016, have been prepared in accordance with the requirements of International Accounting Standard 34: 'Interim Financial Reporting', the Trust Deed, the NBFC Rules, Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by SECP. In case where requirements differ, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations and the directives issued by the SECP prevail.
- 2.2 These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the financial statements of the Fund for the year ended June 30, 2016.
- 2.3 These condensed interim financial statements are un-audited but subject to limited scope review by the auditors. Figures for the quarters ended December 31, 2016 and December 31, 2015 as reported in these condensed interim financial statements have not been subject to limited scope review by the external auditors.
- 2.4 These condensed interim financial statements are presented in Pak rupees, which is the functional and presentation currency of the Fund. Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

3. ACCOUNTING POLICIES AND ESTIMATES

The accounting policies and methods of computation adopted in preparation of this condensed interim financial statements are same as those applied in preparation of financial statements of the Fund for the year ended June 30, 2016, except as follows:

3.1 New / Revised Standards, Interpretations and Amendments

The Fund has adopted the following standards and amendment to IFRSs which became effective for the current period:

Standard or Interpretation

IFRS 10 – Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)

IFRS 11 – Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)

IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)

IAS 16 – Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)

IAS 16 – Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)

IAS 27 – Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)

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

Improvements to Accounting Standards Issued by the IASB in September 2014

IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal

IFRS 7 – Financial Instruments: Disclosures - Servicing contracts

IFRS 7 – Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements

IAS 19 – Employee Benefits - Discount rate: regional market issue

IAS 34 – Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

The adoption of the above standards, amendment and improvement to accounting standards did not have any effect on the condensed interim financial statements.

In addition to the above standards and interpretations, improvements to various accounting standards have also been issued by the IASB and are generally effective for current period. The Fund believes that such improvements to the standards do not have any impact on the Fund's financial statements for the period.

3.2 FINANCIAL RISK MANAGEMENT

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

4. TOTAL EXPENSE RATIO

As per Directive 23 of 2016 dated July 20, 2016 issued by SECP the Total Expense Ratio of the Fund is 0.58% as on December 31, 2016 and this includes 0.09% representing Government Levy and SECP fee. This ratio is within the maximum limit of 2% prescribed under the NBFC Regulations 60 (5) for a collective investment scheme categorised as an income scheme.

5. INVESTMENTS

'At fair value through profit or loss - held-for-trading'

		(Un-Audited) December 31, 2016	(Audited) June 30, 2016
	Note	----- (Rupees in '000) -----	
Pakistan Investment Bonds	5.1	-	58,054
Market Treasury Bills	5.1	-	5,966,048
		-	6,024,102

'Available-for-sale'

Pakistan Investment Bonds	5.3	<u>3,568,082</u>	<u>3,246,096</u>
		<u>3,568,082</u>	<u>9,270,198</u>

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

5.1 Government securities - 'at fair value through profit or loss - held-for-trading'

Name of security	Face value			Balance as at December 31, 2016			Market value	
	As at July 01, 2016	Purchases during the period	Disposed / matured during the period	As at December 31, 2016	Carrying value	Market value	As a percentage of net assets	As a percentage of total investments
							----- % -----	
Pakistan Investment Bonds								
PIB - 5 years	50,575	100,000	150,575	-	-	-	-	-
December 31, 2016								
June 30, 2016					57,796	58,054	258	
Market Treasury Bills								
Treasury bills - 3 months	2,000,000	6,696,500	8,696,500	-	-	-	-	-
Treasury bills - 6 months	-	6,900,000	6,900,000	-	-	-	-	-
Treasury bills - 1 year	4,000,000	5,318,650	9,318,650	-	-	-	-	-
December 31, 2016								
June 30, 2016					5,965,958	5,966,048	90	
Total of investments in Government securities - December 31, 2016								
June 30, 2016					-	-	-	-
Total of investments in Government securities - June 30, 2016					6,023,754	6,024,102	348	

(Un-Audited)
December 31,
2016

(Audited)
June 30,
2016

Note

----- (Rupees in '000) -----

**5.2 Net unrealised appreciation on revaluation of investments
'at fair value through profit or loss - held-for-trading'**

Market value of investments	5.1	-	6,024,102
Carrying value of investments	5.1	-	(6,023,754)
		-	348

**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 Government securities - 'available-for-sale'

Name of security	Note	Face value				Balance as at 31 December 2016			Market value	
		As at July 01, 2016	Purchases during the period	Disposed / matured during the period	As at December 31, 2016	Carrying value	Market value	Appreciation / (diminution)	As a percentage of net assets	As a percentage of total investments
(Rupees in '000)										
Pakistan Investment Bonds										
PIB - 3 years	5.3.1	1,361,170	6,148,820	6,109,170	1,400,820	1,443,159	1,444,812	1,653	37.60%	40.49%
PIB - 5 years	5.3.2	1,314,150	7,590,160	7,507,150	1,397,160	1,502,786	1,503,675	889	39.14%	42.14%
PIB - 7 years		9,000	-	9,000	-	-	-	-	-	-
PIB - 10 years	5.3.3	347,950	2,450,250	2,235,250	562,950	613,949	613,521	(428)	15.97%	17.19%
PIB - 20 years	5.3.4	5,500	-	-	5,500	5,606	6,074	468	0.16%	0.17%
December 31, 2016						3,565,500	3,568,082	2,582		
June 30, 2016						3,217,338	3,246,096	28,758		

5.3.1 These Pakistan Investment Bonds carry interest at the rate of 8.75% to 11.25% (June 30, 2016: 8.75% to 11.25%) per annum. These will mature latest by March 26, 2018 (June 30, 2016: July 18, 2016).

5.3.2 These Pakistan Investment Bonds carry interest at the rate of 9.25% to 11.25% (June 30, 2016: 7.75% to 11.5%) per annum. These will mature latest by March 26, 2020 (June 30, 2016: August 18, 2016).

5.3.3 These Pakistan Investment Bonds carry interest at the rate of 9.60% to 12.00% (June 30, 2016: 8.75% to 12.00%) per annum. These will mature latest by July 19, 2022 (June 30, 2016: August 22, 2017).

5.3.4 These Pakistan Investment Bonds carry interest at the rate of 10% (June 30, 2016: 10%) per annum. These will mature latest by June 10, 2024 (June 30, 2016: June 10, 2024).

6. ACCRUED AND OTHER LIABILITIES

	(Un-Audited) December 31, 2016	(Audited) June 30, 2016
Provision for Workers' Welfare Fund	6.1	42,253
Federal excise duty payable on management fee	6.2	29,028
Federal excise duty and related taxes payable on sales load	6.2	4,170
Sales load payable to MCB Bank Limited - related party		604
Withholding tax payable		4,373
Auditors' remuneration payable		291
Brokerage payable		867
Advance against issuance of units		8,085
Others		1,686
	91,357	1,463
	79,196	

Note

(Rupees in '000)

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

- 6.1** The Finance Act, 2008 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 / Mutual Funds (CISs) 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.

The amendments introduced in the WWF Ordinance were challenged in various High Courts of Pakistan. The Honorable Lahore High Court (LHC) and the Honorable Sindh High Court (SHC) arrived at different conclusions in respect of the validity of the amendments made through the Finance Act in relation to the WWF. Both the decisions of LHC and the SHC were challenged in the Honorable Supreme Court of Pakistan (SCP). During the period, the SCP passed a judgment on November 10, 2016, declaring the insertion of amendments introduced in the Finance Act pertaining to WWF as unlawful for the reason that the WWF is not in the nature of tax and therefore, could not be introduced through money bill under the Constitution. The Federal Board of Revenue has filed a petition in the SCP against the said judgment, which is pending hearing.

Further, as a consequence of the 18th amendment to the Constitution, levy for the WWF was also introduced by the Government of Sindh through the Sindh WWF Act, 2014. The Mutual Funds Association of Pakistan (MUFAP) believes that the Mutual Funds are not liable to pay Sindh WWF under the said law, for the reason that the Mutual Funds are not financial institutions and rather an investment vehicle. However, the Sindh Revenue Board has not accepted the said position of MUFAP and as a result, MUFAP has taken up this matter with the Sindh Finance Ministry for resolution.

In view of the above developments regarding the applicability of Federal and Sindh WWF on Mutual Funds, the MUFAP has obtained a legal opinion on these matters and based on such legal advice, has recommended to all its members on January 12, 2017 the following:

- i. The provision against the Federal WWF held by the Mutual Funds till June 30, 2015 to be reversed on January 12, 2017; and
- ii. Provision against Sindh WWF, on prudent basis, should be made from the date of enactment of the Sindh WWF Act, 2014 (i.e. May 21, 2015) with effect from January 12, 2017.

The above decisions were communicated to SECP and the Pakistan Stock Exchange Limited on January 12, 2017 and SECP vide its letter dated February 01, 2017 advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosure in the financial statements of 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 had been done at December 31, 2016 would have resulted in increase in the net assets value per unit by Re.0.55 (1.01%) per unit.

- 6.2** There is no change in the status of petition pending with SHC as reported in note 11.1 to the annual financial statements of the Fund for the year ended June 30, 2016.

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

In view of the pending decision and as a matter of abundant caution, the Management Company of the Fund has made a provision for FED in the books of accounts of the Fund with effect from June 13, 2013 to June 30, 2016 aggregating to Rs.33.198 million (June 30, 2016: Rs.33.198 million). Had the said provision of FED and related taxes not been recorded in the books of account of the Fund, the net assets value per unit of the Fund would have been higher by Re.0.47 per unit as at December 31, 2016 (June 30, 2016: Re.0.20 per unit).

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

7. CONTINGENCIES AND COMMITMENTS

7.1 CONTINGENCIES

There is no change in the status of the appeal filed with the Appellate Tribunal Inland Revenue and the restraining order from the Honorable Sindh High Court in respect of the claim of super tax, as reported in note 13.1 to the annual financial statements of the Fund for the year ended June 30, 2016.

7.2 COMMITMENTS

There were no commitments outstanding as at December 31, 2016.

8. 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 in cash amongst the unit holders. The Management Company intends to distribute not less than 90% of its annual accounting income in cash, if any, to comply with the above clause at year end. Accordingly, no tax provision has been made in these condensed interim financial statements for the half year ended December 31, 2016.

9. TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

Details of transactions and balances at period end with related parties / connected persons, other than those which have been disclosed elsewhere in these financial statements, are as follows:

----- (Un-Audited) -----			
Half year ended		Quarter ended	
December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
----- (Rupees in '000) -----			

9.1 Transactions during the period:

MCB-Arif Habib Savings and Investments

Limited - Management Company

Remuneration of the Management Company including indirect taxes	29,159	28,048	10,645	16,739
Expenses allocated by the Management Company and related taxes	4,134	1,041	1,542	1,041
Legal and professional charges	45	2	31	2
Issuance of 2,340,394 (2015: 9,733,233) units and Nil (2015: 1,225,159) units for the half year and quarter ended respectively	124,986	527,000	-	67,000
Redemption of 7,540,244 (2015: 4,579,339) units and 1,213,073 (2015: 2,131,570) units for the half year and quarter ended respectively	404,312	249,277	65,312	117,277

Central Depository Company of

Pakistan Limited - Trustee

Remuneration including indirect taxes	3,528	3,698	1,370	2,157
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Group / Associated Companies

Arif Habib Limited

Brokerage expense *	3	21	-	8
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Next Capital

Brokerage expense *	116	154	15	29
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**NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016**

	(Un-Audited)			
	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(Rupees in '000)			
MCB Bank Limited				
Profit on bank deposits	601	2,510	32	184
Bank charges	39	57	36	34
Sale of securities Face Value 450,000,000 (2015: Nil) and Face Value 200,000,000 for the half year and quarter ended respectively	571,890	161,992	261,563	-
Purchase of securities Face Value 500,000,000 (2015: Nil) and Face Value Nil for the half year and quarter ended respectively	496,640	166,925	-	-
Adamjee Insurance Company Limited **				
Issuance of Nil (2015: 16,283,742) units and Nil (2015: Nil) units for the half year and quarter ended respectively	-	870,529	-	-
Redemption of 27,799,270 (2015: Nil) units and 27,799,270 (2015: Nil) units for the half year and quarter ended respectively	1,500,000	-	1,500,000	-
Silk Bank Limited				
Sale of securities face value 1,075,000,000 (2015: Nil) and face value 425,000,000 for the half year and quarter ended respectively	1,109,702	-	408,867	-
Purchase of securities face value 150,000,000 (2015: Nil) and face value 100,000,000 for the half year and quarter ended respectively	189,049	-	126,266	-
Adamjee Life Assurance Company Limited - Employees Provident Fund				
Issuance of Nil (2015: 1,521,455) units and Nil (2015: 1,521,455) units for the half year and quarter ended respectively	-	84,060	-	84,060
Redemption of 1,628,533 (2015: 1,521,455) units and 1,628,533 (2015: 1,521,455) units for the half year and quarter ended respectively	88,102	84,060	88,102	84,060
Adamjee Life Assurance Company Limited - Investment Multiplier Fund				
Issuance of 187,793 (2015: Nil) units and Nil (2015: Nil) units for the half year and quarter ended respectively	10,000	-	-	-
Redemption of 187,793 (2015: Nil) units and Nil (2015: Nil) units for the half year and quarter ended respectively	10,032	-	-	-
Adamjee Life Assurance Company Limited - Investment Secure Fund				
Issuance of 751,174 (2015: Nil) units and Nil (2015: Nil) units for the half year and quarter ended respectively	40,000	160,000	-	160,000
Redemption of 1,691,377 (2015: Nil) units and Nil (2015: Nil) units for the half year and quarter ended respectively	90,466	-	-	-

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

	----- (Un-Audited) -----			
	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	----- (Rupees in '000) -----			
Adamjee Life Assurance Company Limited				
- Investment Secure Fund II				
Issuance of 375,587 (2015: 315,399) units and Nil (2015: Nil) units for the half year and quarter ended respectively	20,000	17,000	-	-
Redemption of 375,587 (2015: 655,152) units and Nil (2015: 655,152) units for the half year and quarter ended respectively	20,084	36,000	-	36,000
Adamjee Life Assurance Company Limited				
- Non - Unitised Investment Linked Fund				
Issuance of 187,793 (2015: Nil) units and Nil (2015: Nil) units for the half year and quarter ended respectively	10,000	-	-	-
Redemption of 1,414,245 (2015: Nil) units and Nil (2015: Nil) units for the half year and quarter ended respectively	75,587	-	-	
D.G. Khan Cement Company Limited				
Issuance of 14,988,856 (2015: 18,304,961) units and Nil (2015: 18,304,961) units for the half year and quarter ended respectively	800,405	1,000,000	-	1,000,000
Redemption of 14,988,856 (2015: 18,304,961) units and Nil (2015: 18,304,961) units for the half year and quarter ended respectively	801,154	1,009,336	-	1,009,336
Other Related Parties:				
Mandate under Discretionary Portfolio Services				
Issuance of 703,194 (2015: 2,547,056) units and Nil (2015: 926,809) units for the half year and quarter ended respectively	37,617	137,668	-	50,968
Redemption of 2,201,362 (2015: 2,318,026) units and 828,349 (2015: 2,318,026) units for the half year and quarter ended respectively	118,345	127,406	41,479	127,406
Key Management Personnel				
Issuance of 73,308 (2015: 63,677) units and Nil (2015: 8,179) units for the half year and quarter ended respectively	3,919	3,450	-	450
Redemption of 303,901 (2015: 90,278) units and 246,341 (2015: 29,063) units for the half year and quarter ended respectively	16,442	4,904	13,351	1,589

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

	(Un-Audited) December 31, 2016	(Audited) June 30, 2016
	----- (Rupees in '000) -----	
9.2 Balances outstanding at period / year end:		
MCB-Arif Habib Savings and Investments Limited - Management Company		
Remuneration payable to Management Company	2,593	5,179
Sales tax payable on remuneration to Management Company	337	725
Sales load payable including related taxes	43	596
Legal and professional charges payable	-	2
Expenses allocated by Management Company and related sales tax	381	632
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable (including related taxes)	395	610
Group / Associated Companies:		
Adamjee Insurance Company Limited **		
26,647,078 units held (2016: 54,446,348 units)	1,447,203	2,896,546
Adamjee Insurance Company Limited - Employees Provident Fund		
Nil units held (2016: 1,628,533 units)	-	86,638
Adamjee Life Assurance Company Limited - Investment Secure Fund		
Nil units held (2016: 940,203 units)	-	50,019
MCB Financial Services Limited		
Nil units held (2016: 903,274 units)	-	48,054
Adamjee Life Assurance Company Limited - Non- Unitised Investment Linked Fund		
Nil units held (2016: 1,226,452 units)	-	65,247
MCB Bank Limited		
Bank balance	5,811	162,016
Profit receivable	102	577
Sales load payable	604	-
Arif Habib Limited *		
Brokerage payable	-	18
Next Capital Limited *		
Brokerage payable	15	74
Other Related Parties:		
Mandate under discretionary portfolio services		
151,973 units held (2016: 1,413,046 units)	8,254	75,174
Key Management Personnel		
81,696 units held (2016: 312,289 units)	4,437	16,614

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

* The amount disclosed represents the amount of brokerage paid / payable 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 transactions with connected persons as the ultimate counter-parties are not connected persons.

** Adamjee Insurance Company Limited also holds more than 10% units in the Fund.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the statement of assets and liabilities date. The estimated fair value of all other financial assets and financial liabilities is considered not significantly different from book value.

The following table shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using 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: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

	----- December 31, 2016 (Un-Audited) -----			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Financial assets 'at fair value through profit or loss - held-for-trading'				
Pakistan Investment Bonds	-	-	-	-
Market Treasury Bills	-	-	-	-
	-	-	-	-
Financial assets classified as 'available-for-sale'				
Pakistan Investment Bonds	-	3,568,082	-	3,568,082
	-	3,568,082	-	3,568,082

	----- June 30, 2016 (Audited) -----			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Financial assets 'at fair value through profit or loss - held-for-trading'				
Pakistan investment bonds	-	58,054	-	58,054
Market treasury bills	-	5,966,048	-	5,966,048
	-	6,024,102	-	6,024,102
Financial assets classified as 'available-for-sale'				
Pakistan Investment Bonds	-	3,246,096	-	3,246,096
	-	9,270,198	-	9,270,198

During the period ended December, 31 2016, there were no transfers between level 1 and level 2 fair value measurements, and no transfer into and out of level 3 fair value measurements.

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

11. SUBSEQUENT EVENT


As fully disclosed in note 6.1 to these condensed interim financial statements, the Fund has recorded a reversal of provision maintained against Workers Welfare Fund and simultaneously recorded provision against Sindh Workers Welfare Fund on January 12, 2017. The financial impact of such adjustments are disclosed in the said note.

12. DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue on February 02, 2017 by the Board of Directors of the Management Company.

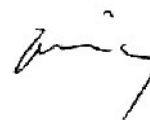
13. GENERAL

Certain prior year's / period's figures have been reclassified for the purpose of comparison. However, there were no material reclassifications to report.



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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