

DIRECTORS' REPORT FOR THE YEAR ENDED JUNE 30, 2021

The Board of Directors of MCB-Arif Habib Savings and Investments Limited (MCBAH) are pleased to present Report on the affairs of MCBAH for the year ended June 30, 2021.

PRINCIPAL BUSINESS

The Company is a Non-Banking Finance Company, licensed as Asset Management Company, Investment Advisor and Pension Fund Manager under the Securities and Exchange Commission of Pakistan's regulatory regime.

THE BUSINESS ENVIRONMENT

Economy and Money Market Review

Fiscal year 2021 has proven to be a positive year with respect to economic performance. Country registered a GDP growth rate of 3.94 per cent outpacing the original target of 2.1 per cent for the outgoing fiscal year. This better than expected recovery has been due to relatively lower and stable interest rates, supportive financing schemes from SBP, amnesty scheme to encourage construction sector, resumption in demand and strong inflow of remittances supporting the overall consumption growth.

The growth momentum remained strong throughout the year as reflected in the performance of various sectors. Cement sector saw an impressive comeback in local dispatches as they witnessed a growth of about 20 per cent over last year in FY21. Sales of 2 and 3 wheeler units also rose at an impressive rate of approx. 39 per cent over last year in FY21 reflecting the resilience of economy. Similarly, the demand of petrol and diesel also increased by about 12 per cent and 16 per cent respectively over last year indicating a broader recovery in economy. Overall, Large Scale Manufacturing Index (LSM) has grown by about 14.6 per cent in first eleven months of the current fiscal year led by the cyclical sectors.

On the external front, the country posted a current account deficit of USD 1.8 billion (-0.6 per cent of GDP) in the fiscal year 2021, a 58 per cent improvement when compared with last year deficit of USD 4.4 billion (-1.7 per cent of GDP). Despite a USD 30 billion deficit (about 23 per cent higher this year) on balance on trade in goods and services, current account deficit remained marginally negative due to strong inflow of workers' remittances. Remittances jumped to USD 29.4 billion, up by 27 per cent when compared with USD 23.1 billion a year back.

Inflation remained the chink in the armor for the government as rising food prices continued to create challenges for policy makers. Headline inflation represented by CPI averaged 8.9 per cent over last year, with food inflation averaging about 13 per cent during the period. The prices of perishable food items along with the price of wheat continued to advance higher as supply side disruptions and mismanagement caused the prices to soar. Nevertheless, core inflation as measured by Non Food Non Energy was still controlled and averaged 6.4 per cent for the period. Monetary Policy Committee maintained status quo throughout the year after successive cuts in previous meetings. While real interest rates remained negative, the central bank was cautious with regards to demand side pressures owing to covid-19 as well as comfort drawn from better external position.

As the economy started to open up, tax collection also improved and grew by about 18 per cent during the fiscal year which exceeded the revised target by PKR 30 billion. Fiscal deficit for the first nine months of the period clocked in at 3.6 per cent of GDP, compared to 3.8 per cent of GDP last year. Primary balance was even better at a surplus of 1.0 per cent of GDP compared to last year surplus of 0.4 per cent of GDP.

Yield curve started to slope upward after inflation trajectory was observed to be on the rising trend. 3, 5 and 10 Year bonds saw a rise of 146 bps, 138 bps and 125 bps respectively during the period.

Equity Market Review

KSE-100 Index posted a 38 per cent return for FY21, gaining 12,934 points to end the year at 47,356 points. This was the highest yearly return since FY14, when index achieved 41 per cent return during the year. Market's resilience during the year was tested by re-emergence of covid-19 wave II (October 2020) and III (February 2021), political unrest caused by opposition rallies and senate election. However, stronger than expected economic recovery and central bank's initiatives (TERF, RDA and mandatory housing financing by banks) kept the positive momentum of the market intact.

Major positive contributors to the index remained Technology (385 per cent), Banks (36 per cent) and Cements (77 per cent) whereas despite 83 per cent jump in crude oil prices, index heavy E&Ps remained a laggard with 11 per cent return. Market remained fairly liquid through the year with average daily traded volume jumped by 169 per cent to 528 million shares compared to 196 million shares changing hands in FY20. Whereas average value traded also jumped by 163 per cent YoY to USD 120 million compared to USD 46 million a year back.

Foreign investors continued their selling spree in FY21 as well with net selling of USD 387 million compared to USD 285 million a year back. Whereas most of this selling was countered by individuals and companies with net buying of USD 332 million and USD 138 million, respectively.

Economy & Market – Future Outlook

Growth momentum is likely to continue in the coming year given the accommodative monetary and fiscal policies. Broader economy appears to be operating close to pre-covid-19 levels gauged by LSM growth, cement sales, auto sales, etc. We expect GDP growth to improve further in FY-22 but likely remain slightly lower from government target of 4.8 per cent for FY-22. The recent surge in commodity prices poses challenges to both to Fiscal and External Accounts. On the fiscal side, targets for revenue and development expenditures are highly unlikely to be met.

With imports resuming momentum, Current Account Deficit is expected to reach near 2.8 per cent of GDP which is likely to weaken the exchange rate to near 170 against USD by year end. Commodity prices and weaker currency are also likely to keep average inflation persistent and it may remain near 8.5 per cent. We therefore expect tightening of monetary policy later in the year and expect interest to reach up to 9 per cent by the year end.

IMF program appears to remain on hold as government chooses to further pro-growth measures over austerity based conventional IMF reforms. Focus on growing exports and stimulate domestic demand through investment in construction and housing are the hallmarks of government pro-growth strategy. Enabling environment including stable interest rates, low cost financing schemes for housing and machinery imports and avoiding further increase in power tariffs are the key initiatives in this regard. Public Sector entities and in particular energy sector still remains a thorny issue in IMF talks and continue to remain a major challenge for the government despite recent steps taken to lessen the burden on public finances. A sharp deterioration in balance of payment account may force government to succumb to IMF policy framework and thus alter the economic growth trajectory.

From capital market perspective, particularly equities, markets are watchful of the 4th wave of covid-19 cases which do pose risks in the near term. As growth momentum continues, equities have potential to provide decent returns to investors. Risk premiums vis a vis 10-year bonds is right now at 3.6 per cent, compared to historical average of 1.3 per cent suggesting some upside due to re-rating would be possible. Earnings growth will be a key driver for the next few years. We therefore expect stronger returns from equity market to continue. Recent announcement about reclassification of PSX from MSCI

Emerging Market Index to MSCI Frontier Market Index is to remain marginally positive thus local investors are likely to drive the market momentum.

For debt holders, we expect Money Market Funds to continue to seamlessly mirror policy rates throughout the year. On the other hand, government bonds have priced in the anticipated yield curve. We remain cautious at the current levels of bond yields and would continue to monitor the data points to capitalize on opportunities.

Mutual Fund Industry Review

The Net Assets of the open end mutual fund industry increased by about 37.2 per cent to PKR 1,018 billion in this fiscal year. Money market funds and Fixed Income funds experienced an influx of investment as corporate liquidity swiftly moving towards mutual funds. Total money market funds grew by about 48 per cent during the period to PKR 467 billion. Within the money market sphere, the conventional funds dominated as they grew by about 39 per cent to PKR 285 billion. Equity and related funds surged rapidly by 33 per cent from PKR 224 billion to PKR 299 billion over the year. Most of the rise in equity and equity linked fund assets can be attributed to a positive uptick in the market that was up approx. 38 per cent YoY owing to favorable investor sentiments.

In terms of the segment share, Money Market funds were the leader with a share of around 46 per cent, followed by Equity and Equity related funds with a share of 30 per cent and Income funds having a share of 24 per cent as at the end of the fiscal year.

Mutual Fund Industry Outlook

Record decline in interest rates have reinstated the confidence in risk asset classes. We expect liquidity to gear up towards equity and related funds. The sustainability of liquidity will however depend on how the economy transitions through this phase of pandemic. Our operations remained seamless and given our competitive edge due to aggressive investment in digital access and online customer experience, the environment provides an opportunity with growing number of investors available online.

COMPANY'S PERFORMANCE REVIEW

With the advent of Covid 19 pandemic in March 2020, the impact of Covid 19 continued in the financial year 2020-2021 which had been a year of disruption, adaption and recovery. COVID-19 pandemic has effectively put the world in reset mode, redefining life. MCBAH also adjusted its way of working to address the challenging situation. iSAVE ensured the Company to deliver efficient, smooth and seamless service to all its unit holders. Due to iSAVE, the Company was able to accelerate the migration of its customers to alternate delivery channels with relative ease and has successfully positioned the Company to grow its AUMs base manifold.

Financial Year 2020-2021 has been one of very successful years for the Company. The Company also benefited from economic recovery and flushed liquidity leading towards healthy growth in Assets Under Management, majority of which was contributed by the money market funds. Resultantly, during the year, the Company has shown significant growth and generated net increase in AUMs of Rs. 47.6 billion; resultantly as on June 30, 2021, the Company is managing AUMs of Rs. 155.4 billion compared to Rs. 109.3 billion as on June 30, 2020. Increase in AUMs primarily in Money Market Funds coupled with strong recovery in the stock market also improved equity and equity linked AUMs resulted the Company in additional generation of Management Fee/ Investment Advisory Fee of Rs. 78.2 million to earn Management Fee/ Investment Advisory Fee of Rs. 752 million compared to 673.9 million last year

Moreover, during the year due to active fund management, the Company was able to earn Rs. 189.6 million on its investment and placement of excess funds compared to Rs. 129.9 million in the corresponding year.

Increase in AUMs coupled with active fund management resulted in Company earning Profit after taxation of Rs. 376.4 million compared to last year profit of Rs. 257.7 million.

The Earnings Per Share of current financial year ended June 30, 2021 is Rs. 5.23 as compared to Rs. 3.58 per share in the previous financial year ended June 30, 2020.

The Board has proposed a final dividend of ____ per cent (Rs. ____ per share) for the year ended June 30, 2021 as compared to 32.5 per cent (Rs. 3.25 per share) for the year ended June 30, 2020. This is an additional to the interim dividend of Re. 2.25 per share (Rs. Nil per share).

The Board of Directors of the Company has an overall responsibility to ensure that internal financial controls system of the company is adequate and is operating effectively.

The value of investment of employees in pension funds is Rs. 64.4 million as per the audited financial statements for the year ended June 30, 2021 (Rs. 53 million for the year ended June 30, 2020).

PRINCIPAL RISKS AND UNCERTAINTIES

Asset under management (AUM) which is the life blood of asset management industry showed promising growth in FY21 and crossed Rs. 1 trillion. This relates to business risk averseness of corporates due to covid-19 complimented by awareness created by Asset Management Companies. Corporate being financially educated sector are more inclined towards mutual fund investments as compared to general public. To attract new clients and facilitate existing clients in this highly competitive industry, Asset Management Companies (AMCs) continued to offer more and more online and Mobile based services. However, these web based services are prone to hacking and cyber-attacks. These solutions require substantial costs to develop, maintain and protect while the demand for delivery of superior returns is not allowing increment in management fee. Thus, this continues to put pressure on margins of Asset Management Companies (AMCs). To cover up expenses and being profitable, the only remedy is higher AUMs.

Government has become cautious on issues relating to 'Know Your Customer' (KYC) requirements to cope up 'Anti Money Laundering' (AML) and 'Combating the Financing of Terrorism' (CFT). This puts high responsibility on Asset Management Companies (AMCs) to carefully perform Customer Due Diligence (CDD) as breach of these regulations might attract heavy penalties. This increases regulatory risk for Asset Management Companies (AMCs) and MCBAH is committed to ensuring compliance of these very demanding but necessary regulations.

Covid-19 continued to haunt economy in FY21. However, Government's smart lock down policy, subsidies and other financial support packages offered by the Government for various economic sectors along with subsidized loans, deferral payments on debt and grants provided by various international donor agencies and friendly countries provided much needed financial support to the country. Economic chaos created by Covid-19 is expected to take some time to settle down both on international and local levels.

Further, there have not occurred any significant changes during the financial year concerning the nature of the business of the Company.

CORPORATE SOCIAL RESPONSIBILITY AND IMPACT ON ENVIRONMENT

The Company believes in ever growing change, sustainability and be more digitally connected with our customers. Therefore, the online portal, **iSAVE**, has always been the focus. Moreover, protecting the employees in the wake of Covid-19 has been its top priority. All employees were provided with the relevant resources to work comfortably from home while ensuring efficient customer services. It shows that the Company strives to improve the well-being of both its employees as well as customers.

ASSET MANAGER RATING

In the month of October 2020, Alhamdulillah the Company achieved highest Asset Manager Rating of AM1. This rating reflects the Company's position as one of the leading Asset Managers in the Asset Management Companies, strongly supported by strong control environment, structured investment processes, good governance framework and qualified management team.

The Stability Ratings of the Collective Investment Schemes under management of the Company are as under:

	As at June 30, 2021	As at June 30, 2020	
	-----Stability rating-----		Rating agency
Pakistan Cash Management Fund	AA + (f)	AA + (f)	PACRA
Pakistan Income Fund	A + (f)	A + (f)	PACRA
MCB Pakistan Sovereign Fund	AA - (f)	AA - (f)	PACRA
Pakistan Income Enhancement Fund	A + (f)	A + (f)	PACRA
MCB DCF Income Fund	AA - (f)	AA - (f)	PACRA
MCB Cash Management Optimizer	AA + (f)	AA + (f)	PACRA
Alhamra Islamic Income Fund	AA- (f)	AA- (f)	PACRA
Alhamra Daily Dividend Fund	AA- (f)	AA- (f)	PACRA
Alhamra Islamic Money Market Fund	AA (f)	AA (f)	PACRA

The Mutual Funds Association of Pakistan (MUFAP) is executing the performance of the Mutual Funds on the basis of Mutual Funds' returns. MCBAH has assumed the performance ranking of MUFAP for its equity based Collective Investments Schemes.

HOLDING COMPANY

MCB Bank Limited, being the parent company of MCB-Arif Habib Savings and Investments Limited, holds 51.33per cent of the outstanding ordinary shares of the Company.

CORPORATE GOVERNANCE

The Board comprises of eight (8) members including the Chief Executive Officer (CEO) and has a diverse mix of gender and knowledge. The Board consists of 1 female and 7 male directors, categorized as follows:

- 4 Non – Executive Directors;
- 3 Independent Directors; and
- 1 Executive Director (CEO).

The details of above are as under:

Sr. No.	Name	Status	Membership in other Board Committees
1.	Mr. Haroun Rashid	Non-Executive Director	None
2.	Mr. Nasim Beg	Non-Executive Director	(i) Audit Committee; and (ii) HR&R* Committee
3.	Mr. Ahmed Jahangir	Non-Executive Director	(i) Audit Committee; and (ii) HR&R* Committee.
4.	Mr. Kashif A. Habib	Non-Executive Director	(i) Audit Committee
5.	Syed Savail Meekal Hussain	Independent Director	(i) Audit Committee (ii) HR&R* Committee
6.	Mirza Qamar Beg	Independent Director	(i) Audit Committee (Chairman); and (ii) HR&R* Committee (Chairman).
7.	Ms. Mavra Adil Khan	Independent Director	(i) HR&R* Committee
8.	Mr. Muhammad Saqib Saleem	Executive Director	(i) HR&R* Committee

* HR&R stands for Human Resource and Remuneration

The Board of Directors review all significant matters of the Company. This includes, but not limited to, the Company's strategic direction, annual business plans and targets, decision on long-term investments. The Board of Directors is committed to maintaining high standards of corporate governance.

The Board of Directors is pleased to report that:

- a. The financial statements, present fairly the state of affairs, the results of operations, cash flows and changes in equity;
- b. Proper books of accounts of the Company have been maintained;
- c. Appropriate accounting policies as stated in the notes to the financial statements have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- d. International Financial Reporting Standards have been followed in the preparation of financial statements and any departures there from have been adequately disclosed and explained;
- e. The system of internal control is sound in design and has been effectively implemented and monitored with ongoing efforts to improve it further;
- f. There are no significant doubts upon the Company's ability to continue as going concern;
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations;
- h. Key operating and financial data of the last 6 years in summarized form is annexed;
- i. The outstanding taxes, statutory charges and duties, if any, have been fully disclosed in the audited financial statements, for details please refer note no. 19.1, 19.2 and 20
- j. The Board of Directors is ultimately responsible for Company's system of internal control and for reviewing its effectiveness. The Board, whilst maintaining its overall responsibility, has delegated the detailed design and operation of the system of internal controls to the Chief Executive. Company's system of internal controls comprises of clear governance structures, authority limits and accountabilities, well-understood policies and procedures. The Board meets quarterly to consider Company's financial performance, financial and operating budgets,

business growth and developmental plans, capital expenditure proposals and other key performance indicators. The Audit Committee receives reports on the system of internal financial controls from the external and internal auditors and reviews the process for monitoring the effectiveness of internal controls;

- k. As at June 30, 2021, the Company is in compliance with the requirements of Directors' Training Program, as contained in Regulation No. 20 of the Code;
- l. The Directors' Remuneration Policy (The Policy) was approved by the Board of Directors in their 144th meeting held on September 14, 2018. The main features of the Policy are as under:
 - (i) With effect from September 14, 2018 each non-executive director will be paid a sum of rupees seventy five thousand (75,000) for attending the Board meeting / committees of the Board;
 - (ii) The Vice Chairman of the Board is entitled to certain perks and perquisites on account of the additional responsibilities, which have been disclosed in the annexed audited financial statements, for details please refer note 32;
 - (iii) Payment for any extra services shall not be made to any executive director. However, if a non-executive director perform any special services, the remuneration of the same will be pre-decided by the Board and in the absence of the quorum, by the general meeting of members of the Company;
 - (iv) Remuneration to executive director(s) shall be decided by the Board on recommendation of the Human Resource and Remuneration Committee based on the role and responsibilities of the executive director and shall reflect the individual's roles, experience and responsibilities; and
 - (v) Non-executive directors are not covered under any post retirement scheme of the Company.
- m. The detailed pattern of shareholding as on June 30, 2021 is annexed;
- n. A formal and effective mechanism is put in place for an annual evaluation of the Board's own performance, members of the Board and Committees of the Board;
- o. During the year, the Company undertaken the following transactions with related parties:
 - (i) Disposal of furniture to MCB Islamic Bank Limited; and

There are no other contracts or arrangements entered into with any of the Related Parties requiring disclosure under Section 208 of the Companies Act, 2017.

p. Meeting of the Directors

During the year, eleven (11) meetings of the Board of Directors were held. The attendance of each Director is as follows:

Name of Persons	Number of meetings held	Number of meetings		
		Attendance required	Attended	Leave granted
1. Mr. Haroun Rashid	11	11	11	
2. Mr. Nasim Beg	11	11	11	-
3. Mr. Ahmed Jahangir	11	11	11	-
4. Mirza Qamar Beg	11	11	11	-
5. Syed Savail Meekal Hussain	11	11	11	-
6. Mr. Kashif A. Habib	11	11	10	1
7. Ms. Mavra Adil Khan	11	11	8	3
8. Mr. Muhammad Saqib Saleem (CEO)	11	11	11	-

q. Meeting of the Audit Committee.

During the year, nine (9) meetings of the Audit Committee were held. The attendance of each participant is as follows:

Name of Persons	Number of meetings held	Number of meetings		
		Attendance required	Attended	Leave granted
1. Mirza Qamar Beg(Chairman)	9	9	9	-
2. Mr. Nasim Beg	9	9	9	-
3. Mr. Ahmed Jahangir	9	9	9	-
4. Mr. Kashif A. Habib	9	9	9	-
5. Syed Savail Meekal Hussain	9	9	9	-

r. Meeting of the Human Resource and Remuneration Committee.

During the year, four (4) meeting of the Human Resource and Remuneration Committee were held. The attendance of each participant is as follows:

Name of Persons	Number of meetings	Number of meetings		
		Attendance required	Attended	Leave granted
1. Mirza Qamar Beg (chairman)	4	4	4	-
2. Mr. Ahmed Jahangir	4	4	4	-
3. Mr. Nasim Beg	4	4	4	-
4. Ms. Mavra Adil Khan	4	4	3	1
5. Syed Savail Meekal Hussain	4	4	4	-
6. Mr. Muhammad Saqib Saleem (CEO)	4	4	4	-

AUDITORS

The current auditors, M/s KPMG Taseer Hadi & Co. Chartered Accountants are completing their Five (5) years term, and are thus not eligible for reappointment as per the requirement of Listed Companies (Code of Corporate Governance) Regulations, 2019 and shall retire on the conclusion of 21st Annual General Meeting. Moreover, in the 73rd Annual General Meeting of MCB Bank Limited, the Parent Company, has appointed M/s A.F. Ferguson as the Bank's statutory auditor for the Financial Year 2021.

The Audit Committee considered and recommended M/s A. F. Ferguson & Co. Chartered Accountants as statutory auditors of the Company for the year ending June 30, 2022 and the Board of Directors has also endorsed the recommendation of the Audit Committee in the forthcoming Annual General Meeting.

ACKNOWLEDGEMENT

The Directors would like to thank Government of Pakistan, Securities Exchange Commission of Pakistan and other regulatory bodies and express deep appreciation to our shareholders who have consistently demonstrated their confidence in the Company. We would also like to place on record our sincere appreciation for the commitment, dedication and innovative thinking put in by each individual of the Company and are confident that they will continue to do so in the future.

For and on behalf of Board

Muhammad Saqib Saleem
Chief Executive Officer
Karachi: August 09, 2021.

Nasim Beg
Director and Vice Chairman