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

February 4, 2022

ASR 2713

Dear Sirs

REVIEW OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED DECEMBER 31, 2021

We are pleased to enclose six copies of the draft condensed interim financial statements of MCB - Arif Habib Savings and Investments Limited ("the Company") for the half year ended December 31, 2021 which have been initialled by us for identification purposes along with our draft review report to the members. We shall be pleased to sign our review report in its present or amended form after:

a) the enclosed condensed interim financial statements have been approved by the Board of Directors ("the Board") and signed by the Chief Executive Officer, Chief Financial Officer and a Director authorized by the Board in this behalf;

b) we have seen the Board's specific approval for the items mentioned in Annexure 'A' to this letter;

c) we have received an appropriately signed representation letter duly along the lines of the enclosed draft; and

d) we have received a copy of the signed financial statements of the funds under management for the half year ended December 31, 2021 together with the review reports of the external auditors of the Funds;

We take this opportunity to draw your attention to certain accounting and related matters which are set forth in the following paragraphs:

2. RESPONSIBILITIES OF THE MANAGEMENT AND THE AUDITORS IN RELATION TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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 the condensed interim financial statements 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.

The management is responsible for the preparation and presentation of the condensed interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

We would like to inform the Board that unless we have signed the review report on the enclosed condensed interim financial statements, the same shall remain and be deemed not to be reviewed.

3. FEDERAL EXCISE DUTY (FED)

As per the requirements of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Company had been applied with effective from June 13, 2013. The company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED results in double taxation, which does not appear to be the spirit of law. In September 2013 a constitutional petition

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was filed in the Honourable Sindh High Court (SHC) by the Company jointly with other Asset management Companies together with their respective Collective Investment Schemes through their trustees, challenging the levy of FED. In this respect, the SHC issued a stay order against the recovery of FED. Moreover, the Sindh High Court in its decision dated July 16, 2016 maintained the previous order passed against other constitutional petition whereby levy of FED has been declared to be 'Ultra Vires' the Constitution. The Deputy Commissioner Inland Revenue has filed an appeal against the said order in the Honourable Supreme Court of Pakistan.

The Company has not charged FED as part of its remuneration through invoices raised against the respective funds and, therefore, no recovery has been made from Funds in respect thereof as the matter is presently pending in the SHC. However, the Company has accrued and recorded cumulative amount in respect of funds under management and advisory fee (for portfolio management) amounting to Rs 399.6 million and Rs 13.2 million respectively for the period from June 13, 2013 to June 30, 2016 as FED recoverable which has been shown as a part of receivable and a corresponding liability has been recorded as indirect taxes and duties payable under trade and other payables.

Through Finance Act, 2016, FED on services rendered by non-banking financial institutions including asset management companies, which are already subject to provincial sales tax has been withdrawn. Therefore, no provision for FED has been recorded by the Company from July 1, 2016.

The accrual made till June 30, 2016 in respect of FED on management fee has not been reversed as the management believes that the Federal government retains the right to appeal against the said order in the Supreme Court of Pakistan within the prescribed timeline.

4. SINDH WORKERS WELFARE FUND ACT, 2014

As a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) had been passed by the Government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.50 million, is required to pay Sindh Workers' Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income.

We would also like to highlight that Punjab Workers Welfare Fund Act, 2019 (PWWF) has been promulgated with effect from December 13, 2019 for services rendered in the province of Punjab. We have been confirmed by the management that PWWF is not going to have any additional charge in the books of the Company since the Company is recognising provision for WWF on the total income of the Company. The income and expenses of the Company would need to be bifurcated based on activities in the provinces of Sindh and Punjab. However, currently there is no mechanism for apportionment of income between the provinces of Sindh and Punjab. The Company, as a matter of abundant caution, is recognising full charge in respect of Workers Welfare Fund based on the total income of the Company.

In view of the above developments regarding the applicability of Workers' Welfare Fund (Sindh and Punjab) on AMC's, the management is maintaining provision in respect of SWWF with effect from the date of enactment of the SWWF Act (i.e. starting from May 21, 2015) however, payment will be made once the mechanism for apportionment of income between provinces is developed. The disclosure of this matter is given in note 14.1 to the condensed interim financial statements.

5. ALLOCATED EXPENSES AND SELLING AND MARKETING EXPENSES

(i) Allocated Expenses

In accordance with Regulation 60 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 the Management Company is entitled to charge fees and expenses related to registrar services, accounting, operation and valuation services, related to a Collective Investment Scheme (CIS).

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Letter ASR 2713
dated February 4, 2022

Until June 19, 2019 there was a maximum cap of 0.1% of the average annual net assets of the scheme or actual whichever is less, for allocation of such expense to the Fund. However, the SECP vide its SRO 639 dated June 20, 2019 removed the maximum cap of 0.1%.

In this connection, we have been informed by the management that the total expenses allocated to all the funds by the Management Company (under its management) do not exceed the total eligible allocable expenses incurred by the Management Company during the year.

(ii) Selling and Marketing Expenses

The SECP had allowed the Asset Management Companies to charge selling and marketing expenses to all categories of open-end mutual funds (except fund of funds) initially for a period of three years (i.e. from January 1, 2017 till December 31, 2019). The maximum cap of selling and marketing expense was 0.4% per annum of the net assets of the Fund or actual expenses whichever is lower.

The SECP through its circular 11 dated July 5, 2019 has removed the maximum cap of 0.4% per annum for charging of selling and marketing expenses to a Fund. Furthermore, the time limit of three years has also been removed in the circular issued by the SECP. The asset management company is now required to set a maximum limit for charging of such expenses to the Fund and the same should be approved by the Board of Directors of the asset management company as part of their annual plan.

6. GOODWILL AND MANAGEMENT RIGHTS

The Company is carrying following intangible assets in the books of accounts as at December 31, 2021:

- Goodwill Rs 82.16 million; and
- Management rights Rs 192 million.

The useful life of both the intangible assets have been assessed as "indefinite" by the Company. As per the requirements of International Accounting Standards, 38 "Intangible Assets" (IAS 38), an intangible asset having indefinite life is tested for impairment (a) annually; and (b) whenever there is an indication that the intangible asset may be impaired. The last impairment exercise was carried out as at June 30, 2021 by the management and the recoverable amount of both, management rights and goodwill was higher than their carrying values. We have been informed by the management that the business of the company against which management rights and goodwill have been tagged has grown during the six months period ended December 31, 2021 and there are no indicators for impairment which requires an impairment exercise to be carried out as at December 31, 2021.

7. CONTINGENCIES AND COMMITMENTS

We have been informed by the management that there are no contingencies and commitments other than those already disclosed in the draft condensed interim financial statements.

We wish to place on record our appreciation of the courtesy and cooperation extended to us during the course of our review.

Yours truly

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ANNEXURE A

MCB - ARIF HABIB SAVINGS AND INVESTMENTS LIMITED

ITEMS REQUIRING BOARD'S APPROVALS AS REFERRED TO IN PARAGRAPH 1(b) OF OUR LETTER ASR 2713 DATED FEBRUARY 4, 2022

	(Rupees)
▪ Fixed capital expenditure	8,836,181
▪ Accrual for bonus to staff	48,250,000
▪ Investments disposed of during the period — sale proceeds	3,403,950,005
▪ Investments made during the period	3,322,697,915
▪ Transactions and balances with related parties as disclosed in note 20 to the condensed interim financial statements.	

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