

MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED
MINUTES OF THE BOARD'S AUDIT COMMITTEE MEETING
(AUDIT REPORT FOCUSED)
HELD ON FEBRUARY 04, 2022 AT 03:30 P.M.

IN ATTENDANCE

<u>SR. NO.</u>	<u>NAME</u>	<u>INITIALS</u>	<u>DESIGNATION</u>
1.	Mirza Qamar Beg	QB	Chairman of the Committee (Telepresence)
2.	Mr. Nasim Beg	NB	Director / Member (Telepresence)
3.	Mr. Ahmed Jahangir	AJ	Director / Member (Telepresence)
4.	Mr. Kashif A. Habib	KAH	Director / Member (Telepresence)
5.	Syed Savail Meekal Hussain	SMH	Director / Member (Telepresence)
6.	Mr. Mobin Siddiqui	MS	Secretary to the Committee & Head of Internal Audit
Invitees			
7.	Mr. Muhammad Saqib Saleem	MSS	Chief Executive Officer
8.	Mr. Muhammad Asif Mehdi Rizvi	MAR	Chief Operating & Financial Officer

QUORUM

Welcoming the Committee members at the Board's Audit Committee meeting, the Chairman declared the quorum being present.

ADOPTION OF AGENDA

The following agenda was circulated to the Committee:

- 1) To confirm the minutes of the previous Audit Committee meetings held on October 20, 2021 (Audit Matters) and October 21, 2021 (Financial Statement Matters);
- 2) To Review the Internal Audit Report on the operations of the Company and the Funds under its Management for the quarter ended December 31, 2021;
- 3) To review SECP inspection report 2021;
- 4) To review status of tax, regulatory & other matters of the Company and Funds under its management;
- 5) To review summary of high risk customer as part of quarterly Risk Assessment report;
- 6) Any other matter with the permission of the Chair.

AGENDA ITEM NO. 1

TO CONFIRM THE MINUTES OF THE AUDIT COMMITTEE MEETINGS HELD ON OCTOBER 20, 2021 AND OCTOBER 21, 2021.

MS informed the members that the minutes of the previous meetings of the Audit Committee held on October 20, 2021 and October 21, 2021 had been circulated to the members and no comments were received. The Committee approved the minutes and following resolution was unanimously passed by the Committee members:

“RESOLVED THAT

Minutes of the Audit Committee meetings held on October 20, 2021 and October 21, 2021 be and are hereby approved and the Chairman of the Committee be and is hereby authorized to sign the minutes as token of confirmation.”

AGENDA ITEM NO. 2

TO REVIEW THE INTERNAL AUDIT REPORT ON THE OPERATIONS OF THE COMPANY AND FUNDS UNDER ITS MANAGEMENT FOR THE QUARTER ENDED DECEMBER 31, 2021

MS briefed the committee members that there were eight (08) actionable items from the previous meetings, two (02) of which were to be closed and six (06) items were still open. The discussion on open action items is as follows;

- **Sales Lead Management**

MS briefed the committee members that the sales app of customer enrichment department has been implemented for deepening as well recently and that the internal audit department will check the implementation in the next quarter. The issue was considered as closed unless the internal audit department encounter any findings otherwise.

- **Compensation Structure of Customer Enrichment and Investment Deepening agents**

The committee members instructed the management to ensure compliance of all the applicable laws so that there is no legal exposure in our employment contracts.

- **KYC Documentation (Assessment of Customers)**

MSS informed the committee members that the assessment of high risk customers is under process and that the head of sales has reviewed 69 high risk customers from the provided customers list (Corporate sales 09, Retail sales 41, Distributors 19), from which 13 cases are completely resolved, few cases are partially resolved and rest will be resolved by next quarter end. The members instructed the management to ensure the timelines committee in this regard.

- **Sharing of Management Fee with Employees**

MAR informed the members that all the mentioned unit holders have now been tagged to Management Company. Going forward, every quarter CNICs of the employee and the dependents would be obtained from HR department in order to check sale entity tagging and no management fee on employee's investments will be shared with the sales staff. The issue was considered as closed unless the internal audit department encounter any findings otherwise.

- **Lack of Formal IT Strategy**

MSS informed the committee members that IT strategy will be put up for approval from the Board with the annual budget for FY 2022-2023 in the year end meeting of June 2022. The committee members emphasized on the need to have comprehensive security policy and procedures in place to address the latest technology threats faced by the businesses to which MSS agreed. He further informed the committee members that the management is in process of implementing security solutions which further enhances the information security arrangements across the organization. The committee members instructed the management to share deadlines followed in this regard to which MSS replied affirmatively. The members also inquired whether independent testing of the systems are being performed to which MSS replied that A.F. Ferguson performs penetration testing twice a year to assess the vulnerabilities of the system.

- **Review of FEL Churning cases by the Management**

MS informed the committee members that the control has been recently established by the management and the Internal audit department will review its implementation in the next quarter and will report any issues. The committee members noted the managements response.

MS then briefed the committee members on the following issues reported to the audit committee.

1) Churning Cases identified

MS informed the committee members that IAD has identified two front end load churning instances in the current quarter. MSS furthered that corrective measure has been taken by the Management and sales load of the identified customers have been reversed. The Committee Members enquired about any disciplinary action taken by the management against those respective sales agents on which MSS responded that management has strictly reprimanded entire sales team regarding the same. The members reiterated that the company has a zero tolerance policy as regards to churning and such practices goes against the core values of the Company. MSS informed the committee members that a control has now been placed where all the load transactions will be reviewed by Head of Sales after which such instances will not happen.

2) Delay in Processing of Customer Accounts and Transactions

MS informed the committee members that IAD has identified multiple instances where customer transactions were processed by the operation department with a delay which causes dissatisfaction among the customers. The members enquired about any calls made to the customer by the management team for clarification on which MSS responded that respective sales agent calls to the customer and reassure that profit would be accruing from the date of realization of the amount. However, no calls were made from the senior management team. The members noted management's reply.

3) Absence of Risk Management Function in Investment Committee Meeting

MS informed the AC members that no presence of risk management function in the investment committee. MSS replied that all the risk management recommendations are discussed in investment committee meeting in details and management is of the view that there is no need to include the risk management function in the investment committee. The members after deliberating on the issue concluded that there is no need to change the existing decision making process.

4) User ID of Resigned Staff – Not Revoked Yet

MS informed the committee members that IAD has identified 10 users whose access rights were not timely revoked in CRM after their resignation. The members expressed strong dissatisfaction on the issue and enquired from the management that why these issues are not resolved on timely basis to which MSS replied that due to the reconfiguration of the system on account of revision of commission policy and client tagging structure of sales team, the management deliberately defer the marking of resigned staff into the system to ensure complete migration of data pertaining to resigned staff. Since the configuration has now been complete, it is unlikely that such issues will be observed in the future. The committee members reiterated that the management should ensure that resigned staff's IDs should be timely revoked in the system.

MS informed the members about the issues reported to management during the current quarter. The members inquired about the reasons for not conducting the DR drill as highlighted by the IAD to which MSS replied that since the servers at the DR site are being changed, hence the drill was not conducted. However, once it is done the DR drill will be performed accordingly. The members also inquired about the work from home policy and that whether the management will continue with it to which MSS briefed that most of the staff are now coming to office however, the policy is still in effect and that the management intends to keep it that way in future as well.

NB instructed the internal audit department to carry out annual checks to ensure that the valuation models prepared by the research department are being updated from time to time, normally once a quarter. He further said that the basic underlying assumptions going into the valuation models are reviewed by the analysts at least one a year.

Further, copies of the valuation models after the annual review should be saved and compared with the actual situation that evolves a year down the road. Thus there will be the copy of a model that is frozen and saved, and there will be the live model that is being updated from time to time. These two versions will be compared by the CIO to assess the quality of research and analysis.

With respect to delayed responses to ISave application reviews submitted by users on android and IOS platforms, the committee members directed the management to revise tolerance level from 3%-4% to 0%. Regarding the issue of “social networking access in trading room”, the members directed the management to document the approval along with the duration of the access and ensure that such access is timely revoked.

The members also instructed the management to have clear policy and procedures communicated to the staff regarding access rights on notice period. Further, the members also instructed the management to ensure that correct information such as financial ratios are displayed on the website and such errors should not be tolerated. The members also inquired about any risks arising from the Cron jobs operated on the law portal to which MSS replied negatively.

AGENDA ITEM NO. 3

TO REVIEW SECP INSPECTION REPORT 2021

MS informed the committee member about the SECP inspection report 2021. The members deliberated on the report and enquired about the point pertaining to Risk Management Policy for Money Laundering and Terrorism Financing Risks on which MS responded that SECP has recommended to update this policy as the same was last updated in Jun-19. MAR added that risk management policy shall be updated in accordance with the SECP recommendation and the same will be presented to the sub-committee and then board for approval. MAR informed the committee members that on certain issues on which there was a disagreement with the inspection team, the management has approached MUFAP’s KYC committee for discussion. Further, as per MUFAP, other AMC’s have faced these kind of issues as well during the inspection. As a result, a session will be arranged by MUFAP with SECP for the discussion and resolution of these issues.

AGENDA ITEM NO. 4

TO REVIEW STATUS OF TAX & OTHER MATTERS OF THE COMPANY AND FUNDS UNDER ITS MANAGEMENT

MAR briefed the members about the development of tax and legal matters in current quarter. MAR informed that there is no major change in these matters. The member noted the status of the issue.

AGENDA ITEM NO. 5

TO REVIEW SUMMARY OF HIGH RISK CUSTOMER AS PART OF RISK ASSESSMENT REPORT FOR THE QUARTER ENDED DECEMBER 31, 2021.

MAR presented to the Committee members an update on the quarterly risk assessment report. He informed the Committee members that high risk and PEP numbers were also verified by the Internal Audit. MAR furthered that during the Dec-21 quarter, the total AUMs were increased from PKR 162.4 billion to PKR 170.9 billion. In case of natural persons, AUMs increased from PKR 30.89 billion to PKR 33.071 billion and in case of legal persons, AUMs increased from PKR 131.485 billion to 137.815

billion. MAR then briefed the committee members about the accounts category and top 10 legal persons by AUM along with the changes since last quarter. He further explained that high risk customer accounts have decreased from 593 to 586 and AUMs increased from PKR 3.6 billion to PKR 4.2 billion. Accounts for PEP customers had increased from 148 to 157 and AUMs rose from PKR 1.87 billion to PKR 2.24 billion. MAR then presented region wise and sector wise distribution of the high risk clients. The members deliberated on the criteria of PEP and inquired about the criteria of marking Sefam Pvt Ltd as High Risk to which MAR replied that all the companies who deals in cash becomes high risk clients for us. MAR then briefed the members regarding prominent changes in high risk clients and sectors during Sep-2021 to Dec-2021 and transaction by various categories of CIS.

No further item was discussed in the meeting and the meeting was concluded with a vote of thanks.

Prepared by

Approved by

Secretary to the Committee

Chairman

MCB-ARIF HABIB SAVINGS AND INVESTMENTS LIMITED
MINUTES OF THE BOARD'S AUDIT COMMITTEE
(FINANCIAL STATEMENTS FOCUSED)
HELD ON FEBRUARY 07, 2022 AT 03:00 P.M.

IN ATTENDANCE

<u>SR. NO.</u>	<u>NAME</u>	<u>INITIALS</u>	<u>DESIGNATION</u>
1.	Mirza Qamar Beg	QB	Chairman of the Committee (Telepresence)
2.	Mr. Nasim Beg	NB	Director / Member (Telepresence)
3.	Mr. Ahmed Jahangir	AJ	Director / Member (Telepresence)
4.	Mr. Kashif A. Habib	KAH	Director / Member (Telepresence)
5.	Syed Savail Meekal Hussain	SMH	Director / Member (Telepresence)
6.	Mr. Mobin Siddiqui	MS	Secretary to the Committee & Head of Internal Audit
Invitees			
7.	Mr. Muhammad Saqib Saleem	MSS	Chief Executive Officer
8.	Mr. Muhammad Asif Mehdi Rizvi	MAR	Chief Operating & Financial Officer

All Members attended the meeting electronically through Zoom.

QUORUM

Welcoming the Committee members at the Board's Audit Committee meeting, the Chairman declared the quorum being present.

ADOPTION OF AGENDA

The following agenda was circulated to the Committee:

- 1) To review and recommend to the Board of Directors condensed Financial Statements of MCB-Arif Habib Savings and Investments Limited for the period ended December 31, 2021;
- 2) To review and recommend to the Board of Directors condensed Financial Statements of the following Funds managed by MCB-Arif Habib Savings and Investments Limited for the period ended December 31, 2021;
- 3) To review and recommend to the Board of Directors, the related party transactions carried out by MCB-Arif Habib Savings and Investments Limited and the Funds under its management for the period ended December 31, 2021; and
- 4) Any other matter with the permission of the Chair.

AGENDA ITEM NO. 1

TO REVIEW & RECOMMEND TO THE BOARD OF DIRECTORS INTERIM FINANCIAL STATEMENTS OF FUNDS MANAGED BY MCB –ARIF HABIB SAVINGS AND INVESTMENTS LIMITED FOR THE PERIOD ENDED DECEMBER 31, 2021

MAR presented the financial statement to the committee. He informed the members that these financial statements are reviewed by the external auditors “A.F. Ferguson”. MAR then discussed the covering letter issued by the external auditors. He said the issues including the covering letter have been reported in the past as well by the previous auditors. He informed the committee members that this is the first year of their audit and previously the financial statements were reviewed by KPMG. Following is the summary of the matters discussed by MAR regarding the financial statements:

- Total assets decreased by Rs.73.3 million i.e. a decrease of 3.08% as compared to the previous year;
- Total liabilities decreased by Rs.13.4 million i.e. a decrease of 1.73% as compared to the preceding year;
- Management fee has significantly increased from Rs.348 million to Rs.445 million as compared to last year due to increase in net assets;
- Processing and other related income increased from Rs.21.6 million to Rs.23.2 million which majorly include FEL commission portion retained by AMC;
- Unrealized loss is Rs.7 million due to PSX index underperformed by 4%.
- Rent & maintenance significantly rose from Rs.31.7 million to Rs.48.8 million in which major contribution is of provision against indirect taxes which is Rs.12 million.
- Total expenses were increased from Rs.241 million to Rs.278 million i.e. an increase of 15% as compared to the prior year;
- Profit before taxation (PBT) was diminished by Rs.69 million from Rs.264 million to Rs.195 million; &
- Net profit was reduced by Rs.72 million from Rs.210 million to Rs.138 million.

After due deliberation, the following resolution was unanimously passed by the Members:

“RESOLVED THAT

The condensed interim financial statements of MCB-Arif Habib Savings and Investments Limited for the period ended December 31, 2021, are hereby reviewed & recommended for approval to the Board.”

AGENDA ITEM NO. 2

TO REVIEW & RECOMMEND TO THE BOARD OF DIRECTORS CONDENSED FINANCIAL STATEMENTS OF FUNDS MANAGED BY MCB –ARIF HABIB SAVINGS AND INVESTMENTS LIMITED FOR THE PERIOD ENDED DECEMBER 31, 2021

MAR presented the financial statement to the committee. He informed the members that these financial statements are reviewed by the external auditors. MAR then briefed the members on the covering letters issued by the external auditors. After a detailed discussion, the members unanimously passed the following resolution.

“RESOLVED THAT

The condensed interim financial statements of the funds under management of MCB-Arif Habib Savings and Investments Limited for the period ended December 31, 2021, are hereby reviewed & recommended for approval to the Board.”

AGENDA ITEM NO. 3

TO REVIEW & RECOMMEND TO THE BOARD OF DIRECTORS, THE RELATED PARTY TRANSACTIONS CARRIED OUT BY MCB –ARIF HABIB SAVINGS AND INVESTMENTS LIMITED AND THE FUNDS UNDER ITS MANAGEMENT FOR THE PERIOD ENDED DECEMBER 31, 2021

MAR explained to the members about the nature of related party transactions carried out during the period. MAR added that all the transactions were those which were ordinarily carried out in the normal course of business and are on agreed terms. After detailed deliberation, the following resolution was unanimously passed by the members:

“RESOLVED THAT

All related party transactions of Management Company and the funds under management carried out during the period ended December 31, 2021 be and are hereby recommended to the Board for approval.”

There was no other business; the meeting was then concluded with a vote of thanks.

Prepared by

Approved by

**Secretary of the Committee
for Meeting**

Chairman