



DEVOTED TO SERVE  
THE SHARIAH WAY..

| Meezan Tahaffuz Pension Fund (MTPF) |



**ANNUAL REPORT 2012**





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# CORPORATE INFORMATION

## PENSION FUND MANAGER

Al Meezan Investment Management Limited  
Ground Floor, Block "B", Finance & Trade Centre,  
Shahrah-e-Faisal, Karachi 74400, Pakistan.  
Phone: (9221) 35630722-6, 111-MEEZAN  
Fax: (9221) 35676143, 35630808  
Web site: [www.almeezangroup.com](http://www.almeezangroup.com)  
E-mail: [info@almeezangroup.com](mailto:info@almeezangroup.com)

**Board of Directors of The Pension Fund Manager**

Mr. Ariful Islam	Chairman
Mr. P. Ahmed	Director
Mr. Salman Sarwar Butt	Director
Mr. Tasnimul Haq Farooqui	Director
Mr. Mazhar Sharif	Director
Syed Amir Ali	Director
Syed Amir Ali Zaidi	Director
Mr. Mohammad Shoab, CFA	Chief Executive

**CFO & Company Secretary of The Pension Fund Manager**

Syed Owais Wasti

**Audit Committee**

Mr. Ariful Islam	Chairman
Mr. P. Ahmed	Member
Mr. Mazhar Sharif	Member

**Human Resources & Remuneration Committee**

Mr. Salman Sarwar Butt	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoab, CFA	Member

**Trustee**

Central Depository Company of Pakistan Limited  
CDC House, 99-B, Block B, S.M.C.H.S., Main Sharah-e-Faisal, Karachi.

**Auditors**

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accounts  
Progressive Plaza, Beaumont Road  
P.O. Box 15541, Karachi 75530, Pakistan

**Shariah Adviser**

Meezan Bank Limited

**Bankers To The Fund**

Al Baraka Islamic Bank B.S.C (E.C)  
Askari Bank Limited - Islamic Banking  
Bank Alfalah Limited, Islamic Banking  
Bank Al Habib Limited - Islamic Banking Branch  
Dubai Islamic Bank  
Habib Metropolitan Bank - Islamic Banking Branch  
Habib Bank Limited - Islamic Banking  
Meezan Bank Limited  
MCB Bank Limited  
UBL Ameen - Islamic Banking Branch

**Legal Adviser**

Bawaney & Partners  
404, 4<sup>th</sup> Floor, Beaumont Plaza, 6-CL-10  
Beaumont Road, Civil Lines  
Karachi - 75530  
Phone: (9221) 3565 7658-59  
Fax: (9221) 3565 7673  
E-mail: bawaney@cyber.net.pk

**Transfer Agent**

Meezan Bank Limited  
SITE Branch  
Plot # B/9-C, Estate Avenue,  
SITE, Karachi.  
Phone: 32062891  
Fax: 32552771  
Web site: www.meezanbank.com

**Distributors**

Al Meezan Investment Management Limited  
Meezan Bank Limited

E-mail: info@almeezangroup.com

Web: www.almeezangroup.com

Toll Free: 0800-42525

# VISION



"To promote professional fund management through development and implementation of Shariah compliant investment products, policies and practices designed to meet the investment objectives of the investors".



# MISSION



"To be the leading Shariah compliant asset management company providing quality service to institutional and individual investors utilizing modern techniques of portfolio management, proactive asset allocation and prudent security selection while maintaining high standards of ethical and professional conduct".

## REPORT OF THE DIRECTORS OF THE PENSION FUND MANAGER

The Board of Directors of Al Meezan Investment Management Limited, the pension fund manager of Meezan Tahaffuz Pension Fund (MTPF) is pleased to present the audited annual financial statements of the fund for the year ended June 30, 2012.

### Economic Review

Amid rising macroeconomic challenges, the outgoing fiscal year 2012 continued to be marred with energy crisis, structural weakness and heightened security environment. Various challenges namely floods, rising fuel and commodity prices, global recessionary trends and weak inflows restricted country's economic output. Despite these challenges, the country managed to post GDP growth of 3.7% slightly below the envisioned target of 4.2% but is a slight improvement from 3.0% reported in FY11. But on a flip side, it compares unfavorably with last 10-years average GDP growth of 4.8% and last 65-years GDP growth of 5.0%. Overall, last 4-years average GDP growth stood at 2.9% which is the lowest 4-yearly average economic growth in the history of Pakistan.

Positivity was added as inflation for the entire year remained within the government target and this is attributable to the government's smart tactic of rebasing the year. Average CPI inflation in FY12 stood at 11.0% as against 13.7% last year. As a result, SBP slashed the discount rate by 200 bps in two phases (first half of FY12) with hopes of witnessing an upward momentum in private sector credit off-take. But much to the despair, things did not turn out as expected and government borrowing for the year touched the peaks of Rs. 1.2 trillion. But in the latter half of fiscal year, slippages on fiscal side and heavy government borrowing posed a key challenge to the liquidity position, thereby limiting further reduction in the discount rate, and therefore the policy rate was kept unchanged. Despite these structural weaknesses, record level of revenue collection was made during the year, showcasing a growth of 23% with amount clocking in at Rs. 1,910 billion, missing the target by a mere Rs. 42 billion.

Like the previous year, risk to macroeconomic stability came from financing the rising external and fiscal account deficit. Slowdown in global economy along with adverse commodity price movement (increase in international crude oil prices coupled with decline in cotton prices) further weakened country's external account, which was already facing the risk of reduced support from financial account. During FY12, country's current account deficit stood at US\$4.5bn as against a surplus of US\$214mn last year, with imports depicting a growth of 12% to US\$40.0bn while exports declined by 3% to US\$24.6bn. Remittances turned out to be the sole factor supporting the worsening current account and posted record high growth of 17% at US\$ 13 billion.

While the magnitude of current account deficit was manageable compared to historical highs, subdued foreign investment along with the daunting task of IMF loan repayments amounting to US\$1 billion dragged down foreign exchange reserves which declined to US\$ 15 billion from all time high levels of US\$18.3bn in July 2011. This was also reflected in sharp currency move as rupee lost 10% during the fiscal year to close in Rs. 94.65/USD.

On the fiscal side, structural weaknesses continued to escalate the deficit with government reporting a revised estimate of 7.4% of GDP or (Rs1.5tn) in the Federal Budget FY13. In addition, below than envisioned non tax revenue collection due to non materialization of CSF (Coalition Support Fund) and 3G auction, higher subsidy payments and budget deficit instead of budget surplus also played their part in the role.

Going forward we expect that the country will witness some respite in FY13 on the external front. The situation is expected to improve in FY13 on the back of receipt of funds in the tune of US\$ 1.2 billion with regards to coalition support funds (CSF) post re-opening of NATO supplies, along with a recent decline in international crude prices. The most daunting task which the country will face during the year pertains to the hefty repayments to be made to IMF under the SBA agreement and they could pose a serious threat to the forex reserve and Pakistani rupee if the foreign inflows don't materialize.



### Equity Market Review

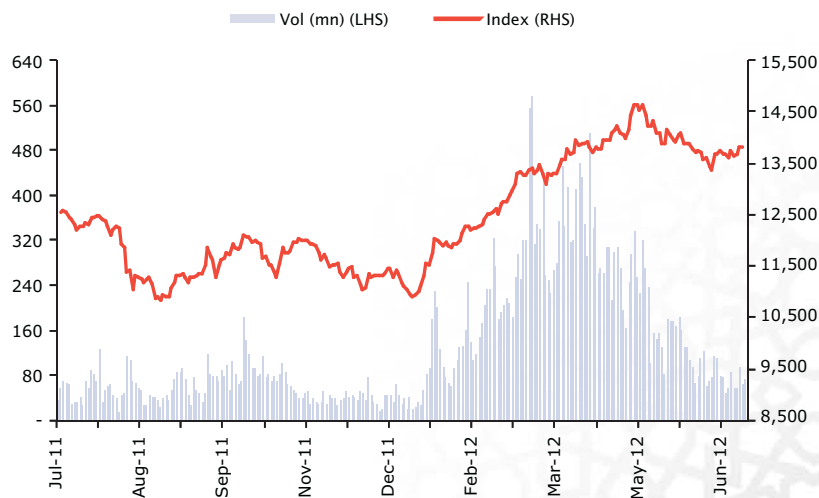
During the outgoing fiscal year June 2012, KSE 100 index witnessed a modest return of 10.5% to close at the level of 13,801. Economic slowdown, turmoil in global financial markets, political uncertainty and strained US relations remained the major factors behind lower than historical gains during FY12. The performance, however, was completely skewed towards the second half of FY 12. First half of the year (July to December) was marked by slowdown and the index lost over 9%. However, a spectacular rally in second half (January to June) yielded gain of 20%. The market was able to recoup the loss of 9.2% of first half and still gain 10% on account of potential changes in CGT regime. This also helped in improvement in average daily volumes which slightly improved to 128mn shares during FY12 as compared to 95mn shares during FY11. KSE Meezan Islamic Index (KMI 30), on other hand, appreciated by 13.6% during the fiscal year FY12 to close at the level of 23,776.

The fiscal year started with the continuation of concerns over CGT issue combined with the lack of leverage product. This pushed the market into a dull phase in the first half of the fiscal year where the market slumped by 9% and the average daily traded volume declining to a paltry 60mn shares a day. But a revival in fortunes was witnessed with the start of the calendar year when the Finance Minister announced the relief measures on CGT during mid January, accepting all proposals of the SECP in this regard. The proposals included 1) no questions on source of funds invested in the stock market till Jun 2014; 2) freezing of CGT rates at current levels; 3) abolishing withholding tax on sale transactions; and 4) centralized collection and calculation of CGT (shielding individual investors from hassle of paperwork and interaction with tax authorities). In the midst of rising oil prices and noisy politics (both on the domestic and international front) the market rallied on the back of favorable CGT proposal and hence remained immune with KSE-100 index making a high of 14,617 in early part of May 2012.

However, the vibrancy started to fade away towards the end of the fiscal year, due to 1) disqualification of the Prime Minister of Pakistan by the Supreme Court for not writing a letter to Swiss authorities for the re-opening of graft cases against President; 2) a delay in re-setting of ties with the US, where the re-opening of NATO supply routes remained elusive, casting doubts over the outlook for expected sovereign flows and 3) dwindling macros most reflected in the currency weakness witnessed toward the end of the year. This resulted in KSE 100 index to go down below the 14,000 psychological barrier and closed at the level of 13,801 for the year, thereby posting an overall return of 10.5% in FY12.

### Sector Performance

The sectors that remained in limelight during the fiscal year were cement sector followed by fertilizer sector with the exception of Engro where the company's new plant continued to face the brunt of gas



shortage. Oil sector was the major underperformer where all the first tier stocks failed to generate investors' interest on account of various international and domestic issues. In light of these factors, third tier scripts remained in public eye as the preferred stocks to generate market activity.

### Regional Performance & Foreign Flows

Having to grapple with the Euro zone crisis at home, foreign managers quit the emerging market; however, the performance of Karachi bourse was better as compared to other markets. Amongst 12 countries in Asian Emerging and Frontier markets, Pakistan was 3rd best performing market in FY12.

The impressive performance also saw a revival in foreign interest where decent flows were witnessed in FY12 from offshore clients. Foreigners bought shares worth US\$730mn and sold US\$920mn with net selling amounting to US\$190mn. This also includes the Hubco block sale of US\$129mn by two of its foreign sponsors, Xenel and International Power.

All the categories of local investors except mutual funds remained net buyers throughout FY12. Individuals bought highest worth of shares amounting to US\$166 million, followed by banks and others which bought shares worth US\$39 million and US\$23 million respectively. Mutual Funds during the period sold shares worth US\$70 million, while foreigners remained net sellers of US\$190 million during the period.

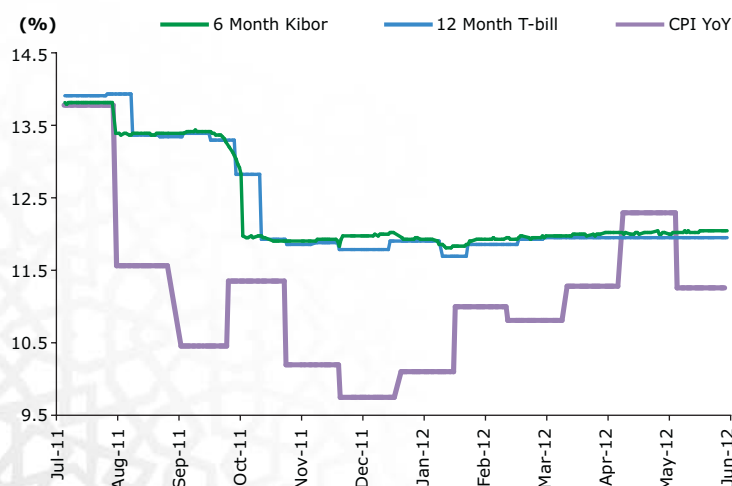
### Money Market Review

In FY 12, the money market remained highly illiquid. To normalize the liquidity situation, State Bank of Pakistan (SBP) regularly conducted open market operations (OMOs). During the period, SBP conducted twenty six T-Bill auctions, nine PIB auctions and four Ijarah Sukuk auctions. Cumulatively, SBP accepted Rs 3,086 billion and Rs 209 billion in T-Bills and PIBs respectively. In the Ijarah Sukuk auction, SBP accepted Rs 187 billion at par against the total participation of Rs 248 billion.

Moreover, lower inflation figures owing to the rebasing of year enabled the State Bank to adopt a softer monetary stance, with discount rate witnessing a reduction of 200 basis points, in two phases. As a result, the cutoff rates of T-Bill (six months paper) and PIBs (10 year bond) declined by 182 basis points and 70 basis points respectively to close at 11.94% and 13.38% in the FY 2012. In line with that, six month KIBOR also declined by 174 basis points to close at 12.06%.

On the forex front, Rupee remained under immense pressure as it depreciated massively against dollar both in interbank and Kerb market by Rs 8.67 (10.08%) and Rs 9.70 (11.27%) respectively. Rupee also touched an all time low against dollar, both in the interbank and open market at Rs 94.65 and Rs 96.60 per US dollar respectively.

The following graph shows the trend of interest rates in the period under review:



### **Investment Objective and Policy**

The objective of MTPF is to provide participants with a Shariah-compliant saving mechanism whereby they can save from their current income in order to gain benefits after retirement or disability when other income avenues have exhausted. MTPF aims to provide participants a regular Halal income stream after retirement/disability when they no longer earn regular income to support their living.

### **Performance Review**

MTPF comprises of three sub funds namely Equity sub fund, Debt sub fund and Money Market sub fund. For the period under review, the equity sub-fund provided a return of 16.8%, while the debt and money market sub-funds provided annualized returns of 9.5% and 10.9% respectively. Detailed performance review for each sub fund is given as under:

#### **Equity Sub Fund**

For the year ended June 30, 2012 the equity sub fund earned a gross income of Rs. 48 million, as compared to Rs. 50 million in 2011. The main contributors to the income were realized gains on sale of equity securities of Rs. 15 million, unrealized gains of Rs. 16 million and dividend income of Rs. 14 million. After accounting for expenses of Rs. 5 million, equity sub fund recorded a net profit of Rs. 47 million as compared to Rs. 48 million in the previous year. The net assets of this sub fund stood at Rs.324 million as at June 30, 2012, showing a growth of 81% during the period under review. During the year, the net asset value (NAV) per unit increased from Rs. 137.37 to Rs. 160.43, thus showing return of 16.8%.

#### **Debt Sub Fund**

For the year under review, the debt sub fund earned gross income of Rs. 21 million, as compared to Rs. 23 million in corresponding period last year. The main contributor to this income was profit on sukuk certificates worth Rs. 18 million. After accounting for expenses of Rs. 4 million, the debt sub fund recorded a net profit of Rs. 29 million. The net assets of the fund appreciated by 130% during the year and stood at Rs.332 million as on June 30, 2012. The net asset value (NAV) of the fund closed at Rs. 157.64 per unit as on June 30, 2012, thus providing an annualized return of 9.5%.

#### **Money Market Sub Fund**

The money market sub fund recorded gross income of Rs.14 million for the fiscal year 2012 as compared to Rs. 13 million in corresponding period last year. Main contribution was from profit on bank deposits which contributed Rs. 4 million and profit on sukuk certificates worth Rs. 10 million to the overall income. The fund recorded net profit of Rs.21 million, after accounting for expenses worth Rs. 2 million. The net assets of the fund appreciated by 127% during the year and stood at Rs. 211 million as on June 30, 2012. The net asset value (NAV) of the fund closed at Rs. 158.68 per unit as year end, thus providing an annualized return of 10.90%.

### **Charity Statement**

According to the Trust Deed of MTPF, charity refers to the amount paid by pension fund manager out of the income of the Trust to a charitable / welfare organization, in consultation with Shariah Advisor, representing income that is Haram. During the year ended June 30, 2012 an amount of Rs. 0.244 million was accrued as charity payable.

### **Outlook**

The market eagerly awaits June end results on grounds that it is usually pay-out laden. However, politics will also play a role in driving the markets, with a stand-off between Supreme Court and Government and any indication of early elections holds utmost interest. This will also clarify the trade-off between pre-election considerations versus timing of a potential IMF re-entry and the impact it can have on interest rates. Re- opening of NATO supply routes led to improved relationship with US which will have a positive impact on the economy. Decline in international commodity prices specifically oil, will provide relief with reduced trade deficit.

The mounting circular debt affecting the entire energy chain also continues to pose threat to the overall economy. In line with the government's commitment to keep SBP borrowing within limits, and as inflation has tapered off from its peak, SBP has decreased discount rate by 150 bps in its monetary policy in August, 2012. Although the implementation of capital gain tax has negatively impacted volumes, however, we believe that the introduction of the leverage and derivative products in the market may improve the liquidity position and attract investors back to the equity market. On the basis of earnings multiples and dividend yields, Pakistan remains one of the cheapest markets. Pakistan's stock market is trading at a P/E multiple of 6.3x, which is almost at a 42% discount to other regional markets. This makes KSE an attractive option for foreign investors. The decline in interest rates should also lead to more inflows from domestic investors chasing for higher yields.

### **Acknowledgement**

We take this opportunity to thank our valued investors for reposing faith in Al Meezan Investments and making it one of the largest pension fund manager in Pakistan. We also thank the Securities and Exchange Commission of Pakistan and Central Depository Company of Pakistan (trustee of MTPF). We would also like to thank the members of the Shariah Supervisory Board of Meezan Bank for their continued assistance and support on Shariah aspects of fund management.

For and on behalf of the Board

**Date: September 21, 2012  
Karachi.**

**Mohammad Shoaib, CFA**  
Chief Executive

**CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED**

**Head Office**

CDC House, 99-B, Block 'B'  
S.M.C.H.S. Main Shakra-e-Faisal  
Karachi - 74400. Pakistan.  
Tel: (92-21) 111-111-500  
Fax: (92-21) 34326020 - 23  
URL: [www.cdcpakistan.com](http://www.cdcpakistan.com)  
Email: [info@cdcpak.com](mailto:info@cdcpak.com)



ISO 27001 Certified

**TRUSTEE REPORT TO THE PARTICIPANTS**

**MEEZAN TAHAFFUZ PENSION FUND**

**Report of the Trustee pursuant to Rule 31(h) of the Voluntary Pension System Rules, 2005**

We, Central Depository Company of Pakistan Limited, being the Trustee of Meezan Tahaffuz Pension Fund (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Pension Fund Manager of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 in accordance with the provisions of the constitutive documents of the Fund and the Voluntary Pension System Rules, 2005.

**Aftab Ahmed Diwan**  
Officiating Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi, September 19, 2012





**Meezan Bank**  
The Premier Islamic Bank

**Report of the Shar'iah Advisor – Meezan Tahaffuz Pension Fund**

September 28, 2012/ Ziq'a'd 10, 1433

In the capacity of *Shar'iah Advisor*, we have prescribed six criteria for *Shar'iah* compliance of equity investments which relate to (i) Nature of business (ii) Interest bearing debt to total assets (iii) Investment in non- *Shar'iah* compliant activities to Total assets (iv) *Shar'iah* Non-Compliant Income to Gross Revenue (v) Illiquid assets to total assets, and (vi) Net liquid assets per share vs. share price.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure *Shar'iah* compliance with the *Shar'iah* guidelines. Our responsibility is to express an opinion, based on our review, to the extent where such compliance can be objectively verified. A review is limited primarily to inquiries of the management company's personnel and review of various documents prepared by the management company to comply with the prescribed criteria.

- i. We have reviewed and approved the modes of equity investments of MTPF in light of *Shar'iah* requirements. Following is the list of investments of MTPF as on June 30, 2012 and their evaluation according to the screening criteria established by us. (December 31, 2011 accounts of the Investee companies have been used).

Company Name	(i) Nature of Business	(ii)* Debt to Assets (<37%)	(iii) % of Non- <i>Shar'iah</i> Compliant Investments (<33%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) Illiquid Assets to Total Assets (>25%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Agriaautos Ltd.	Automobile and Parts	0.05%	31.83%	4.86%	44%	38.14	57.5
Attock Cement Ltd.	Construction and Materials (Cement)	0.00%	3.63%	0.29%	89%	(18.7)	51
Attock Petroleum Ltd.	Oil and Gas	0.00%	4.02%	1.23%	26%	48	412.50
DG Khan Cement Ltd.	Construction and Materials (Cement)	33.52%	3.22%	4.85%	71%	(15.76)	19.03
Engro Foods Ltd.	Food Producers	34.85%	7.78%	0.01%	81%	(92.4)	22.6
Fauji Fertilizer Bin Qasim Ltd.	Chemicals	20.73%	22.00%	2.14%	56%	(9.47)	42.43
Fauji Fertilizer Company Ltd.	Chemicals	24.89%	30.55%	1.64%	56%	(24.41)	149.54
GlaxoSmithKline. Ltd.	Pharma and Bio Tech	0.00%	1.27%	1.62%	68%	2.41	67.08

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**Meezan Bank Ltd.**

Meezan House, C-25, Estate Avenue, SITE, Karachi, Pakistan.  
Tel: (92-21) 38103500 Fax: (92-21) 36406049 www.meezanbank.com



Hub Power Co. Ltd.	Electricity	32.75%	0.00%	0.05%	37%	(41.87)	34.2
ICI Chemicals Pakistan Ltd.	Chemicals	0.00%	0.00%	0.57%	67%	2.49	120.27
Indus Motors Ltd.	Automobile and Parts	0.00%	15.28%	2.18%	47%	29.9	204.8
Lucky Cement Ltd.	Construction and Materials (Cement)	16.00%	0.00%	0.00%	94%	(31.19)	75.04
Millat Tractors Ltd.	Engineering	0.04%	10.46%	0.69%	66%	3.2	365.21
National Refinery Ltd.	Oil and Gas	0.00%	1.53%	1.05%	46%	(38.82)	242.69
Oil & Gas Development Co. Ltd.	Oil and Gas	0.00%	18.49%	4.24%	41%	23.88	151.62
Packages Ltd.	General Industrials	27.33%	30.40%	3.29%	61%	26.66	82.72
Pak Suzuki Motors Ltd.	Automobile and Parts	13.49%	0.00%	0.84%	75%	(26.76)	59.03
Pakistan Oil Fields Ltd.	Oil and Gas	0.00%	3.33%	4.09%	69%	210	346.45
Pakistan Petroleum Ltd.	Oil and Gas	0.12%	32.60%	4.68%	35%	50.64	168.32
Pakistan State Oil Company Ltd.	Oil and Gas	5.09%	0.00%	0.27%	33%	(316.41)	227.21
Pakistan Telecommunication Co. Ltd.	Fixed Line Telecommunication	7.41%	2.87%	1.22%	79%	(9.25)	10.39
Thal Ltd.	General Industrials	14.43%	2.88%	2.40%	83%	(78.43)	81.8
Tripak Films Ltd.	General Industrials	26.50%	4.24%	0.16%	70%	(69.73)	160.3
Unilever Pakistan	Food Producers	2.02%	0.97%	0.08%	78%	(625.22)	5,565.80

\* All interest based debts.

\*\* These ratios are for the calculation of non-*Shar'iah* compliant elements in the business and are not relevant for Islamic Banks & Islamic Financial Institutions.

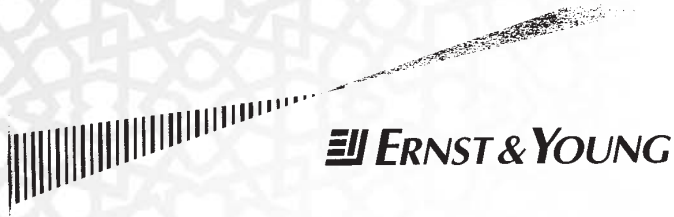
- ii. On the basis of information provided by the management, all operations of MTPF for the year ended June 30, 2012 have been in compliance with the *Shar'iah* principles.

In light of the above, we hereby certify that all the provisions of the Scheme and investments made on account of MTPF under management of Al Meezan Investment Management Limited (Al Meezan) are *Shar'iah* compliant and in accordance with the criteria established by us.

During the Year a provision of Rupees 0.194 million was created and an amount of Rupees 0.244 million was disbursed into charity.

May Allah bless us with best Tawfeeq to accomplish His cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

**Dr. Muhammad Imran Ashraf Usmani**  
For and on behalf of Meezan Bank Limited  
*Shar'iah* Advisor



**Ernst & Young Ford Rhodes Sidat Hyder**  
Chartered Accountants  
Progressive Plaza, Beaumont Road  
P.O. Box 15541, Karachi 75530, Pakistan  
Tel: +9221 3565 0007  
Fax: +9221 3568 1965  
www.ey.com

## **AUDITORS' REPORT TO THE PARTICIPANTS OF MEEZAN TAHAFFUZ PENSION FUND**

We have audited the annexed financial statements comprising:

- i) balance sheet;
- ii) income statement;
- iii) cash flow statement;
- iv) statement of movement in participants' sub-funds;
- v) contribution table; and
- vi) number of units in issue.

of **Meezan Tahaffuz Pension Fund** (the Fund) as at **30 June 2012** and for the year ended **30 June 2012** together with the notes forming part thereof for the year then ended.

It is the responsibility of the Pension Fund Manager to establish and maintain a system of internal control and prepare and present the financial statements of the Pension Fund in conformity with the International Accounting Standards notified under sub-section (3) of section 234 of the Companies Ordinance, 1984, and technical releases issued by the Institute of Chartered Accountants of Pakistan from time to time and the requirements of the Voluntary Pension System Rules, 2005 and the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

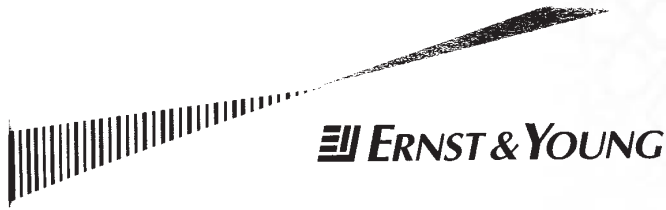
In our opinion:

- a) the financial statements prepared for the year have been properly drawn up in accordance with the relevant provisions of the Trust Deed and the Voluntary Pension System Rules, 2005 including the guidelines thereunder;

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Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants

-: 2 :-

- b) a true and fair view is given of the financial position and disposition of the Pension Fund as at 30 June 2012 and of its financial performance, cash flows and transactions for the year then ended in accordance with the approved accounting standards as applicable in Pakistan;
- c) the allocation and reallocation of units of the sub-funds for all the participants have been made according to the Voluntary Pension System Rules, 2005;
- d) the cost and expenses debited to the Pension Fund and apportionment of expenses between sub-funds are as specified in the constitutive documents of the Pension Fund;
- e) proper books and records have been kept by the Pension Fund and the financial statements prepared are in agreement with the Pension Fund's books and records;
- f) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of the audit; and
- g) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

We draw attention to note 13 to the financial statements which explains the contingency with respect to the contribution to Workers' Welfare Fund amounting to Rs.4.218 million. In this regard, the Pension Fund Manager expects that the constitutional petition pending in the Honorable High Court of Sindh on the subject will be decided favorably.

Our opinion is not qualified in respect of the above matter.

Chartered Accountants

Audit Engagement Partner: Shabbir Yunus

Date: 21 September 2012

Karachi

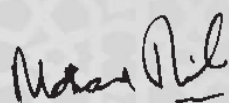
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# BALANCE SHEET

AS AT JUNE 30, 2012

	Note	2012			2011	
		Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	
(Rupees in '000)						
<b>Assets</b>						
Balances with banks	5	55,427	26,093	36,821	118,341	81,964
Investments	6	274,597	301,589	169,161	745,347	327,300
Dividend receivable		495	-	-	495	759
Profit receivable	7	490	6,002	5,798	12,290	7,704
Deposit with Central Depository Company of Pakistan Limited (CDC)		100	100	100	300	300
<b>Total assets</b>		<b>331,109</b>	<b>333,784</b>	<b>211,880</b>	<b>876,773</b>	<b>418,027</b>
<b>Liabilities</b>						
Payable against purchase of investments		5,128	6	-	5,134	-
Payable to Al Meezan Investment Management Limited - (Al Meezan) pension fund manager	8	637	512	276	1,425	1,034
Payable to CDC - trustee of the Fund	10	34	33	21	88	47
Payable to auditors		62	62	61	185	235
Payable to Securities and Exchange Commission of Pakistan (SECP)	11	75	61	39	175	108
Payable on redemption of units		486	843	643	1,972	2
Accrued expenses and other liabilities	12	244	-	-	244	258
<b>Total liabilities</b>		<b>6,666</b>	<b>1,517</b>	<b>1,040</b>	<b>9,223</b>	<b>1,684</b>
<b>Net assets</b>		<b>324,443</b>	<b>332,267</b>	<b>210,840</b>	<b>867,550</b>	<b>416,343</b>
<b>Contingencies</b>						
<b>Participants' sub-funds (as per statement attached)</b>	13	<b>324,443</b>	<b>332,267</b>	<b>210,840</b>	<b>867,550</b>	<b>416,343</b>
<b>Number of units in issue (as per statement attached)</b>		<b>2,022,279</b>	<b>2,107,797</b>	<b>1,328,706</b>		
<b>Net assets value per unit (Rupees)</b>		<b>160.43</b>	<b>157.64</b>	<b>158.68</b>		

The annexed notes from 1 to 23 form an integral part of these financial statements.



**Mohammad Shoab, CFA**  
Chief Executive

**For Al Meezan Investment Management Limited**  
(Pension Fund Manager)



**Mazhar Sharif**  
Director

# INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012

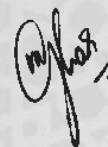
	2012				2011
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
Note -----(Rupees in '000)-----					
<b>Income</b>					
Profit on Sukuk Certificates	-	18,087	9,736	27,823	14,510
Profit on savings accounts with banks	1,602	3,638	4,110	9,350	9,364
Profit on placements	-	-	-	-	927
Unrealised gain / (loss) on re-measurement of investments at 'fair value through profit or loss' (net)	6	16,977	(24)	(9)	16,944
Reversal of provision / (provision) against Sukuk Certificates	-	-	-	-	120
Reversal of provision / (provision) against accrued profit on investments	-	-	-	-	187
Net realised gain / (loss) on sale of investments	15,445	(1,152)	480	14,773	10,508
Dividend income	13,670	-	-	13,670	9,865
Other income	18	17	16	51	759
<b>Total income</b>	<b>47,712</b>	<b>20,566</b>	<b>14,333</b>	<b>82,611</b>	<b>64,736</b>
<b>Expenses</b>					
Remuneration of Al Meezan pension fund manager	8.1	3,376	2,769	1,763	7,908
Sales tax on management fee	9	540	443	282	1,265
Remuneration of CDC - trustee of the Fund	10	338	277	176	791
Annual fee to Securities and Exchange Commission of Pakistan	11	88	61	39	188
Auditors' remuneration	14	104	103	102	309
Securities' transaction cost		318	11	7	336
Custody and settlement charges		62	6	6	74
Bank charges		14	28	13	55
<b>Total expenses</b>		<b>4,840</b>	<b>3,698</b>	<b>2,388</b>	<b>10,926</b>
<b>Net income from operating activities</b>		<b>42,872</b>	<b>16,868</b>	<b>11,945</b>	<b>71,685</b>
<b>Element of income and capital gains included in prices of units issued less those in units redeemed - net</b>		<b>3,662</b>	<b>11,890</b>	<b>8,891</b>	<b>24,443</b>
<b>Net income for the year</b>		<b>46,534</b>	<b>28,758</b>	<b>20,836</b>	<b>96,128</b>
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>46,534</b>	<b>28,758</b>	<b>20,836</b>	<b>96,128</b>
<b>Earnings per unit outstanding - basic (Rupees)</b>	15	<b>23.01</b>	<b>13.64</b>	<b>15.68</b>	

The annexed notes from 1 to 23 form an integral part of these financial statements.



**Mohammad Shoaib, CFA**  
Chief Executive

**For Al Meezan Investment Management Limited**  
(Pension Fund Manager)



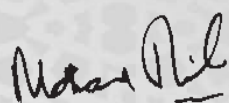
**Mazhar Sharif**  
Director

# CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012

	2012				2011
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
	Note -----(Rupees in '000)-----				
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Net income	46,534	28,758	20,836	96,128	80,267
<b>Adjustments for:</b>					
Dividend income	(13,670)	-	-	(13,670)	(9,865)
Profit on Sukuk Certificates	-	(18,087)	(9,736)	(27,823)	(14,510)
Profit on savings accounts with banks	(1,602)	(3,638)	(4,110)	(9,350)	(9,364)
Profit on placements	-	-	-	-	(927)
Unrealised (gain) / loss on re-measurement of investments at 'fair value through profit or loss'	(16,977)	24	9	(16,944)	(18,496)
Reversal of provision against Sukuk Certificates	-	-	-	-	(120)
Reversal of provision for accrued profit on investments	-	-	-	-	(187)
Element of income and capital gains included in prices of units issued less those in units redeemed - net	(3,662)	(11,890)	(8,891)	(24,443)	(21,635)
	10,623	(4,833)	(1,892)	3,898	5,163
<b>(Increase) / decrease in assets</b>					
Placements	-	-	-	-	20,000
Investments at 'fair value through profit or loss'	(94,303)	(184,038)	(122,762)	(401,103)	(152,730)
	(94,303)	(184,038)	(122,762)	(401,103)	(132,730)
<b>Increase / (decrease) in liabilities</b>					
Payable against purchase of investments	5,128	6	-	5,134	(1,303)
Payable to Al Meezan - pension fund manager	248	163	(20)	391	(296)
Payable to CDC - trustee of the Fund	14	17	10	41	15
Payable to auditors	(16)	(17)	(17)	(50)	35
Payable to SECP	31	24	12	67	31
Payable on redemption of units	486	843	643	1,972	-
Accrued expenses and other liabilities	(14)	(1)	(1)	(16)	(592)
	5,877	1,035	627	7,539	(2,110)
Dividend received	13,934	-	-	13,934	9,881
Profit received on savings accounts with banks	1,366	2,890	5,440	9,696	9,969
Profit received on Sukuk Certificates	-	16,617	6,274	22,891	11,947
Profit received on placements with banks	-	-	-	-	1,352
<b>Net cash outflow from operating activities</b>	(62,503)	(168,329)	(112,313)	(343,145)	(96,528)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Receipts of contribution	174,045	202,012	112,772	488,829	94,995
Payment on withdrawal	(71,607)	(30,521)	(7,179)	(109,307)	(14,131)
<b>Net cash inflow from financing activities</b>	102,438	171,491	105,593	379,522	80,864
Net cash inflow / (outflow) during the year	39,935	3,162	(6,720)	36,377	(15,664)
Cash and cash equivalents at the beginning of the year	15,492	22,931	43,541	81,964	97,628
Cash and cash equivalents at the end of the year	55,427	26,093	36,821	118,341	81,964

The annexed notes from 1 to 23 form an integral part of these financial statements.



**Mohammad Shoab, CFA**  
Chief Executive

**For Al Meezan Investment Management Limited**  
**(Pension Fund Manager)**



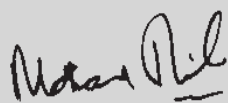
**Mazhar Sharif**  
Director

# STATEMENT OF MOVEMENT IN PARTICIPANTS' SUB FUNDS

FOR THE YEAR ENDED JUNE 30, 2012

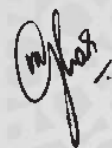
	2012				2011
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
	------(Rupees in '000)-----				
Net assets at the beginning of the year	179,133	143,908	93,302	416,343	276,847
Amount received on issue of units (2012: Equity sub fund: 1,141,804 units; Debt sub fund: 1,308,516 units; Money market sub fund: 724,239 units) (2011: Equity sub fund: 341,497 units; Debt sub fund: 269,588 units; Money market sub fund: 89,446 units)	174,045	202,012	112,772	488,829	94,995
Amount paid on redemption of units (2012: Equity sub fund: 423,513 units; Debt sub fund: 200,225 units; Money market sub fund: 47,996 units) (2011: Equity sub fund: 66,078 units; Debt sub fund: 28,631 units; Money market sub fund: 13,482 units)	(71,607)	(30,521)	(7,179)	(109,307)	(14,131)
	102,438	171,491	105,593	379,522	80,864
Element of income and capital gains included in prices of units issued less those in units redeemed - net	(3,662)	(11,890)	(8,891)	(24,443)	(21,635)
Net income for the year	46,534	28,758	20,836	96,128	80,267
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	46,534	28,758	20,836	96,128	80,267
Net assets at the end of the year	324,443	332,267	210,840	867,550	416,343

The annexed notes from 1 to 23 form an integral part of these financial statements.



**Mohammad Shoaib, CFA**  
Chief Executive

**For Al Meezan Investment Management Limited**  
(Pension Fund Manager)



**Mazhar Sharif**  
Director

# CONTRIBUTION TABLE

FOR THE YEAR ENDED JUNE 30, 2012


Contributions net of front end fee received during the year	2012						2011	
	Equity Sub Fund		Debt Sub Fund		Money Market Sub Fund		Total (Rupees in '000)	Total (Rupees in '000)
	Units	Rs in '000	Units	Rs in '000	Units	Rs in '000		
Individuals - issue of units	1,141,804	174,045	1,308,516	202,012	724,239	112,772	488,829	94,995

The annexed notes from 1 to 23 form an integral part of these financial statements.



**Mohammad Shoaib, CFA**  
Chief Executive

**For Al Meezan Investment Management Limited**  
(Pension Fund Manager)



**Mazhar Sharif**  
Director

# NUMBER OF UNITS IN ISSUE

FOR THE YEAR ENDED JUNE 30, 2012

	2012		
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund
	-----Number of units-----		
Total units outstanding at the beginning of the year	1,303,988	999,506	652,463
Add: Units issued / converted / reallocated during the year	1,141,804	1,308,516	724,239
Less: Units redeemed / converted / reallocated during the year	(423,513)	(200,225)	(47,996)
Total units in issue at the end of the year	<u>2,022,279</u>	<u>2,107,797</u>	<u>1,328,706</u>

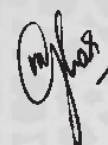
	2011		
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund
	-----Number of units-----		
Total units outstanding at the beginning of the year	1,028,569	758,549	576,499
Add: Units issued / converted / reallocated during the year	341,497	269,588	89,446
Less: Units redeemed / converted / reallocated during the year	(66,078)	(28,631)	(13,482)
Total units in issue at the end of the year	<u>1,303,988</u>	<u>999,506</u>	<u>652,463</u>

The annexed notes from 1 to 23 form an integral part of these financial statements.



**Mohammad Shoaib, CFA**  
Chief Executive

**For Al Meezan Investment Management Limited**  
(Pension Fund Manager)



**Mazhar Sharif**  
Director

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2012

### 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** Meezan Tahaffuz Pension Fund (the Fund) was established under a Trust Deed executed between Al Meezan Investment Management Limited as pension fund manager and Central Depository Company of Pakistan Limited (CDC) as trustee. The Trust Deed was executed and approved by the SECP on May 30, 2007 under the Voluntary Pension System Rules, 2005 (VPS Rules). The registered office of the pension fund manager of the Fund, is situated in Finance and Trade Centre Shahrah-e-Faisal, Karachi, Pakistan.
- 1.2** The Fund offers a saving mechanism where an individual saves from his / her income during work life in order to retain financial security and comfort in terms of regular income stream after retirement. The Fund initially comprises of three sub funds namely equity sub-fund, debt sub-fund and money market sub-fund. Participants are offered various investment allocation schemes depending on their investment horizon, return requirements, risk tolerance and any unique circumstances. Allocation scheme can be selected initially at the time of opening of account and subsequently at the anniversary of the account. The contributions from participants are invested in various instruments belonging to different asset classes to get full benefits of risk minimisation through diversification.
- 1.3** The Fund has been formed to enable the participants to contribute in a diversified portfolio of securities, which are shariah compliant. Under the Trust Deed, all the conducts and acts of the Fund are based on shariah. The pension fund manager has appointed Meezan Bank Limited (MBL) as its shariah advisor to ensure that the activities of the Fund are in compliance with the principles of shariah.
- 1.4** The Fund is an unlisted pension scheme. Units are offered for public subscription on a continuous basis. The units are non-transferable and can be redeemed by surrendering them to the Fund at the option of the unit holders.

### 2. BASIS OF MEASUREMENT

The transactions undertaken by the Fund in accordance with the process prescribed under the shariah guidelines issued by the shariah advisor are accounted for on substance rather than the form prescribed by the aforementioned guidelines. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

### 3. STATEMENT OF COMPLIANCE

These financial statements of the Fund have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the trust deed, the VPS Rules and the directives issued by the SECP.

Wherever the requirements of the trust deed, the VPS Rules or the said directives differ with the requirements of IFRSs, the requirements of the trust deed, the VPS Rules and the said directives take precedence.



#### 4. SIGNIFICANT ACCOUNTING POLICIES

##### 4.1 Standards, amendments to published approved accounting standards and interpretations which became effective during the year

During the year, following amendments, interpretations and improvements to the accounting standards became effective:

- IFRS 7 – Financial Instruments: Disclosures
- IAS 24 – Related Party Disclosures (Revised)
- IFRIC 14 – Prepayments of a Minimum Funding Requirement (Amendment)

In May 2010, International Accounting Standards Board (IASB) issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

IFRS 7 – Financial Instrument Disclosures - Clarification of disclosures

IAS 1 – Presentation of Financial Statements - Clarification of statement of changes in equity

IAS 34 – Interim Financial Reporting - Significant events and transactions

IFRIC 13 – Customer Loyalty Programmes - Fair value of award credits

The adoption of the above standards, amendments / improvements and interpretations did not have any material effect on the financial statements of the Fund.

##### 4.2 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created in order to prevent the dilution of income per unit and distribution of income already paid out on redemption.

During the year, the Fund has revised the methodology for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised calculation, element of income / (loss) and capital gains / (losses) included in price of units sold less those in units redeemed is arrived at by comparing the unit prices with the closing NAV at the end of the financial year and recognised in the income statement except to the extent that the amount represented by unrealised appreciation / (diminution) arising during the year on available-for-sale securities is included in distribution statement. Previously, the Fund used to calculate element of income / (loss) and capital gain / (loss) included in price of units sold less those in units redeemed by comparing the unit prices with the face value of units.

The revised methodology, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. The change did not have any impact on the net assets value (NAV) of the Fund. Had the management not revised its methodology, profit for the year and earnings per unit would have been higher as follows:

	<b>Effect on profit for the year Rupees in million</b>	<b>Effect on earnings per unit Rupees</b>
- Equity Sub Fund	26.84	13.27
- Debt Sub Fund	48.74	23.12
- Money Market Sub Fund	29.08	21.88

#### **4.3 Standards, interpretations and amendments to approved accounting standards that are not yet effective**

The following revised standards, interpretations and amendments with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards, interpretations and amendments:

<b>Standard, interpretation or amendment</b>	<b>Effective date (accounting periods beginning on or after)</b>
IFRS 7 - Financial Instruments : Disclosures – (Amendments) - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	January 01, 2013
IAS 1 Presentation of Financial Statements – Presentation of items of comprehensive income	July 01, 2012
IAS 12 Income Taxes (Amendment) - Recovery of Underlying Assets	January 01, 2012
IAS 19 Employee Benefits – (Amendment)	January 01, 2013
IAS 32 Offsetting Financial Assets and Financial Liabilities – (Amendment)	January 01, 2014
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013

The Fund expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Fund's financial statements in the period of initial application except for certain additional disclosures.

Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

<b>Standard</b>	<b>Effective date (annual periods beginning on or after)</b>
IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2015
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013

#### 4.4 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments are carried at fair value in accordance with the criteria laid down in the International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement'.

#### 4.5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of critical accounting estimates. It also requires the pension fund manager to exercise judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial statements are as follows:

- (a) Classification and valuation of financial instruments (notes 4.6 and 6); and
- (b) Impairment of financial instruments (note 4.6.5).

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

#### 4.6 Financial instruments

##### 4.6.1 Classification of financial instruments:

The investments of the Fund, upon initial recognition, are classified as investment at fair value through profit or loss, loans and receivables or available-for-sale investments as appropriate.

##### (a) Investments at 'fair value through profit or loss'

This category has two sub-categories, namely; financial instruments held-for-trading, and those designated at fair value through profit or loss upon initial recognition.

- Investments which are acquired principally for the purposes of generating profit from short-term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short-term profit taking are classified as held-for-trading.
- Investments designated at fair value through profit or loss upon initial recognition include those group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with the documented risk management / investment strategy.

These investments are initially recognised at fair value, being the cost of the consideration given.

After initial measurement, investment at fair value through profit or loss are carried at fair value and the gains or losses on revaluation are recognised in the income statement.

##### (b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'fair value through profit or loss' or 'available-for-sale'.

##### (c) Available-for-sale

Investments which are not classified in any of the preceding categories are classified as available-for-sale investments. After initial measurement, such investments are measured at fair value with unrealised gain or loss recognised directly in the unit holders' fund until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recognised in unit holders' fund is taken to the income statement.

#### 4.6.2 Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

The Fund follows trade date accounting for purchase and sale of investments. Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

#### 4.6.3 Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at 'fair value through profit or loss' are charged to the income statement immediately.

Subsequent to initial recognition, instruments classified as financial assets at 'fair value through profit or loss' and 'available-for-sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets at 'fair value through profit or loss' are recognised in the income statement. Changes in the fair value of instruments classified as 'available-for-sale' are recognised in other comprehensive income until derecognised or impaired when the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement.

Financial assets classified as 'loans and receivables' and 'held to maturity' are carried at amortised cost using the effective yield method, less impairment losses, if any.

Financial liabilities, other than those at 'fair value through profit or loss', are measured at amortised cost using the effective yield method.

#### 4.6.4 Fair value measurement principles

The fair value of financial instruments were determined as follows:

- The carrying value of debt securities, is based on the value determined and announced by the Mutual Funds Association of Pakistan (MUFAP).
- The fair value of shares of listed companies / units of funds is based on their price quoted on the Karachi Stock Exchange at the reporting date without any deduction for estimated future selling costs. Financial assets and financial liabilities are priced at their fair market value.

Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing. Additional provision may be recognised when there is objective evidence of the continuity of non-performance. Further, the reversal of provisions are made where there is an objective evidence that the impairment is reversed.

#### 4.6.5 Impairment

Impairment loss on investments other than 'available-for-sale' is recognised in the income statement whenever the carrying amount of investment exceeds its recoverable amount. If, in a subsequent period, the amount of an impairment loss recognised decreases the impairment is reversed through the income statement.

In case of investments classified as 'available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for 'available-for-sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from other comprehensive income and recognised in the income statement. However, the decrease in impairment loss on equity securities classified as 'available-for-sale' is not reversed through the income statement but is recognised in other comprehensive income.

#### **4.6.6 Derecognition**

The Fund derecognises a financial asset when the contractual right to the cash flow from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

#### **4.7 Participants' fund**

Participants' fund representing the units issued by the Fund, are carried at the net asset value representing the investors' right to a residual interest in the Fund's assets.

#### **4.8 Issue, allocation, reallocation and redemption of units**

Contribution received in the individual pension account after deduction of takaful premium, if any, followed by front end fee, is used to purchase the units of sub-funds of the pension fund according to the allocation scheme selected by the participant. The units are allotted at the net asset value notified by the pension fund manager at the close of that dealing day (forward pricing) for each sub-fund. The front end fee is payable to the distributors and the pension fund manager.

The pension fund manager makes reallocation of the sub-fund units between the sub-funds at least once a year to ensure that the allocations of the sub-fund units of all the participants are according to the allocation schemes selected by the participants.

Withdrawals made are used to redeem units of the sub-funds of the pension fund, according to the allocation scheme of the participant, at the net asset value prevalent on the date on which the distributors receive redemption application during business hours on that date.

#### **4.9 Provisions**

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of that obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

#### **4.10 Net assets value per unit of each sub-fund**

The net assets value (NAV) per unit is calculated by dividing the net assets of each sub-fund by the number of units in issue at year end.

#### **4.11 Taxation**

##### **Current**

The income of the Fund is exempt from income tax under clause 57(3)(viii) of part I of the Second Schedule to the Income Tax Ordinance, 2001.

##### **Deferred**

The Fund is exempt from tax therefore no temporary difference would arise.

**4.12 Zakat payable**

Zakat payment is the responsibility of each unit holder. Nevertheless, the Fund follows the provisions of Zakat and Ushr Ordinance, 1980. Units held by individual resident Pakistani shareholders are subject to Zakat @ 2.5% of the par value of the unit under the said Ordinance, except those exempted from Zakat. Zakat is deducted at source from redemption proceeds, if units are redeemed during the Zakat year before the payment of Zakat.

**4.13 Revenue recognition**

- (i) Gains / (losses) arising on sale of investments are included in the income currently and are recognised on the date when the transaction takes place.
- (ii) Unrealised gains / (losses) arising on revaluation of securities classified as financial assets at 'fair value through profit or loss' are included in the income statement in the year in which they arise.
- (iii) Dividend income is recognised when the Fund's right to receive the dividend is established.
- (iv) Profit on savings accounts with banks and investments in debt and money market instruments are recorded on accrual basis.

**4.14 Expenses**

All expenses, including management fee and trustee fee, are recognised in the income statement on an accrual basis.

**4.15 Offsetting of financial instruments**

Financial assets and financial liabilities are set off and the net amount is reported in the balance sheet if the Fund has a legal right to set off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

**4.16 Cash and cash equivalents**

Cash comprises current and savings accounts with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

**4.17 Reallocation of units**

The pension fund manager makes reallocation of the sub-fund units between the sub-funds at least once a year to ensure that the allocations of the sub-fund units of all the participants are according to the allocation schemes selected by the participants.

Withdrawals made are used to redeem units of the sub-funds of the pension fund, according to the allocation scheme of the participant, at the net asset value prevalent on the date on which the distributors receive redemption application during business hours on that date.

**4.18 Dividend and bonus units**

Distribution of dividend or bonus units is not allowed under the VPS Rules.

## 5. BALANCES WITH BANKS

	2012				2011
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
	Note -----(Rupees in '000)-----				
Current accounts	35	-	-	35	219
Savings accounts	5.1 & 5.2	55,392	26,093	36,821	118,306
		<u>55,427</u>	<u>26,093</u>	<u>36,821</u>	<u>118,341</u>
				<u>118,341</u>	<u>81,964</u>

5.1 The balances in savings accounts carry expected profit which ranges from 5.65% to 12.50% (2011: 5.65% to 12.90%) per annum.

5.2 This includes an aggregate amount of Rs.45.271 million (2011: Rs.11.400 million) received in the Fund's collection account which was subsequently transferred to these sub-funds.

## 6. INVESTMENTS

	2012				2011
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
	Note -----(Rupees in '000)-----				
<b>Held-for-trading</b>					
- shares of listed companies	6.1	274,597	-	-	274,597
- sukuk certificates	6.2	-	300,000	168,500	468,500
		274,597	300,000	168,500	743,097
Investments designated at 'fair value through profit or loss upon initial recognition'	6.3	-	1,589	661	2,250
		<u>274,597</u>	<u>301,589</u>	<u>169,161</u>	<u>745,347</u>
				<u>745,347</u>	<u>327,300</u>

## 6.1 'Held-for-trading' - shares of listed companies

Name of the investee company	Note	As at July 1, 2011	Purchases during the year	Cost of purchase	Bonus / rights issue	Demerger effects / (adjustment)	Sales during the year	As at June 30, 2012	Carrying value as at June 30, 2012	Market value as at June 30, 2012	Unrealised gain / (loss)	Percentage of net assets on the basis of market value (see note 6.1.3 below)	Percentage of paid-up capital of investee company
		Number of shares		Rs in '000		Number of shares			Rupees in '000				
<b>Equity Sub Fund</b>													
<b>Automobile and parts</b>													
Indus Motor Company Limited		20,846	4,809	991	-	-	-	25,655	5,577	6,288	711	1.94	0.80
Agriauto Industries Limited		25,000	-	-	-	-	-	25,000	1,737	2,025	288	0.62	0.70
Pak Suzuki Motor Company Limited		49,733	-	-	-	-	-	49,733	3,111	4,761	1,650	1.47	0.58
<b>Chemicals</b>													
Fauji Fertilizer Bin Qasim Limited		33,669	513,000	22,246	-	-	197,669	349,000	14,886	14,246	(640)	4.39	0.15
Fauji Fertilizer Company Limited		111,458	100,000	12,916	55,729	-	24,000	243,187	26,060	27,006	946	8.32	0.21
ICI Pakistan Limited	6.1.1	92,101	13,000	1,950	-	(34,096)	3,200	67,805	10,280	8,887	(1,393)	2.74	0.96
<b>Construction and materials</b>													
AkzoNobel Pakistan Limited	6.1.1	-	-	-	-	34,096	-	34,096	5,170	4,469	(701)	1.38	0.96
Attock Cement Pakistan Limited		53,441	34,000	2,040	-	-	29,449	57,992	3,147	4,723	1,576	1.46	0.55
DG Khan Cement Company Limited		239,300	457,597	12,540	-	-	294,000	402,897	10,863	15,866	5,003	4.89	0.36
Lucky Cement Limited		149,700	179,000	17,470	-	-	196,705	131,995	11,681	15,231	3,550	4.69	0.47
<b>Electricity</b>													
The Hub Power Company Limited		411,075	524,500	19,555	-	-	318,000	617,575	23,053	25,870	2,817	7.97	2.24
<b>Automobile Assembler</b>													
Millat Tractors Company Limited		-	6,000	2,603	-	-	-	6,000	2,603	2,897	294	0.89	0.001
<b>Fixed line telecommunication</b>													
Pakistan Telecommunication Company Limited "A"		159,500	548,000	7,265	-	-	307,800	399,700	5,387	5,472	85	1.69	0.14
<b>Food producers</b>													
Unilever Pakistan Limited		526	-	-	-	-	-	526	2,749	3,724	975	1.15	0.56
Engro Foods Limited		-	92,000	5,975	-	-	10,000	82,000	5,325	5,285	(40)	1.63	0.07
<b>General industries</b>													
Packages Limited		71,851	29,000	2,400	-	-	-	100,851	10,304	10,055	(249)	3.10	1.19
Thal Limited		44,808	-	-	8,961	-	-	53,769	4,527	5,000	473	1.54	1.36
Tri-Pack Films Limited		50,687	500	90	-	-	-	51,187	8,770	10,749	1,979	3.31	3.58
<b>Oil and gas</b>													
National Refinery Limited		-	25,350	6,366	-	-	15,695	9,655	2,424	2,234	(190)	0.69	0.28
Oil and Gas Development Company Limited		90,500	40,400	6,196	-	-	-	130,900	20,042	21,001	959	6.47	0.05
Pakistan Oilfields Limited		45,650	31,500	11,738	-	-	-	77,150	28,126	28,309	183	8.73	1.20
Pakistan Petroleum Limited		70,363	49,441	9,379	7,936	-	3,500	124,240	23,288	23,393	105	7.21	0.18
Pakistan State Oil Company Limited		50,800	26,300	6,743	-	-	12,800	64,300	16,825	15,165	(1,660)	4.67	0.88
Attock Petroleum		-	20,000	8,781	-	-	1,000	19,000	8,452	9,013	561	2.78	1.30
<b>Personal goods</b>													
Nishat Mills Limited		-	114,000	5,096	-	-	114,000	-	-	-	-	-	-
<b>Pharma and Bio Tech</b>													
Glaxo Smithkline Pakistan Limited		42,091	-	-	4,209	-	-	46,300	3,233	2,928	(305)	0.90	0.11
<b>Total</b>				<u>162,340</u>				<u>46,300</u>	<u>257,620</u>	<u>274,597</u>	<u>16,977</u>		

6.1.1 The scheme of arrangement for reconstruction of ICI Pakistan Limited was executed on June 27, 2012 whereby the paints business and all assets, rights, liabilities and obligations pertaining thereto have been separated and vested into AkzoNobel Pakistan Limited. As a consequence of the transfer and vesting, AkzoNobel Pakistan Limited issued Ordinary shares of Rs.10 each and such allotment is made in proportion of 66.54:33.46 based on the net assets of the paints business with reference to the total net assets of ICI Pakistan Limited. Consequently the Fund's holding of 101,901 shares of ICI Pakistan Limited as on June 27, 2012 is reduced to 67,805 Ordinary shares of ICI Pakistan Limited and 34,096 Ordinary shares of AkzoNobel Pakistan Limited issued to the Fund.

6.1.2 All shares have a nominal value of Rs.10 each except Thal Limited and Unilever Pakistan Limited having nominal value of Rs.5 and Rs.50 each, respectively.

6.1.3 Net assets are as defined in Rule 2(1)(m) of VPS Rules.



## 6.2 'Held-for-trading' - Sukuk Certificates

Name of the investee company	Maturity date	Profit rate per annum	As at July 1, 2011	Purchases during the period	Cost of purchase	Sales during the period	Redemptions during the period	As at June 30, 2012	Carrying value as at June 30, 2012	Provision	Market value as at June 30, 2012	Unrealised gain / (loss)	Percentage of net assets on the basis of market value (see note 6.1.3)
			Number of certificates	Rupees in '000	Number of certificates	Rupees in '000							
<b>Debt Sub Fund</b>													
GoP - Ijara sukuk (note 6.2.1)	September 17, 2012	11.82%	280	-	-	250	-	30	3,000	-	3,000	-	0.90
GoP - Ijara sukuk (note 6.2.1)	November 15, 2013	11.94%	580	-	-	-	-	580	58,000	-	58,000	-	17.46
GoP - Ijara sukuk (note 6.2.1)	December 20, 2013	11.94%	30	-	-	-	-	30	3,000	-	3,000	-	0.90
GoP - Ijara sukuk (note 6.2.1)	March 07, 2014	11.81%	80	50	5,000	80	-	50	5,000	-	5,000	-	1.50
GoP - Ijara sukuk (note 6.2.1)	May 16, 2014	11.94%	130	-	-	-	-	130	13,000	-	13,000	-	3.91
GoP - Ijara sukuk (note 6.2.1)	December 26, 2014	11.94%	-	540	54,000	-	-	540	54,000	-	54,000	-	16.25
GoP - Ijara sukuk (note 6.2.1)	March 02, 2015	11.81%	-	540	54,000	-	-	540	54,000	-	54,000	-	16.25
GoP - Ijara sukuk (note 6.2.1)	April 30, 2015	11.94%	-	600	60,000	-	-	600	60,000	-	60,000	-	18.06
GoP - Ijara sukuk (note 6.2.1)	June 28, 2015	11.94%	-	500	50,000	-	-	500	50,000	-	50,000	-	15.05
			1,100	2,230	223,000	330	-	3,000	300,000	-	300,000	-	
<b>Money Market Sub Fund</b>													
GoP - Ijara sukuk (note 6.2.1)	September 25, 2011	14.06%	175	-	-	175	-	-	-	-	-	-	-
GoP - Ijara sukuk (note 6.2.1)	November 15, 2013	11.94%	40	-	-	20	-	20	2,000	-	2,000	-	0.95
GoP - Ijara sukuk	March 07, 2014	11.81%	220	300	29,985	220	-	300	29,985	-	30,000	15	14.23
GoP - Ijara sukuk (note 6.2.1)	May 16, 2014	11.94%	20	-	-	-	-	20	2,000	-	2,000	-	0.95
GoP - Ijara sukuk (note 6.2.1)	September 17, 2012	11.82%	-	950	95,000	-	-	950	95,000	-	95,000	-	45.06
GoP - Ijara sukuk (note 6.2.1)	March 02, 2015	11.81%	-	130	13,000	-	-	130	13,000	-	13,000	-	3.91
GoP - Ijara sukuk (note 6.2.1)	April 30, 2015	11.94%	-	120	12,000	-	-	120	12,000	-	12,000	-	3.61
GoP - Ijara sukuk (note 6.2.1)	June 28, 2015	11.94%	-	145	14,500	-	-	145	14,500	-	14,500	-	4.36
			455	1,645	164,485	415	-	1,685	168,485	-	168,500	15	

6.2.1 The nominal value of the sukuk certificates is Rs.100,000 each.

## 6.3 Investments at 'fair value through profit or loss upon initial recognition' - sukuk certificates

Name of the investee company	Maturity date	Profit rate	As at July 1, 2011	Purchases during the year	Cost of purchase	Sales during the year	Redemptions during the period	As at June 30, 2012	Carrying value as at June 30, 2012	Provision	Market value as at June 30, 2012	Unrealised gain / (loss)	Percentage of net assets on the basis of market value (see note 6.1.2)
			Number of certificates	Rupees in '000	Number of certificates	Rupees in '000							
<b>Debt Sub Fund</b>													
Dawood Hercules Chemicals Limited (note 6.3.1)	September 18, 2012	6 months Kibor plus base rate of 1.2%	44	-	-	-	44	-	-	-	-	-	-
Eden Housing Limited (note 6.3.2)	September 29, 2014	6 months Kibor plus base rate of 2.5%	500	-	-	-	-	500	928	-	928	-	0.28
Maple Leaf Cement Factory Limited (note 6.3.3)	December 03, 2018	3 months Kibor plus base rate of 1.0%	999	-	-	999	-	-	-	-	-	-	-
Maple Leaf Cement Factory Limited (note 6.3.3)	March 31, 2012	3 months Kibor plus base rate of 1.0%	38	-	-	38	-	-	-	-	-	-	-
Security Leasing Corporation Limited II (note 6.3.3)	January 19, 2022	-	258	-	-	-	63	195	685	-	661	(24)	0.20
			1,839	-	-	1,037	107	695	1,613	-	1,589	(24)	
<b>Money Market Sub Fund</b>													
Security Leasing Corporation Limited II (note 6.3.3)	January 19, 2022	-	258	-	-	-	63	195	685	-	661	(24)	0.31
			258	-	-	-	63	195	685	-	661	(24)	

6.3.1 The nominal value of the sukuk certificates is Rs.50,000 each.

6.3.2 The principal buy out reduces the face value per certificate instead of number of certificates. The face value of the sukuk certificates is Rs.3,468 each.

6.3.3 The nominal value of these sukuk certificates is Rs.5,000 each.

	2012				2011
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total

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

## 7. PROFIT RECEIVABLE

Profit receivable on					
- savings accounts with banks	490	1,172	601	2,263	2,609
- sukuk certificates	-	4,830	5,197	10,027	5,095
	<u>490</u>	<u>6,002</u>	<u>5,798</u>	<u>12,290</u>	<u>7,704</u>

## 8. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED - PENSION FUND MANAGER

Management remuneration	8.1	369	341	217	927	484
Front-end fee payable		211	116	24	351	313
Formation cost payable		-	-	-	-	237
Sales tax on management fee		57	55	35	147	-
		<u>637</u>	<u>512</u>	<u>276</u>	<u>1,425</u>	<u>1,034</u>

8.1 Under the provisions of the Trust Deed, the pension fund manager is entitled to an annual management fee not exceeding 1.5% of the net assets of each sub-fund calculated during the year for determining the net asset value of the units of the sub-funds.

## 9. SALES TAX ON MANAGEMENT FEE

During the current year, an amount of Rs.1.265 million (June 30, 2011: Rs.Nil) was charged on account of sales tax on management fee levied through Sindh Sales Tax on Services Act, 2011.

## 10. PAYABLE TO CENTRAL DEPOSITORY COMPANY (CDC) - Trustee of the Fund

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed in accordance with the tariff specified therein, based on the daily net assets of the sub-funds.

## 11. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP)

This represents annual fee at the rate of one thirtieth of one per cent of the average annual net asset value of the pension fund payable to SECP under Rule 36 of VPS Rules.

	2012				2011
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total

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

## 12. ACCRUED EXPENSES AND OTHER LIABILITIES

Charity payable	12.1	244	-	-	244	258
		<u>244</u>	<u>-</u>	<u>-</u>	<u>244</u>	<u>258</u>

- 12.1 According to the instructions of the shariah advisor, any income earned by the Fund from investments whereby portion of the investment of investee company has been made in Shariah non-compliant avenues, such proportion of income of the Fund from those investments should be given away for charitable purposes directly by the Fund.

### 13. CONTINGENCIES

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all pension funds under Voluntary Pension system (VPS) Rules, 2005 whose income exceeds Rs.0.5 million in a tax year, have been 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 is higher. In this regard, a constitutional petition has been filed by certain VPS through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the VPS, which is pending adjudication. However, without prejudice to the above, the Pension Fund Manager made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

Subsequent to the year ended June 30, 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. This clarification was forwarded by Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on this clarification, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. No such notice was received by the Fund. Notices of demand have also been issued to several other mutual funds and the matter has been taken up by the respective mutual funds with the FBR for their withdrawal on the basis of the above referred clarification of the Ministry. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter dated January 04, 2011 subsequently cancelled ab-initio the clarification letter dated October 06, 2010 on applicability of WWF on mutual funds.

On December 14, 2010, the Ministry has filed its response against the constitutional petition requesting the Court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in the Court.

During the current year, the Honourable Lahore High Court (LHC) in a similar Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Pension Fund Manager is hopeful that the decision of the LHC, will lend further support to the constitutional petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Pension Fund Manager believes that the Fund is not liable to contribute to WWF. The aggregate unrecognised amount of WWF as at June 30, 2012 amounted to Rs.4.218 million (June 30, 2011: Rs.2.333 million).

	2012			2011
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total

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

### 14. AUDITORS' REMUNERATION

Audit fee	62	62	61	185	165
Half yearly review	34	33	33	100	99
Other certifications and services	-	-	-	-	51
Out of pocket expenses	8	8	8	24	52
	<u>104</u>	<u>103</u>	<u>102</u>	<u>309</u>	<u>367</u>

**15. EARNINGS PER UNIT - BASIC AND DILUTED**

	2012		
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund
Net income for the year (Rupees in '000)	46,534	28,758	20,836
Units outstanding as at June 30, 2012 (number of units)	2,022,279	2,107,797	1,328,706
Earnings per unit - basic (Rupees)	23.01	13.64	15.68

	2011		
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund
Net income for the year (Rupees in '000)	47,708	21,303	11,256
Units outstanding as at June 30, 2011 (number of units)	1,303,988	999,506	652,463
Earnings per unit - basic (Rupees)	36.59	21.31	17.25

15.1 There were no convertible dilutive potential units outstanding on June 30, 2012 and 2011.

**16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES**

The connected persons include Al Meezan being the pension fund manager, CDC being the trustee, MBL being the shariah advisor of the Fund and the holding company of the pension fund manager, directors and officers of the pension fund manager, Meezan Islamic Fund, Meezan Islamic Income Fund, Al Meezan Mutual Fund Limited, Meezan Balanced Fund, Meezan Capital Protected Fund-I, Meezan Cash Fund and Meezan Sovereign Fund being the funds under the common management of the pension fund manager.

Remuneration payable to the pension fund manager and the trustee is determined in accordance with the provisions of VPS Rules and the trust deed respectively. Transactions with connected persons are carried out in the normal course of business at contracted rates.

Details of transactions with connected persons and balances with them as of June 30, 2012 and for the year then ended are as follows:

	2012				2011
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
<b>Investment by:</b>	------(Rupees in '000)-----				
<b>Al Meezan - pension fund manager</b> (Equity sub fund: 260,077 units; Debt sub fund: 402,414 units; Money market sub fund: 500,000 units)	41,724	63,437	79,340	184,501	212,175
<b>Directors and executives of the pension fund manager</b> As at June 30, 2012 (Equity sub fund: 328,631 units; Debt sub fund: 158,645 units; Money market sub fund: 32,961 units)					
As at June 30, 2011 (Equity sub fund: 67,357 units; Debt sub fund: 20,325 units; Money market sub fund: 4,270 units)	52,722	25,009	5,230	82,961	12,790

	2012				2011
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
------(Rupees in '000)-----					
Units issued during the year (Equity sub fund: 284,058 units; Debt sub fund: 122,837 units; Money market sub fund: 21,293 units)	44	30	3	77	2,216
Units reallocated during the year (Equity sub fund: (22,784) units; Debt sub fund: 16,313 units; Money market sub fund: 8,222 unit)	(4)	3	1	-	(1)
<b>Al Meezan Investment Management Limited - Pension Fund Manager Remuneration</b>					
Remuneration payable at the beginning of the year	206	166	112	484	322
Front-end fee at the beginning of the year	104	104	105	313	771
Formation cost payable at the beginning of the year	79	79	79	237	237
Remuneration for the year	3,376	2,769	1,763	7,908	4,883
Front-end fee for the year	1,191	1,191	1,191	3,573	1,950
	4,956	4,309	3,250	12,515	8,163
Amount paid during the year	(4,376)	(3,852)	(3,009)	(11,237)	(7,366)
Balance at the end of the year	580	457	241	1,278	797
<b>Sales tax on management fee</b>					
Sales tax payable at the beginning of the year	-	-	-	-	-
Sales tax for the year	540	443	282	1,265	-
	540	443	282	1,265	-
Amount paid during the year	(483)	(388)	(247)	(1,173)	-
Balance at the end of the year	57	55	35	92	-
Total payable at the end of the year	637	512	276	1,370	797
<b>MBL</b>					
Bank balance	13,618	21,678	10,584	45,880	620
Profit on savings accounts	12	22	65	99	163
Profit receivable on savings accounts	1	2	2	5	2
<b>CDC - trustee of the Fund</b>					
Balance at the beginning of the year	20	16	11	47	32
Remuneration for the year	338	277	176	791	485
CDS charges for the year	11	6	6	23	20
	369	299	193	861	537
Amount paid during the year	(335)	(266)	(172)	(773)	(490)
Balance at the end of the year	34	33	21	88	47

## 17. FINANCIAL INSTRUMENTS BY CATEGORY

	2012			Total
	Loans and receivables	Financial assets at 'fair value through profit or loss'	Financial liabilities measured at amortised cost	
------(Rupees in '000)-----				
<b>Financial assets</b>				
Balances with banks	118,341	-	-	118,341
Investments	-	745,347	-	745,347
Dividend receivable	495	-	-	495
Profit receivable	12,290	-	-	12,290
Deposit with CDC	300	-	-	300
	<u>131,426</u>	<u>745,347</u>	<u>-</u>	<u>876,773</u>
<b>Financial liabilities</b>				
Payable against purchase of investments	-	-	5,134	5,134
Payable to Al Meezan - pension fund manager	-	-	1,425	1,425
Payable to CDC - trustee of the Fund	-	-	88	88
Payable to auditors	-	-	185	185
	<u>-</u>	<u>-</u>	<u>6,832</u>	<u>6,832</u>

	2011			Total
	Loans and receivables	Financial assets at 'fair value through profit or loss'	Financial liabilities measured at amortised cost	
------(Rupees in '000)-----				
<b>Financial assets</b>				
Balances with banks	81,964	-	-	81,964
Investments	-	327,300	-	327,300
Dividend receivable	759	-	-	759
Profit receivable	7,704	-	-	7,704
Deposit with CDC	300	-	-	300
	<u>90,727</u>	<u>327,300</u>	<u>-</u>	<u>418,027</u>
<b>Financial liabilities</b>				
Payable to Al Meezan - pension fund manager	-	-	1,034	1,034
Payable to CDC - trustee of the Fund	-	-	47	47
Payable to auditors	-	-	235	235
	<u>-</u>	<u>-</u>	<u>1,316</u>	<u>1,316</u>

## 18. FINANCIAL RISK MANAGEMENT

### Financial risk management objectives and policies

The risk management policy of the Fund aims to maximise the return attributable to the participants and seeks to minimise potential adverse effects on the Fund's financial performance.

Risk of the Funds is being managed by the pension fund manager in accordance with the approved policies of the Investment Committee which provides broad guidelines for management of risk pertaining to market risks (including price risk and interest rate risk), credit risk and liquidity risk. Further, the overall exposure of the Fund complies with the VPS Rules and the directives issued by SECP.

Risks managed and measured by the Fund are explained below:

### 18.1 Market risk

#### 18.1.1 Price risk

Price risk is the risk of volatility in prices of financial instruments resulting from their dependence on market sentiments, speculative activities, supply and demand for financial instruments and liquidity in the market. The value of investments may fluctuate due to change in business cycles affecting the business of the company in which the investment is made, change in business circumstances of the company, industry environment and / or the economy in general.

The pension fund manager's strategy on the management of investment risk is driven by the Fund's investment objective. The primary objective of the Fund is to provide the maximum return to the participants from investment in Shariah compliant investments for the given level of risks. The Fund's market risk is managed on a daily basis by the pension fund manager in accordance with the policies and procedures laid down by the SECP. The funds are allocated among various asset classes based on the attractiveness of the particular asset class. The allocation among these is dependent on the time horizon for investments and liquidity requirements of the portfolio. The market risk is managed by monitoring exposure to marketable securities, and by complying with the internal risk management policies and regulations laid down in VPS Rules and directives issued by the SECP.

The Fund's overall market positions are monitored on a quarterly basis by the board of directors of the pension fund manager.

Details of the Fund's investment portfolio exposed to price risk, at the balance sheet date are disclosed in note 6 to these financial statements. At June 30, the Fund's overall exposure to price risk is limited to the fair value of those positions. The Fund also manages its exposure to price risk by analysing the investment portfolio by industrial sector and benchmarking the sector weighting to that of the KSE Meezan Index - 30 (KMI). The Fund's policy is to concentrate the investment portfolio in sectors where management believes that the Fund can maximise the returns derived for the level of risk to which the Fund is exposed.

The net assets of the Fund will increase / decrease by approximately Rs.0.275 million (2011: Rs.0.163 million) if the prices of equity vary due to increase / decrease in the KMI. This is based on the assumption that the fair value of the Fund's portfolio moves according to their historical correlation with the KMI and that the KMI increases / decreases by 10 basis points with all other factors held constant.

The pension fund manager uses the KMI as a reference point in making investment decisions. However, the pension fund manager does not manage the Fund's investment strategy to track the KMI or any other index or external benchmark. The sensitivity analysis presented is based upon the portfolio composition as at June 30 and the historical correlation of the securities comprising the portfolio of the KMI. The composition of the Fund's investment portfolio and the correlation thereof to the KMI, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30 is not necessarily indicative of the effect on the Fund's net assets attributed to units of future movements in the level of the KMI.

### 18.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

#### Cash flow interest rate risk

The Fund's interest rate risk arises from the balance in saving accounts and investments in debt securities. The net assets of the Fund will increase / decrease by approximately Rs.5.917 million (2011: approximately Rs.4.510 million) if the market interest rates increase / decrease by five percent.

#### Fair value interest rate risk

Since the Fund does not have investment in fixed rate security, therefore, is not exposed to fair value interest rate risk.

## 18.2 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail to perform as contracted.

Credit risk arises from deposits with banks and financial institutions, credit exposure arising as a result of investment in debt securities, profit receivable on debt securities, dividends receivable on equity securities, receivable against sale of investments and other deposits.

Credit risk arising on the debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of atleast investment grade by the recognised rating agencies. The Fund receives a monthly rating update, against which investments are reviewed. The credit rating wise analysis of investment in sukuku has been tabulated as follows:

	June 30, 2012		June 30, 2011	
	Debt Sub Fund	Money Market Sub Fund	Debt Sub Fund	Money Market Sub Fund
	------(%)-----			
Government guaranteed	99.47	99.61	93.56	98.04
CCC	-	-	0.77	1.96
Non-rated	0.53	0.39	5.67	-
	100.00	100.00	100.00	100.00



Credit risk arising on other financial assets is monitored through a regular analysis of financial position of brokers and other parties. Further, all transactions in securities are settled through approved brokers, thus the risk of default is considered to be minimal. In accordance with the risk management policy of the Fund, the investment committee monitors the credit position on a daily basis which is reviewed by the Board of Directors on a quarterly basis.

The percentage of bank balances along with credit ratings are tabulated below:

	2012	2011
	------(%)-----	
AA+	33.29	35.12
AA	4.96	27.64
AA-	38.42	11.03
A	23.33	26.21
	<u>100.00</u>	<u>100.00</u>

Concentration of credit risk exists when changes in economic and industry factors similarly affect groups of counter parties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit worthy counter parties thereby mitigating any significant concentrations of credit risk.

The maximum exposure to credit risk as at June 30, 2012 and 2011 is tabulated below:

	2012	2011
	(Rupees in '000)	
<b>Financial assets</b>		
Balances with banks	118,341	81,964
Investments at 'fair value through profit or loss'	470,750	163,983
Dividend receivable	495	759
Profit receivable	12,290	7,704
Deposit with CDC	300	300
	<u>602,176</u>	<u>254,710</u>

The Fund does not have any collateral against any of the aforementioned assets. The issuer of the sukuk, however, pledged security to the investment agent in trust for the benefit of sukuk holders.

### 18.3 Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds to meet its obligations and commitments. The Fund's offering document provides for the daily creation and cancellation of units and it is therefore exposed to the liquidity risk of meeting participant's early redemptions at any time. The Fund's investments are considered to be readily realisable as they are all listed on stock exchanges of the country.

In accordance with the rule 28 (2) of the VPS Rules, the Fund has the ability to borrow funds for meeting the redemption requests, with the approval of the trustee, for a period not exceeding ninety days to the extent of fifteen per cent of the net assets value of the Fund which amounts to Rs.130.133 million as on June 30, 2012 (2011: Rs.62.451 million).

In accordance with the risk management policy of the Fund, the investment committee monitors the liquidity position on a daily basis, which is reviewed by the Board of Directors of the pension fund manager on a quarterly basis.

An analysis of the Fund's financial liabilities into relevant maturity grouping as at June 30, 2012 and 2011 is tabulated below:

	2012					2011
	Maturity upto					Total
	Three months	Six months	One year	More than one year	Total	Total
------(Rupees in '000)-----						
Payable against purchase of investments	5,134	-	-	-	5,134	-
Payable to Al Meezan Investment Management Limited - pension fund manager	1,425	-	-	-	1,425	1,034
Payable to CDC - trustee of the Fund	88	-	-	-	88	47
Payable on redemption of units	1,972	-	-	-	1,972	2
Charity payable	-	-	244	-	244	258
Payable to auditors	185	-	-	-	185	235
<b>2012</b>	<b>8,804</b>	<b>-</b>	<b>244</b>	<b>-</b>	<b>9,048</b>	<b>1,576</b>
2011	1,576	-	-	-		

## 19. CAPITAL RISK MANAGEMENT

All units and fractions thereof represent an undivided share in the respective sub-fund and rank pari passu as to their rights in the net assets and earnings of that sub-fund. The relevant movements are shown on the 'statement of movement in participants' sub-funds'.

Each participant has a beneficial interest in the Fund proportionate to the units held by such participant in the respective sub-fund in his individual pension account (IPA). The liability of the participant is limited to the number of units or in certain circumstances cash, as may be allowed by the Rules, held by each participant in his IPA. These are only redeemable in case of retirement, premature encashment / redemption, death of the participant, and change of pension fund manager, change of allocation schemes and / or rebalancing of the IPA according to the percentages selected allocation schemes.

In accordance with risk management policies stated in note 18, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet early withdrawal requests, such liquidity being augmented by disposal of investments where necessary.

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets (e.g. listed shares) are based on the quoted market prices at the close of trading on the year end date. The quoted market prices used for financial assets held by the Fund is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets (e.g. sukuks) that are not traded in an active market is determined with reference to the values quoted by MUFAP.

If a security is not quoted by MUFAP, its value is determined by using discounted cash flows or the last quoted prices of MUFAP.

The estimated fair value of other financial assets and liabilities is considered not significantly different from carrying values as the items are either short-term in nature or periodically repriced.

The Fund classifies fair value measurements of its investments using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

An analysis of the Fund's financial assets into relevant groupings is tabulated below:

	<b>June 30, 2012</b>		
	Level 1	Level 2	Level 3
	----- (Rupees in '000) -----		
<b>Assets</b>			
Financial assets 'held-for-trading'			
- Equity securities	274,597	-	-
- Debt securities	-	468,500	-
Financial assets designated at 'fair value through profit or loss at initial recognition'			
- Debt securities	-	-	2,250
	274,597	468,500	2,250

**Assets**

Financial assets 'held-for-trading'

- Equity securities
- Debt securities

Financial assets designated at 'fair value through profit or loss at initial recognition'

- Debt securities

<b>June 30, 2011</b>		
Level 1	Level 2	Level 3
----- (Rupees in '000) -----		
163,317	-	-
-	155,500	-
<u>-</u>	<u>5,462</u>	<u>3,021</u>
<u>163,317</u>	<u>160,962</u>	<u>3,021</u>

The following table presents the transfers between levels:

<b>June 30, 2012</b>		
Level 1	Level 2	Level 3
----- (Rupees in '000) -----		
<u>-</u>	<u>-</u>	<u>-</u>

Transfers between level 2 and level 3

- Debt securities

<b>June 30, 2011</b>		
Level 1	Level 2	Level 3
----- (Rupees in '000) -----		
<u>-</u>	<u>3,629</u>	<u>(3,629)</u>

Transfers between level 2 and level 3

- Debt securities

The following table presents the movement in level 3 instruments.

	<b>2012</b>	<b>2011</b>
	<b>(Rupees in '000)</b>	
Opening balance	3,021	7,752
Transfers into / (from) level 3	-	(3,629)
Sales / redemptions	(718)	(887)
Provisions	-	-
Loss recognised in income statement	(48)	(215)
Closing balance	<u>2,255</u>	<u>3,021</u>

## 21. PERFORMANCE TABLE

	For the year ended June 30, 2012	For the year ended June 30, 2011	Percentage change	For the year ended June 30, 2010
	Rupees in '000		(%)	Rupees in '000
<b>EQUITY SUB FUND</b>				
Net income	46,534	47,708	(2)	19,739
Net realised gain on sale of investments	15,445	9,794	58	8,407
Unrealised gain on re-measurement of investments at 'fair value through profit or loss'	16,977	19,649	(14)	5,757
Dividend income	13,670	9,865	39	6,283
Profit on savings accounts with banks	1,602	1,461	10	841
Transactions in securities				
Purchases	162,340	89,938	81	55,620
Sales	83,483	44,418	88	38,240
Total contribution received	174,045	44,955	287	26,816
Total net asset value	324,443	179,133	81	103,889
<b>DEBT SUB FUND</b>				
Net income	28,758	21,303	35	11,424
Net realised (loss) / gain on sale of investments	(1,152)	597	(293)	687
Unrealised loss on re-measurement of investments at 'fair value through profit or loss'	(24)	(1,094)	(98)	(892)
Profit on savings accounts with banks	3,638	2,632	38	1,982
Profit on placements	-	53	(100)	363
Profit on Sukuk Certificates	18,087	11,339	60	6,658
Transactions in securities				
Purchases	223,000	82,000	172	28,000
Sales	34,908	11,340	208	15,600
Total contribution received	202,012	37,623	437	22,142
Total net asset value	332,267	143,908	131	98,508
<b>MONEY MARKET SUB FUND</b>				
Net income	20,836	11,256	85	6,807
Net realised gain on sale of investments	480	117	310	51
Unrealised loss on re-measurement of investments at 'fair value through profit or loss'	(9)	(59)	(85)	(270)
Profit on savings accounts with banks	4,110	5,271	(22)	3,572
Profit on placements	-	874	(100)	753
Profit on Sukuk Certificates	9,736	3,478	180	2,483
Transactions in securities				
Purchases	164,485	28,000	487	-
Sales	41,887	-	100	-
Total contribution received	112,772	12,417	808	7,735
Total net asset value	210,840	93,302	126	74,450

	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund
	----- Rupees in '000 -----		
NAV per unit	160.43	157.64	158.68
Earnings per unit	23.01	13.64	15.68
Highest issue price per unit	172.43	157.64	158.68
Lowest issue price per unit	128.84	144.11	143.12

## 22. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 21, 2012 by the Board of Directors of the pension fund manager.

## 23. GENERAL

Figures have been rounded off to the nearest thousand rupees.



**Mohammad Shoaib, CFA**  
Chief Executive

**For Al Meezan Investment Management Limited**  
(Pension Fund Manager)



**Mazhar Sharif**  
Director



(AM2 rating by JCR-VIS)

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