



annual **report 2011**

**Al Meezan Investment Management Limited**  
A subsidiary of Meezan Bank

02	Fund Information
03	Report of the Directors of Pension Fund Manager
08	Trustee Report to the Participants
09	Report of the Shariah Adviser
12	Auditors' Report to the Participants
14	Balance Sheet
15	Income Statement
16	Cash Flow Statement
17	Statement of Movement in Participants' Sub-Funds
18	Contribution Table
19	Number of Units in Issue
20	Notes to the Financial Statements

## FUND 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  
E-mail: info@almeezangroup.com

### BOARD OF DIRECTORS OF THE PENSION FUND MANAGER

Mr. Ariful Islam	Chairman
Mr. Rana Ahmed Humayun	Director
Mr. P. Ahmed	Director
Mr. Salman Sarwar Butt	Director
Mr. Rizwan Ata	Director
Mr. Mazhar Sharif	Director
Mr. Mohammad Shoaib, 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

### 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

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

## 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, 2011.

### 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.

### Brief Overview

Meezan Tahaffuz Pension Fund (MTPF) was launched in June 2007. It comprises of three sub funds namely Equity sub fund, Debt sub fund and Money Market sub fund. The overall size of the fund has grown to Rs. 416 million as on June 30, 2011.

For the fiscal year 2011, the NAV of MTPF Equity sub fund appreciated by 36.01% while debt sub fund and money market sub fund has provided annualized return of 10.87% and 10.73% respectively.

### Economic Review

Fiscal year 2011 was another challenging year for Pakistan on economic front. Despite persistent pressures from fiscal constraints, energy crisis, vulnerability to commodity price and volatile law and order situation, the country managed to post GDP growth of 2.4%.

During 1HFY11, the devastating floods posed a significant threat to the country's economic and fiscal position leading to excessive government borrowing from State Bank of Pakistan (SBP) which peaked at Rs. 1,463 billion in November, 2010. The resultant impact was on CPI inflation which touched a high of 15.7% during 1HFY11. Consequently, the State Bank was forced to adopt a tight monetary stance and raised the discount rate by 150bps in first half of FY11.

On the other hand a major highlight of 2HFY11 was the improvement in external account. During FY11, current account posted a surplus of US\$ 542 million as against deficit of US\$ 3.4 billion in the same period last year. The improvement was primarily attributed to i) 29% rise in exports to US\$25 billion on account of favourable cotton prices, ii) 26% surge in worker remittances to US\$11.2 billion for the full year and iii) US\$743 million inflows under Coalition Support Fund (CSF). These positive developments helped the country's forex reserves to reach all time of US\$ 17.5 billion and thus kept the rupee stable against the US dollar. During the year, rupee depreciated by a mere 0.5% to close the year at Rs 86.2 versus US dollar.

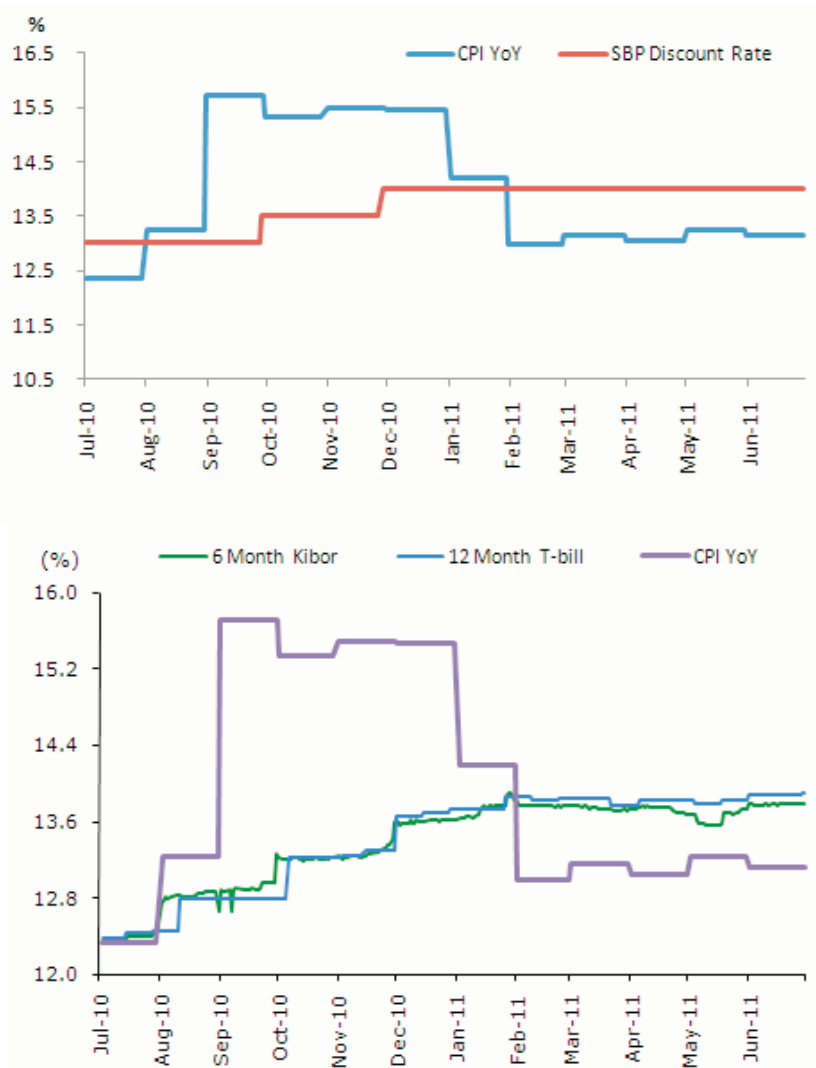
In addition, the rebound in agri commodity prices provided a boost to rural income and hence domestic demand, which saw growth momentum revived in the second half of fiscal year. While inflation stood at 13.9% for FY11, the government was able to retire the excessive borrowing from SBP in earlier part of the year and contain the same to levels agreed with the State Bank. The combination of the above factors provided SBP the comfort to maintain discount rate at 14% during the second half of the fiscal year.

During the period under review, the IMF standby arrangement remained virtually suspended due to slow implementation of tax and power sector reforms. With the last two tranches at stake, the government and IMF team are due to meet tentatively towards the end of July 2011 to review FY11 performance and FY12 budgetary targets. With an impressive performance on the external account and commitment for power sector reforms, the country's economic managers are targeting a continuation of the IMF standby facility.

### Money Market Review

The year started with a positive sentiment with July CPI touching a new low and government targeting single digit inflation for FY12. The euphoria, however, proved to be short lived as the fiscal weakness and rising total debt started to overshadow the improvement in current account and economic recovery. The situation further aggravated with the devastating floods in July-August that proved to be the worst in country's history. The unwanted yet unavoidable impact was seen on the inflation figures which touched a new high of 15.48% in the month of November, on account of the sharp increase in commodity prices. Along with that, the heightened government borrowing from SBP for the financing of fiscal deficit forced the central bank to continue with its tight stance of monetary policy. The central bank thus increased the discount rate by cumulative 150 bps to 14% in its three consecutive monetary policy statements. The average inflation for FY12 thus averaged 13.92%, higher than SBP initial estimates and as compared to 11.7% in FY10.

The hike in the policy rate transcended into proportionate hike in KIBOR, Treasury bills (T-bills) and Pakistan Investment Bond (PIBs) rates. The benchmark 6-month KIBOR, 6-month T-bill and 10-year PIBs rose by 150bps, 145bps and 142bps to 13.64%, 13.75% and 14.10%, respectively. In the 25 T-Bills auction conducted in FY11, SBP accepted Rs 3,459 billion against the maturity of Rs 3,255 billion, thus creating a liquidity drain of Rs 204 billion. In FY11 State bank has also conducted nine PIB auctions, target of the auctions were around Rs.181 billion while they accepted around Rs.167 billion. Similarly, State bank conducted 4 Ijarah Sukuk auctions in FY11, the target of which was Rs 170 billion while they accepted stood at Rs 182 billion.





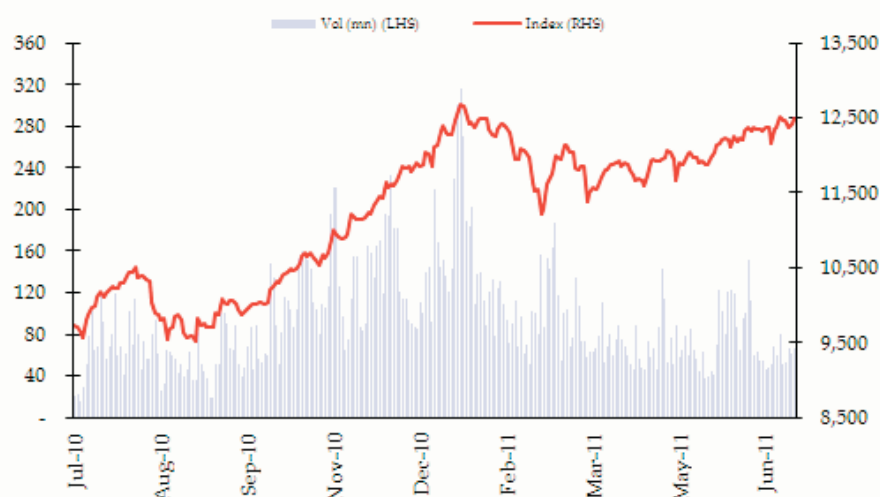
## Equity Market Review

Pakistan stock market posted a double digit return for the second consecutive year in FY11 with KSE-100 rising by 28.5% to close at a level of 12,496. The healthy performance of the KSE-100 index was reflective of improved corporate earnings as well as the continuation of foreign flows. Trading volumes however, remained extremely low due to imposition of Capital Gains Tax (CGT) in July with average daily trading volume in shares and value declining by 66% and 40% to 97 million shares and Rs. 4 billion respectively.

The year started with a positive sentiment where on the back of introduction of CGT, investors anticipated the introduction of Margin Trading System (MTS). This, coupled with investors' expectations of good corporate results helped the market to post phenomenal return of 8.2% for the month of July. However, the euphoria was short lived, ending with the onslaught of the worst floods of the country threatened key macroeconomic targets including downward revision in GDP estimates by 1-2%. To add to the worries, SBP, in an unexpected move, raised the discount rate by 50bps on inflationary concerns in its monetary policy statement of July end. However, even after another 50 bps increase in discount rate in September, the investors shunned macroeconomic concerns and the sentiments remained bullish due to positive foreign flows. Since then the market witnessed a broad-based rally which was extended in the new calendar year as positive developments inched up investors' hopes of good result and payout expectations. Foreigners' net buying position boosted optimism in the market as the third hike in the discount rate of 50bps in this fiscal year did not break the momentum of the market and KSE-100 rallied to the year's peak of 12,768 in mid of January, an appreciation of 3,046 points from June 30, 2010.

The second half of the fiscal year was a period of high volatility which culminated into consolidation. The market underwent a correction of 12% since then and touched a low of 11,200 as profit taking activity was initiated by institutional investors. This was seen due to heightened political noise, strained foreign relations with USA due to the Raymond Davis case, killing of Osama Bin Laden by US forces, uprising in the MENA region and the disastrous earthquake in Japan. On the domestic side, the rally in international crude prices, lukewarm response to MTS, and cumbersome working of capital gain tax kept retail investors on the sidelines leading to one of the lowest volumes in the decade. Subsequently, foreign investment which was the major impetus of the market remained at USD 30.19 million in second half of FY11, slightly narrowing the fiscal year to date inflows to USD 279million.

Towards the end of the period under review, introduction of Margin Trading System (MTS) coupled with better than expected corporate results gave some support to the market and eventually helped the KSE-100 index to close at 12,496 on June 30, 2011.



## Federal Budget 2012

The market staged a brief rally in the immediate run up to the budget as well as post budget. Despite no relief on CGT in the federal budget on June 3, the reaction remained positive due to absence of new tax measures. In addition, discontinuation of flood surcharge, deduction of FED on cement and no change in corporate tax on banks led to a buying spree in the market.

## Foreign flows and Behavior of local investors

All the categories of local investors except banks remained net sellers throughout FY11. Individual and mutual funds sold highest worth of shares amounting to US\$144 million and US\$76 million respectively, followed by NBFC and companies which sold shares worth US\$55 million and US\$33 million respectively. Banks during the period bought shares worth US\$28 million during FY11, while foreigners remained net buyers of US\$279 million during the period.

## Operational Review

Meezan Tahaffuz Pension fund (MTPF) comprises of three sub funds namely Equity sub fund, Debt sub fund and Money Market sub fund. Performance review for each sub fund is given as under:

### Equity Sub Fund

For the year ended June 30, 2011 the equity sub fund earned a gross income of Rs. 50 million, as compared to Rs. 22 million in 2010. The main contributors to the income were realized gains on sale of equity securities of Rs. 10 million, unrealized gains of Rs. 20 million and dividend income of Rs. 10 million. After accounting for expenses of Rs. 3 million, equity sub fund recorded a net profit of Rs. 48 million as compared to Rs. 20 million in the previous year. The net assets of this sub fund stood at Rs.179 million as at June 30, 2011, showing a growth of 72.43% during the period under review. During the year, the net asset value (NAV) per unit increased from Rs. 101 to Rs. 137.37, thus showing return of 36.01%.

### Debt Sub Fund

For the year under review, the debt sub fund earned gross income of Rs. 23 million, as compared to Rs. 13 million in corresponding period last year. The main contributor to this income was profit on sukuk certificates worth Rs. 11 million. After accounting for expenses of Rs. 2 million, the debt sub fund recorded a net profit of Rs. 21 million. The net assets of the fund appreciated by 46.09% during the year and stood at Rs.144 million as on June 30, 2011. The net asset value (NAV) of the fund closed at Rs. 143.98 per unit as on June 30, 2011, thus providing an annualized return of 10.87%.

### Money Market Sub Fund

The money market sub fund recorded gross income of Rs.13 million for the fiscal year 2011 as compared to Rs. 8 million in corresponding period last year. Main contribution was from profit on bank deposits and placements which contributed Rs. 6 million and profit on sukuk certificates worth Rs. 3 million to the overall income. The fund recorded net profit of Rs.11 million, after accounting for expenses worth Rs. 2 million. The net assets of the fund appreciated by 25.32% during the year and stood at Rs. 93 million as on June 30, 2011. The net asset value (NAV) of the fund closed at Rs. 143 per unit as year end, thus providing an annualized return of 10.73%.

## 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, 2011 an amount of Rs. 0.165 million was accrued as charity payable.

## Outlook

Going forward, the key challenge for the government remains the continuation of IMF Stand By facility for the release of last two tranches and the implementation of reforms. 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, we are of the view that the government will continue its 'wait and watch' policy before adjusting the discount rate. This bodes well for fixed income allocations.

On the equity front, 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 7.2x, which is almost at a 38% discount to other frontier markets. This makes KSE an attractive option for foreign investors.

The management of Al Meezan is fully aware of the challenges that lie ahead and will take all possible measures to proactively deal with them.

## Appointment of Auditors

M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants on the recommendation of Board's Audit Committee, being eligible for re-appointment, have been appointed as auditors for the year ending June 30, 2012.

## Acknowledgement

We take this opportunity to thank our valued investors for reposing faith in Al Meezan Investments making it the largest pension fund manager in the private sector in Pakistan. We also thank the regulator, Securities and Exchange Commission of Pakistan, Custodian and Central Depository Company of Pakistan for their support. 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: August 16, 2011**  
**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)

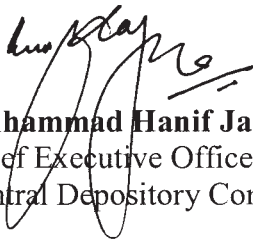
**TRUSTEE REPORT TO THE PARTICIPANTS**

**MEEZAN TAHAFFUZ PENSION FUND**

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

The Meezan Tahaffuz Pension Fund (the Fund), a voluntary pension fund established under a trust deed executed between Al Meezan Investment Management Limited as the pension fund manager and Central Depository Company of Pakistan Limited as trustee on May 30, 2007.

In our opinion, Al Meezan Investment Management Limited has in all material respects managed the Fund during the year ended June 30, 2011 in accordance with the provisions of the constitutive documents of the Fund and the Voluntary Pension System Rules, 2005.



**Muhammad Hanif Jakhura**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi, September 12, 2011





**Meezan Bank**  
The Premier Islamic Bank

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

August 22, 2011/ Ramadan 21, 1432 A.H

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 investments of MTPF in light of *Shar'iah* requirements. The following is the list of investments of MTPF as on June 30, 2011 and their evaluation according to the screening criteria established by us. (December 31, 2010 accounts of the Investee companies have been used for the following calculations):

Company Name	(i) Nature of Business	(ii)* Debt to Assets (<40%)	(iii) % of Non- <i>Shar'iah</i> Compliant Investments (<33%)	(iv) Non-Compliant Income to Gross Revenue (<5%)	(v) Illiquid Assets to Total Assets (>20%)	(vi) Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Attock Cement	Cement Manufacturer	0.00%	00.00%	0.95%	94.00%	(18.5)	63.11
Agriauto Industries Limited	Automobile parts & accessories	0.16%	7.11%	1.45%	48%	30.20	76.2
DG Khan Cement	Cement Manufacturer	36.92%	3.63%	4.77%	55%	(11.57)	29.33
Fauji Fertilizer Bin Qasim Limited	Manufacturer of Fertilizer	17.03%	4.48%	2.21%	57.00%	(8.46)	31.91

**Meezan Bank Ltd.**

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



Fauji Fertilizer Company Limited	Manufacturer of Fertilizer	20.82%	6.30%	1.69%	68%	(40.29)	95.28
GlaxcoSmith (Pak) Limited	Pharmaceuticals	0.00%	6.06%	1.71%	65%	6.06	73.2
Hub Power Company Limited	Power generation & Distribution	28.95%	0.0%	0.03%	41%	(10.79)	35.06
ICI Pakistan Limited	Manufacturers of Paints, Soda Ash, Staple Fibre and Chemicals	1.41%	0.00%	0.71%	65%	7.36	133.88
Indus Motors Company Limited	Automobile Assembler	0.01%	12.70%	2.08%	58%	6.25	246.88
Lucky Cement	Cement Manufacturer	22.45	0.00%	0.00%	94%	(7.03)	75.79
Oil & Gas Development Company Limited	Exploration and Production of Oil & Gas	0.00%	5.43%	0.52%	48%	11	169.19
Pak. Telecommunication. Co. Ltd	Provider of Telecommunication Services	10.70%	7.95%	3.77%	79%	(9.29)	17.46
Pak Suzuki motor company Ltd.	Automobile parts & accessories	1.96%	0.03%	1.07%	70%	11.58	69.36
Pakistan Oilfields Limited	Exploration and Production of Oil & Gas	0.00%	5.83%	2.41%	68%	7.56	286.61
Pakistan Petroleum Limited	Exploration and Production of Oil & Gas	0.95	27.28	3.59	38%	38.24	207.08
Pakistan State Oil Company Limited	Distribution of Oil & Gas	6.92%	0.00%	0.41%	30%	(76.26)	286.91
Packages Limited	General industries	24.67%	24.06%	1.11%	65%	10.42	125.09
Tripak Films Ltd	General industries	21.19	0.00	0.06	72%	(45.67)	113.70
Thall	General industries	18.66%	0.77%	0.33%	83%	(87.08)	130.25
Unilever Pakistan Limited	Food producers	2.67%	1.06%	0.04%	73%	(544.27)	4221.67

\*

All interest based debts.

\*\*

These ratios are for the calculation of non-Shar'iah Compliant Element 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, 2011 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 0.052 million was created for charity and an amount of Rupees 0.110 million was provided for available for disbursement

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.

A handwritten signature in black ink, appearing to be "Dr. Muhammad Imran Ashraf Usmani".

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



**ERNST & YOUNG**

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 2011 and for the year ended 30 June 2011 together with the notes forming part thereof for the year then ended. The financial statements of the Fund for the year ended 30 June 2010 were audited by another firm of Chartered Accountants, whose report dated 30 September 2010 expressed an unqualified opinion thereon.

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 Accounts 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;

*Ernst & Young*



:-2:-

- b) a true and fair view is given of the financial position of the Pension Fund as at 30 June 2011 and of the transactions of the Pension Fund 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 12 to the accompanying financial statements which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Worker Welfare Fund which is currently pending adjudication at the Honorable High Court of Sindh. Our opinion is not qualified in respect of this matter.

*Ernst & Young Ford Rhodes*

Chartered Accountants

Audit Engagement Partner: **Shabbir Yunus**

Date: 16 August 2011

Karachi



**BALANCE SHEET  
AS AT JUNE 30, 2011**

	Note	2011			2010
		Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total
(Rupees in '000)					
<b>Assets</b>					
Balances with banks	5	15,492	22,931	43,541	81,964
Placements		-	-	-	20,000
Investments at fair value through profit or loss	6	163,317	117,575	46,408	327,300
Dividend receivable		759	-	-	759
Profit receivable	7	254	3,784	3,666	7,704
Deposit with Central Depository Company of Pakistan Limited (CDC)		100	100	100	300
<b>Total assets</b>		<u>179,922</u>	<u>144,390</u>	<u>93,715</u>	<u>418,027</u>
<b>Liabilities</b>					
Payable against purchase of investments		-	-	-	1,303
Payable to Al Meezan Investment Management Limited (Al Meezan) - pension fund manager	8	389	349	296	1,034
Payable to CDC - trustee of the Fund	9	20	16	11	47
Payable to auditors		78	79	78	235
Payable to Securities and Exchange Commission of Pakistan (SECP)	10	44	37	27	108
Accrued expenses and other liabilities	11	258	1	1	260
<b>Total liabilities</b>		<u>789</u>	<u>482</u>	<u>413</u>	<u>1,684</u>
<b>Net assets</b>		<u>179,133</u>	<u>143,908</u>	<u>93,302</u>	<u>416,343</u>
<b>Contingencies</b>	12				
<b>Participants' sub-funds (as per statement attached)</b>		<u>179,133</u>	<u>143,908</u>	<u>93,302</u>	<u>416,343</u>
<b>Number of units in issue (as per statement attached)</b>		<u>1,303,988</u>	<u>999,506</u>	<u>652,463</u>	
<b>Net assets value per unit (Rupees)</b>		<u>137.37</u>	<u>143.98</u>	<u>143.00</u>	

The annexed notes from 1 to 21 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, 2011

	2011				2010
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
Note .....(Rupees in '000).....					
<b>Income</b>					
Profit on Sukuk Certificates	-	11,032	3,478	14,510	9,141
Profit on savings accounts with banks	1,461	2,632	5,271	9,364	6,395
Profit on placements	-	53	874	927	1,116
Unrealised gain / (loss) on re-measurement of investments at 'fair value through profit or loss' (net)	6	19,649	(1,094)	(59)	18,496
Reversal of provision / (provision) against Sukuk Certificates	-	120	-	120	(120)
Reversal of provision / (provision) against accrued profit on investments	-	187	-	187	(187)
Net realised gain on sale of investments	9,794	597	117	10,508	9,145
Dividend income	9,865	-	-	9,865	6,283
Other income	395	228	136	759	-
Element of income and capital gains included in prices of units issued less those in units redeemed - net	9,109	9,579	2,947	21,635	6,957
<b>Total income</b>	<b>50,273</b>	<b>23,334</b>	<b>12,764</b>	<b>86,371</b>	<b>43,325</b>
<b>Expenses</b>					
Remuneration of Al Meezan - pension fund manager	8.1	1,983	1,682	1,218	4,883
Remuneration of CDC - trustee of the Fund	9	197	167	121	485
Annual fee of SECP	10	44	37	27	108
Auditors' remuneration	13	123	122	122	367
Amortisation of formation cost	-	-	-	-	240
Securities' transaction cost	-	204	-	-	204
Custody and settlement charges	-	8	6	5	19
Provision for Workers' Welfare Fund	-	-	-	-	759
Bank charges	-	6	17	15	38
<b>Total expenses</b>	<b>2,565</b>	<b>2,031</b>	<b>1,508</b>	<b>6,104</b>	<b>5,355</b>
<b>Net income for the year</b>	<b>47,708</b>	<b>21,303</b>	<b>11,256</b>	<b>80,267</b>	<b>37,970</b>
Other comprehensive income for the year	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>47,708</b>	<b>21,303</b>	<b>11,256</b>	<b>80,267</b>	<b>37,970</b>
<b>Earnings per unit outstanding - basic (Rupees)</b>	14	36.59	21.31	17.25	

The annexed notes from 1 to 21 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, 2011

	2011				2010
	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	47,708	21,303	11,256	80,267	37,970
<b>Adjustments for:</b>					
Dividend income	(9,865)	-	-	(9,865)	(6,283)
Profit on Sukuk Certificates	-	(11,032)	(3,478)	(14,510)	(9,141)
Profit on savings accounts with banks	(1,461)	(2,632)	(5,271)	(9,364)	(6,395)
Profit on placements	-	(53)	(874)	(927)	(1,116)
Unrealised (gain) / loss on re-measurement of investments at 'fair value through profit or loss'	(19,649)	1,094	59	(18,496)	(4,595)
Reversal of provision against Sukuk Certificates	-	(120)	-	(120)	120
Reversal of provision for accrued profit on investments	-	(187)	-	(187)	187
Amortisation of formation cost	-	-	-	-	240
Element of income and capital gains included in prices of units issued less those in units redeemed - net	(9,109)	(9,579)	(2,947)	(21,635)	(6,957)
	7,624	(1,206)	(1,255)	5,163	4,030
<b>(Increase) / decrease in assets</b>					
Placements	-	8,300	11,700	20,000	7,900
Receivable against sale of investments	-	-	-	-	228
Investments at 'fair value through profit or loss'	(55,314)	(69,767)	(27,649)	(152,730)	(37,124)
	(55,314)	(61,467)	(15,949)	(132,730)	(28,996)
<b>Increase / (decrease) in liabilities</b>					
Payable against purchase of investments	(1,303)	-	-	(1,303)	380
Payable to Al Meezan - pension fund manager	(68)	(100)	(128)	(296)	430
Payable to CDC - trustee of the Fund	8	5	2	15	(43)
Payable to auditors	12	12	11	35	50
Payable to SECP	15	11	5	31	21
Accrued expenses and other liabilities	(230)	(227)	(135)	(592)	741
	(1,566)	(299)	(245)	(2,110)	1,579
Dividend received	9,881	-	-	9,881	5,871
Profit received on savings accounts with banks	1,394	3,514	5,061	9,969	4,338
Profit received on Sukuk Certificates	-	9,583	2,364	11,947	8,856
Profit received on placements with banks	-	228	1,124	1,352	1,674
<b>Net cash outflow from operating activities</b>	<b>(37,981)</b>	<b>(49,647)</b>	<b>(8,900)</b>	<b>(96,528)</b>	<b>(2,648)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Receipts of contribution	44,955	37,623	12,417	94,995	56,693
Payment on withdrawal	(8,310)	(3,947)	(1,874)	(14,131)	(4,333)
<b>Net cash inflow from financing activities</b>	<b>36,645</b>	<b>33,676</b>	<b>10,543</b>	<b>80,864</b>	<b>52,360</b>
Net cash inflow / (outflow) during the year	(1,336)	(15,971)	1,643	(15,664)	49,712
Cash and cash equivalents at the beginning of the year	16,828	38,902	41,898	97,628	47,916
Cash and cash equivalents at the end of the year	15,492	22,931	43,541	81,964	97,628

The annexed notes from 1 to 21 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, 2011

	2011				2010
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
	------(Rupees in '000)-----				
Net assets at the beginning of the year	103,889	98,508	74,450	276,847	193,474
Amount received on issue of units (2011: Equity sub fund: 341,497 units; Debt sub fund: 269,588 units; Money market sub fund: 89,446 units) (2010: Equity sub fund: 263,416 units; Debt sub fund: 173,613 units; Money market sub fund: 60,555 units)	44,955	37,623	12,417	94,995	56,693
Amount paid on redemption of units (2011: Equity sub fund: 66,078 units; Debt sub fund: 28,631 units; Money market sub fund: 13,482 units) (2010: Equity sub fund: 37,939 units; Debt sub fund: 4,490 units; Money market sub fund: 1,129 units)	(8,310) 36,645	(3,947) 33,676	(1,874) 10,543	(14,131) 80,864	(4,333) 52,360
Element of income and capital gains included in prices of units issued less those in units redeemed - net	(9,109)	(9,579)	(2,947)	(21,635)	(6,957)
Net income for the year	47,708	21,303	11,256	80,267	37,970
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	47,708	21,303	11,256	80,267	37,970
Net assets at the end of the year	<u>179,133</u>	<u>143,908</u>	<u>93,302</u>	<u>416,343</u>	<u>276,847</u>

The annexed notes from 1 to 21 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

**CONTRIBUTION TABLE  
FOR THE YEAR ENDED JUNE 30, 2011**

Contributions net of front end fee received during the year	2011							2010
	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	341,497	44,955	269,588	37,623	89,446	12,417	94,995	56,693

The annexed notes from 1 to 21 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, 2011**

	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>
	-----Number of units-----		
	2010		
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund
	-----Number of units-----		
Total units outstanding at the beginning of the year	803,092	589,426	517,073
Add: Units issued / converted / reallocated during the year	263,416	173,613	60,555
Less: Units redeemed / converted / reallocated during the year	(37,939)	(4,490)	(1,129)
Total units in issue at the end of the year	<u>1,028,569</u>	<u>758,549</u>	<u>576,499</u>

The annexed notes from 1 to 21 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, 2011**

### **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 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

The Fund has adopted the following amended IFRS and IFRIC interpretations which became effective during the period:

IAS 24 – Related Party Disclosure (Revised)  
IAS 32 – Financial Instruments: Presentation – Classification of Right Issues (Amendment)  
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

Improvements to various standards issued by IASB in April 2010

IFRS 3 – Business Combinations  
IAS 27 – Consolidated and Separate Financial Statements  
IFRS 7 – Financial Instruments: Disclosures  
IAS 1 – Presentation of Financial Statements  
IFRIC 13 – Customer Loyalty Programmes  
IAS 34 – Interim Financial Reporting

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

##### 4.2 Standards, amendments to published approved accounting standards and interpretations that are not yet effective:

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

Standard or interpretation	Effective date (annual periods beginning on or after)
IAS 1 – Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	July 01, 2012
IFRS 7 – Financial Instruments : Disclosures - Amendments enhancing disclosures about transfers of financial assets	July 01, 2011
IAS 12 – Income Tax (Amendment) – Deferred Taxes: Recovery of Underlying Assets	January 01, 2012
IAS 19 – Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	January 01, 2013
IAS 24 – Related Party Disclosures	January 01, 2011
IFRIC 14 – Prepayments of a Minimum Funding Requirement (Amendment)	January 01, 2011

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

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after January 01, 2011. The Fund expects that such improvements to the standards will not have any material impact on the Fund's financial statements in the period of initial application.

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.

Standard	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments	January 01, 2013
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

#### 4.3 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'.

#### 4.4 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 4.5 and 6); and
- (b) Impairment of financial instruments (note 4.5.5).

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.

#### 4.5 Financial instruments

##### 4.5.1 Classification of financial instruments:

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

These include financial instruments categorised as 'held-for-trading' which are acquired principally for the purpose of generating profit from short-term fluctuations in prices or dealers' margins or are securities included in a portfolio in which a pattern of short-term profit taking exists.

These include investments that are designated as investments at 'fair value through profit or loss' upon initial recognition.

(b) Held to maturity

These are securities acquired by the Fund with the intention and ability to hold them upto maturity.

(c) 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'.

(d) Available-for-sale

Investments which are not classified in any of the preceding categories are classified as available-for-sale investments.

#### 4.5.2 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.

#### 4.5.3 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.

#### 4.5.4 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).
- 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.

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.

#### 4.5.5 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.

#### 4.5.6 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.

### 4.6 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.

#### 4.7 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.

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

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

The net element of accrued income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is taken to the income statement.

#### 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 period 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 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 period 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.

#### 4.13 Expenses

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

#### 4.14 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.

#### 4.15 Zakat

Units held by resident Pakistani participants are subject to Zakat at 2.5% of the face value or redemption value, whichever is lower, of units, under the Zakat and Ushr Ordinance, 1980 (XVII of 1980), except those exempted. Zakat is deducted at source from the redemption / withdrawal payment.

#### 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 Dividend and bonus units

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

## 5. BALANCES WITH BANKS

		2011				2010
		Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
<i>Note</i>		------(Rupees in '000)-----				
Current accounts		219	-	-	219	121
Savings accounts	5.1 & 5.2	15,273	22,931	43,541	81,745	97,507
		<u>15,492</u>	<u>22,931</u>	<u>43,541</u>	<u>81,964</u>	<u>97,628</u>

5.1 The balances in savings accounts bear expected profit which ranges from 5.65% to 12.90% (2010: 5% to 11.45%) per annum.

5.2 This includes an aggregate amount of Rs.11.400 million (2010: Rs.8.168 million) received in the Fund's collection account which was subsequently transferred to these sub-funds.

## 6. INVESTMENTS AT 'FAIR VALUE THROUGH PROFIT OR LOSS'

		2011				2010
		Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total
<i>Note</i>		------(Rupees in '000)-----				
<b>Held-for-trading</b>						
- shares of listed companies	6.1	163,317	-	-	163,317	88,354
- sukuk certificates	6.2	-	110,000	45,500	155,500	46,130
		163,317	110,000	45,500	318,817	134,484
Investments designated at 'fair value through profit or loss upon initial recognition'	6.3	-	7,575	908	8,483	21,470
		<u>163,317</u>	<u>117,575</u>	<u>46,408</u>	<u>327,300</u>	<u>155,954</u>

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

Name of the investee company	As at July 1, 2010	Purchases during the year	Cost of purchase	Bonus / rights issue	Sales during the year	As at June 30, 2011	Carrying value as at June 30, 2011	Market value as at June 30, 2011	Unrealised gain / (loss)	Percentage of net assets on the basis of market value (See note 6.1.2 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	16,846	4,000	1,008	-	-	20,846	5,428	4,586	(842)	2.56	0.58
Agriauto Industries Limited	-	25,000	1,734	-	-	25,000	1,734	1,738	4	0.97	1.21
Pak Suzuki Motor Company Limited	23,000	36,733	2,485	-	10,000	49,733	3,516	3,111	(405)	1.74	0.38
<b>Chemicals</b>											
Fauji Fertilizer Bin Qasim Limited	277,000	-	-	-	243,331	33,669	877	1,419	542	0.79	0.02
Fauji Fertilizer Company Limited	94,975	15,700	1,911	26,243	25,460	111,458	9,590	16,758	7,168	9.36	0.18
ICI Pakistan Limited	40,101	52,000	6,408	-	-	92,101	11,163	13,986	2,823	7.81	1.01
<b>Construction and materials</b>											
Attock Cement Pakistan Limited	41,160	75,456	4,853	-	63,175	53,441	3,269	2,593	(676)	1.45	0.30
DG Khan Cement Company Limited	-	239,300	5,635	-	-	239,300	5,635	5,502	(133)	3.07	0.13
Lucky Cement Limited	141,700	8,000	559	-	-	149,700	9,365	10,605	1,240	5.92	0.33
<b>Electricity</b>											
The Hub Power Company Limited	-	411,075	15,496	-	-	411,075	15,496	15,415	(81)	8.61	0.13
<b>Fixed line telecommunication</b>											
Pakistan Telecommunication Company Limited "A"	229,500	145,000	2,711	-	215,000	159,500	2,892	2,268	(624)	1.27	0.01
<b>Food producers</b>											
Unilever Pakistan Limited	676	-	-	-	150	526	2,044	2,749	705	1.53	0.41
<b>General industries</b>											
Packages Limited	28,400	54,451	6,156	-	11,000	71,851	8,219	7,903	(316)	4.41	0.94
Thal Limited	6,000	43,608	4,418	200	5,000	44,808	4,512	4,527	15	2.53	1.47
Tri-Pack Films Limited	27,000	23,687	3,783	-	-	50,687	6,417	8,680	2,263	4.85	2.89
<b>Oil and gas</b>											
National Refinery Limited	34,600	-	-	-	34,600	-	-	-	-	-	-
Oil and Gas Development Company Limited	21,200	69,300	9,644	-	-	90,500	12,647	13,845	1,198	7.73	0.03
Pakistan Oilfields Limited	41,900	21,000	6,811	-	17,250	45,650	11,941	16,389	4,448	9.15	0.69
Pakistan Petroleum Limited	45,386	21,900	4,670	9,077	6,000	70,363	12,105	14,570	2,465	8.13	0.12
Pakistan State Oil Company Limited	32,800	18,000	5,084	-	-	50,800	13,618	13,440	(178)	7.50	0.78
Shell Pakistan Limited	1,330	-	-	-	1,330	-	-	-	-	-	-
<b>Personal goods</b>											
Nishat Mills Limited	-	56,000	3,372	-	56,000	-	-	-	-	-	-
<b>Pharma and Bio Tech</b>											
Glaxo Smithkline Pakistan Limited	-	37,181	3,200	4,910	-	42,091	3,200	3,233	33	1.80	0.16
<b>Total</b>			<u>89,938</u>				<u>143,668</u>	<u>163,317</u>	<u>19,649</u>		

6.1.1 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.

6.1.2 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, 2010	Purchases during the period	Cost of purchase	Sales during the period	Redemptions during the period	As at June 30, 2011	Carrying value as at June 30, 2011	Provision	Market value as at June 30, 2011	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>													
GoP - Ijara sukuk (note 6.2.1)	September 17, 2012	13.60%	280	-	-	-	-	280	28,630	-	28,000	(630)	19.46
GoP - Ijara sukuk (note 6.2.1)	November 15, 2013	13.45%	-	580	58,000	-	-	580	58,000	-	58,000	-	40.30
GoP - Ijara sukuk (note 6.2.1)	December 20, 2013	13.71%	-	30	3,000	-	-	30	3,000	-	3,000	-	2.08
GoP - Ijara sukuk (note 6.2.1)	March 07, 2014	13.68%	-	80	8,000	-	-	80	8,000	-	8,000	-	5.56
GoP - Ijara sukuk (note 6.2.1)	"May 16, 2014"	13.45%	-	130	13,000	-	-	130	13,000	-	13,000	-	9.03
			280	820	82,000	-	-	1,100	110,630	-	110,000	(630)	
<b>Money Market Sub Fund</b>													
GoP - Ijara sukuk (note 6.2.1)	September 25, 2011	14.06%	175	-	-	-	-	175	17,500	-	17,500	-	18.76
GoP - Ijara sukuk (note 6.2.1)	November 15, 2013	13.45%	-	40	4,000	-	-	40	4,000	-	4,000	-	4.29
GoP - Ijara sukuk (note 6.2.1)	"March 07, 2014"	13.68%	-	220	22,000	-	-	220	22,000	-	22,000	-	23.58
GoP - Ijara sukuk (note 6.2.1)	May 16, 2014	13.45%	-	20	2,000	-	-	20	2,000	-	2,000	-	2.14
			175	280	28,000	-	-	455	45,500	-	45,500	-	

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, 2010	Purchases during the period	Cost of purchase	Sales during the period	Redemptions during the period	As at June 30, 2011	Carrying value as at June 30, 2011	Provision	Market value as at June 30, 2011	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%	50	-	-	-	6	44	2,142	-	2,193	51	1.52
Eden Housing Limited (note 6.3.2)	April 02, 2013	6 months Kibor plus base rate of 2.5%	500	-	-	-	-	500	1,301	-	1,205	(96)	0.84
Karachi Shipyard & Engineering Works Limited	November 02, 2015	6 months Kibor plus base rate of 0.4%	2,000	-	-	2,000	-	-	-	-	-	-	-
Maple Leaf Cement Factory Limited (note 6.3.3)	December 03, 2018	3 months Kibor plus base rate of 1.0%	1,000	-	-	-	1	999	3,496	-	3,132	(364)	2.18
Maple Leaf Cement Factory Limited (note 6.3.3)	March 31, 2012	3 months Kibor plus base rate of 1.0%	38	-	-	-	-	38	133	-	137	4	0.10
Security Leasing Corporation Limited II (note 6.3.3)	"March 19, 2014"	3% on cash and 3% on actual basis	351	-	-	-	93	258	967	-	908	(59)	0.63
Shahmurad Sugar Mills Limited	September 30, 2012	6 months Kibor plus base rate of 2.25%	2	-	-	2	-	-	-	-	-	-	-
			3,941	-	-	2,002	100	1,839	8,039	-	7,575	(464)	
<b>Money Market Sub Fund</b>													
Security Leasing Corporation Limited II (note 6.3.3)	"March 19, 2014"	3% on cash and 3% on actual basis	351	-	-	-	93	258	967	-	908	(59)	0.97
			351	-	-	-	93	258	967	-	908	(59)	

- 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.

2011				2010
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	254	424	1,931	2,609	3,214
- placements	-	-	-	-	425
- sukuk certificates	-	3,360	1,735	5,095	2,345
	<u>254</u>	<u>3,784</u>	<u>3,666</u>	<u>7,704</u>	<u>5,984</u>

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

Management remuneration	8.1	206	166	112	484	322
Front-end fee payable		104	104	105	313	771
Formation cost payable		79	79	79	237	237
		<u>389</u>	<u>349</u>	<u>296</u>	<u>1,034</u>	<u>1,330</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. PAYABLE TO 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.

## 10. 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.

2011				2010
Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total

Note .....(Rupees in '000).....

## 11. ACCRUED EXPENSES AND OTHER LIABILITIES

Payable on redemption of units		-	1	1	2	-
Charity payable	11.1	258	-	-	258	93
Workers' Welfare Fund	12	-	-	-	-	759
		<u>258</u>	<u>1</u>	<u>1</u>	<u>260</u>	<u>852</u>

11.1 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. Accordingly, an amount of Rs.0.258 million (2010: Rs.0.093 million) is outstanding in this regard. There is no charity payment made during the current year to any charitable institution (2010: Rs.Nil).

## 12. 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.

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.

However, the Pension Fund Manager believes that the aforementioned constitutional petition pending in the Court has strong grounds for decision in favour of the mutual funds. Accordingly, the management has reversed the provision recognised as at June 30, 2010 amounting to Rs.0.759 million during the current year. The aggregate unrecognised amount of WWF as at June 30, 2011 amounted to Rs.2.333 million.

2011				2010
Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total

## 13. AUDITORS' REMUNERATION

	------(Rupees in '000)-----				
Audit fee	55	55	55	165	150
Half yearly review	33	33	33	99	100
Other certifications and services	17	17	17	51	50
Out of pocket expenses	18	17	17	52	27
	<u>123</u>	<u>122</u>	<u>122</u>	<u>367</u>	<u>327</u>

#### 14. EARNINGS PER UNIT OUTSTANDING - BASIC AND DILUTED

	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
	2010		
	Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund
Net income for the year (Rupees in '000)	19,739	11,424	6,807
Units outstanding as at June 30, 2010 (number of units)	1,028,569	758,549	576,499
Earnings per unit - basic (Rupees)	19.19	15.06	11.81

14.1 There were no convertible dilutive potential units outstanding on June 30, 2011 and 2010.

#### 15. 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, 2011 and for the year then ended are as follows:

	2011				2010
	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: 500,000 units;					
Debt sub fund: 500,000 units;					
Money market sub fund: 500,000 units)	68,685	71,990	71,500	212,175	180,000
<b>Directors and executives of the pension fund manager</b>					
As at June 30, 2011					
(Equity sub fund: 67,357 units;					
Debt sub fund: 20,325 units;					
Money market sub fund: 4,270 units)					
As at June 30, 2010					
(Equity sub fund: 56,129 units;					
Debt sub fund: 15,320 units;					
Money market sub fund: 3,504 units)	9,252	2,927	611	12,790	8,111



2011				2010
Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund	Total	Total

(Rupees in '000)

Units issued during the year (Equity sub fund: 12,646 units; Debt sub fund: 3,626 units; Money market sub fund: 747 units)	1,605	506	105	2,216	1,864
Units reallocated during the year (Equity sub fund: (1,417) units; Debt sub fund: 1,381 units; Money market sub fund: 18 unit)	(192)	189	2	(1)	-
<b>Al Meezan - pension fund manager</b>					
Remuneration payable at the beginning of the year	457	449	424	1,330	900
Formation cost payable at the beginning of the year	79	79	79	237	237
Remuneration for the year	1,983	1,682	1,218	4,883	3,425
Front-end fee for the year	650	650	650	1,950	771
	3,169	2,860	2,371	8,400	5,333
Amount paid during the year	(2,780)	(2,511)	(2,075)	(7,366)	(4,003)
Balance at the end of the year	389	349	296	1,034	1,330
<b>MBL</b>					
Bank balance	389	52	179	620	94
Profit on savings accounts	50	58	55	163	98
Profit receivable on savings accounts	-	-	2	2	-
<b>CDC - trustee of the Fund</b>					
Balance at the beginning of the year	12	11	9	32	75
Remuneration for the year	197	167	121	485	342
CDS charges for the year	8	6	6	20	18
	217	184	136	537	435
Amount paid during the year	(197)	(168)	(125)	(490)	(403)
Balance at the end of the year	20	16	11	47	32

16. FINANCIAL INSTRUMENTS BY CATEGORY

2011			
Loans and receivables	Financial assets at 'fair value through profit or loss'	Financial liabilities measured at amortised cost	Total

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

**Financial assets**

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>

**Financial liabilities**

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>

2010			
Loans and receivables	Financial assets at 'fair value through profit or loss'	Financial liabilities measured at amortised cost	Total

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

**Financial assets**

Balances with banks	97,628	-	-	97,628
Placements	20,000	-	-	20,000
Investments	-	155,954	-	155,954
Dividend receivable	775	-	-	775
Profit receivable	5,984	-	-	5,984
Deposit with CDC	300	-	-	300
	<u>124,687</u>	<u>155,954</u>	<u>-</u>	<u>280,641</u>

**Financial liabilities**

Payable against purchase of investments	-	-	1,303	1,303
Payable to Al Meezan - pension fund manager	-	-	1,330	1,330
Payable to CDC - trustee of the Fund	-	-	32	32
Payable to auditors	-	-	200	200
	<u>-</u>	<u>-</u>	<u>2,865</u>	<u>2,865</u>

## 17. 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:

### 17.1 Market risk

#### 17.1.1 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 Fund'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 Karachi 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.0.163 million (2010: Rs.0.088 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.

### 17.1.2 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.4.510 million (2010: approximately Rs.0.832 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.

## 17.2 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 and receivable against sale of investments.

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 Fund, however, also invests in non-rated instruments based on internal ratings assigned by the fund manager using an approach that is consistent with the approach used by the rating agencies. The credit rating wise analysis of investment in sukuks has been tabulated as follows:

	June 30, 2011		June 30, 2010	
	Debt Sub Fund	Money Market Sub Fund	Debt Sub Fund	Money Market Sub Fund
	------(%)-----			
Government guaranteed	93.56	98.04	78.53	93.00
A-	-	-	3.26	-
CCC	0.77	1.96	2.70	7.00
Non-rated	5.67	-	15.51	-
	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:

	2011	2010
	------(%)-----	
AA+	35.12	59.69
AA	27.64	22.73
AA-	11.03	0.08
A	26.21	17.45
A-	-	0.01
BBB+	-	0.04
	<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, 2011 and 2010 is tabulated below:

	2011	2010
	(Rupees in '000)	
<b>Financial assets</b>		
Balances with banks	81,964	97,628
Placements	-	20,000
Investments at 'fair value through profit or loss'	163,983	67,600
Dividend receivable	759	775
Profit receivable	7,704	5,984
Deposit with CDC	300	300
	<u>254,710</u>	<u>192,287</u>

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

### 17.3 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.62.451 million as on June 30, 2011 (2010: Rs.41.527 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, 2011 and 2010 is tabulated below:

	2011				Total	2010
	Maturity upto					
	Three months	Six months	One year	More than one year	Total	Total
------(Rupees in '000)-----						
Payable against purchase of investments	-	-	-	-	-	1,303
Payable to Al Meezan - pension fund manager	1,034	-	-	-	1,034	1,330
Payable to CDC - trustee of the Fund	47	-	-	-	47	32
Payable to auditors	235	-	-	-	235	200
<b>2011</b>	<b>1,316</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,316</b>	<b>2,865</b>
<b>2010</b>	<b>2,865</b>	<b>-</b>	<b>-</b>	<b>-</b>		

## 18. 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.

## 19. 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, 2011</b>		
	Level 1	Level 2	Level 3
	------(Rupees in '000)-----		
<b>Assets</b>			
Financial assets 'held-for-trading'			
- Equity securities	163,317	-	-
- Debt securities	-	155,500	-
Financial assets designated at 'fair value through profit or loss at initial recognition'			
- Debt securities	-	5,462	3,021
	<u>163,317</u>	<u>160,962</u>	<u>3,021</u>



	<b>June 30, 2010</b>		
	Level 1	Level 2	Level 3
	------(Rupees in '000)-----		
<b>Assets</b>			
Financial assets 'held-for-trading'			
- Equity securities	88,354	-	-
- Debt securities	28,630	17,500	-
Financial assets designated at 'fair value through profit or loss at initial recognition'			
- Debt securities	-	13,718	7,752
	<u>116,984</u>	<u>31,218</u>	<u>7,752</u>

The following table presents the transfers between levels:

	<b>June 30, 2011</b>		
	Level 1	Level 2	Level 3
	------(Rupees in '000)-----		
Transfers between level 2 and level 3			
- Debt securities	<u>-</u>	<u>3,629</u>	<u>(3,629)</u>

	<b>June 30, 2010</b>		
	Level 1	Level 2	Level 3
	------(Rupees in '000)-----		
Transfers between level 2 and level 3			
- Debt securities	<u>-</u>	<u>(9,993)</u>	<u>9,993</u>

The following table presents the movement in level 3 instruments.

	2011	2010
	(Rupees in '000)	
Opening balance	7,752	-
Transfers into / (from) level 3	(3,629)	9,993
Sales / redemptions	(186)	(397)
Provisions	-	(120)
Gains and losses recognised in income statement	(916)	(1,724)
Closing balance	<u>3,021</u>	<u>7,752</u>

20. PERFORMANCE TABLE

	For the year ended June 30, 2011	For the year ended June 30, 2010	Percentage change	For the year ended June 30, 2009
	Rupees in '000		(%)	Rupees in '000
<b>EQUITY SUB FUND</b>				
Net income	47,708	19,739	142	(20,841)
Net realised (loss) / gain on sale of investments	9,794	8,407	16	(2,670)
Unrealised loss on re-measurement of investments at 'fair value through profit or loss'	19,649	5,757	241	(16,411)
Dividend income	9,865	6,283	57	3,474
Profit on savings accounts with banks	1,461	841	74	298
Transactions in securities				
Purchases	89,938	55,620	62	21,961
Sales	44,418	38,240	16	8,719
Total contribution received	44,955	26,816	68	12,537
Total net asset value	179,133	103,889	72	61,602
<b>DEBT SUB FUND</b>				
Net income	21,303	11,424	86	6,492
Net realised (loss) / gain on sale of investments	597	687	(13)	90
Unrealised loss on re-measurement of investments at 'fair value through profit or loss'	(1,094)	(892)	23	(1,215)
Profit on savings accounts with banks	2,632	1,982	33	2,378
Profit on placements	53	363	(85)	948
Profit on Sukuk Certificates	11,339	6,658	70	5,024
Transactions in securities				
Purchases	82,000	28,000	193	15,000
Sales	11,340	15,600	(27)	7,236
Total contribution received	37,623	22,142	70	6,036
Total net asset value	143,908	98,508	46	70,172
<b>MONEY MARKET SUB FUND</b>				
Net income	11,256	6,807	65	5,956
Net realised (loss) / gain on sale of investments	117	51	129	167
Unrealised loss on re-measurement of investments at 'fair value through profit or loss'	(59)	(270)	(78)	(209)
Profit on savings accounts with banks	5,271	3,572	48	3,177
Profit on placements	874	753	16	1,843
Profit on Sukuk Certificates	3,478	2,483	40	2,050
Transactions in securities				
Purchases	28,000	-	-	17,500
Sales	-	-	-	7,186
Total contribution received	12,417	7,735	61	1,523
Total net asset value	93,302	74,450	25	61,700

Equity Sub Fund	Debt Sub Fund	Money Market Sub Fund
-----------------	---------------	-----------------------

----- Rupees in '000 -----

NAV per unit	137.37	143.98	143.00
Earnings per unit	36.59	21.31	17.25
Highest issue price per unit	140.44	143.98	143.00
Lowest issue price per unit	100.44	129.71	128.94

## 21. DATE OF AUTHORISATION

These financial statements were authorised on August 16, 2011 by the Board of Directors of the pension fund manager.



Mohammad Shoab, CFA  
 Chief Executive

For Al Meezan Investment Management Limited  
 (Pension Fund Manager)



Mazhar Sharif  
 Director



**Pure. Profit.**

(AM2 rating by JCR-VIS)

**Al Meezan Investment Management Ltd.**  
A subsidiary of Meezan Bank

**Call: 0800-HALAL (42525)**

**UAN: 111-633-926 (111-MEEZAN)**

**Website: [www.almeezangroup.com](http://www.almeezangroup.com)**

**Email: [feedback@almeezangroup.com](mailto:feedback@almeezangroup.com)**

**Follow Al Meezan on:**   

**Our Value Added Services**



**Email Service**



**Call Centre**



**Customer Services**



**SMS Alert**



**Member Services**



**Internet Banking**