



# Heading Towards Advancement

meezan  
islamic income fund  
میزان

meezan  
sovereign fund  
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meezan  
cash fund  
میزان

Annual Report 2014





**Annual Report 2014**



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# Vision

To make Shariah compliant investing  
a first choice for investors

# Mission

To establish Al Meezan as a leading and trusted brand for savings and investments by offering innovative Shariah compliant investment solutions through ethical conduct, value added services and optimal returns, while protecting the interest of all stakeholders

# REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of Al Meezan Investment Management Limited is pleased to present the audited annual financial statements of the following open end Income & Money Market funds for the year ended June 30, 2014.

## **Income Funds**

- Meezan Islamic Income Fund
- Meezan Sovereign Fund

## **Money Market Fund**

- Meezan Cash Fund

## **Economic Review**

Pakistan's economy has been on a path to revival since the end of the calendar year 2013, as indicated by notable improvements in key economic indicators. The fiscal year 2014 showed signs of economic revival with the real GDP growing by 4.1% as opposed to 3.7% in the previous year. Main drivers were large scale manufacturing and services sector which registered growth of 5.8% and 4.3%. Pakistan availed the IMF Extended Fund Facility Program at the start of the fiscal year and was able to reduce the fiscal deficit to 5.8% of GDP in FY 14 compared to 8.2% in the previous year. Other developments on the macro-front included: i) a rapid rise and subsequent tapering off of inflationary pressure, ii) reversal in the monetary easing stance of the Central Bank to tackle rising inflation, iii) recovery of the entire 6% depreciation posted by Rupee against the USD in current fiscal year, iv) increase in the forex reserves of the Central Bank through inflows from friendly countries, v) narrowing trade deficit with exports picking up at a faster pace than imports.

In the first half of fiscal year a rapid resurgence of inflationary pressure took place which settled at an average of 8.6% during FY14, after touching a high of 10.9% in November'13. This was attributed to rationalization of electricity tariffs with removal of subsidies, rising food inflation and a devaluing PKR. As a result, Central Bank raised its key policy rate by 100 bps, reversing its earlier monetary easing stance. However with the effects of fiscal consolidation tapering off and stability seen in the Rupee, inflation has now receded back to comfortable levels. The Central Bank, lowering its full year inflation forecast to 8.5-9.5%, decided to keep its policy rate unchanged in the last two monetary policy announcements.

The economic recovery which kicked off from the month of December 2013 was initiated by increase in foreign exchange reserves. Foreign exchange reserves picked up, from a dismal level of below one month of import cover, leading to sharp appreciation of PKR against USD. Triggered by USD 1.5bn inflow from Saudi Arabia under Pakistan Development Fund, CSF receipts of about USD 350mn in each quarter, IMF 3rd tranche of USD 550mn, Euro Bond issuance of USD 2bn, USD 400mn from ADB, USD 900mn from 3G Auction and lately USD 387mn from privatization proceeds of UBL and PPL have allowed SBP's foreign exchange reserves to improve from USD 5.2bn in January, 2014 to USD 9.0bn in June, 2014. Market sentiments improved with an increase in foreign exchange reserves which acutely reflected in the appreciation of the Rupee against the USD after December 2013 whereby it has appreciated by 7% to close at Rs. 99/USD as on June 30, 2014.



Owing to improved foreign inflows and lower fiscal deficit, the government has been able to reduce dependence on SBP borrowing. The government has retired more than PKR 500bn worth of borrowing from the SBP since February 2014 which has helped improve NDA-NFA ratio as well. As a result, M2 growth was restricted to 8.6% YTD till 6th Jun-14 as compared to 11.8% YTD till June last year. Moreover, the government has also lowered riskiness of its debt profile and increased its maturity through successful auctions of PIBs during the second half of FY14.

The current account continues to be marred with challenges as it posted a deficit of USD 2.92 billion in FY14. With growth in imports and exports in tandem, the trade deficit has expanded narrowly. Grant of the coveted GSP+ status by the EU to the country will help in boosting textile exports to the region and rake in an additional USD 2.0 billion.

Implementation of the much needed fiscal consolidation reforms resulted in tax collection of Rs. 2.26 trillion translating into a 16.4% YoY increase. This has helped Government to curtail fiscal deficit from 8% of GDP in FY 13 to 5.8% in FY 14. In order to bridge the gap between expenditures and revenue collection the government has slashed several funds including secret service expenditures, discretionary funds and current expenditure allocation of ministries. These steps along with issuance of tax notices and rationalization of concessionary SROs will not only help in restricting the fiscal deficit but shall also improve the tax-to-GDP ratio.

Even though the foreign inflows have improved, however, most of these inflows have materialized under the head of Foreign Portfolio Investment which is of short-term nature, while Foreign Direct Investment has remained dismal. To address energy issues, as it has become imperative for the government to improve security and energy situation in the country, government plans to raise energy tariffs which shall rebuild inflationary cycles in the economy. Tax collection has remained below target which needs to be improved to address fiscal concerns and tax base should be widened to bring undocumented sectors under the tax net. Sharp appreciation in real effective exchange rate has made our exports uncompetitive and has had adverse consequences on trade balance and external account of the country. To conclude, economic recovery has started but much more needs to be done to achieve sustainable economic growth.

### **Money Market Review**

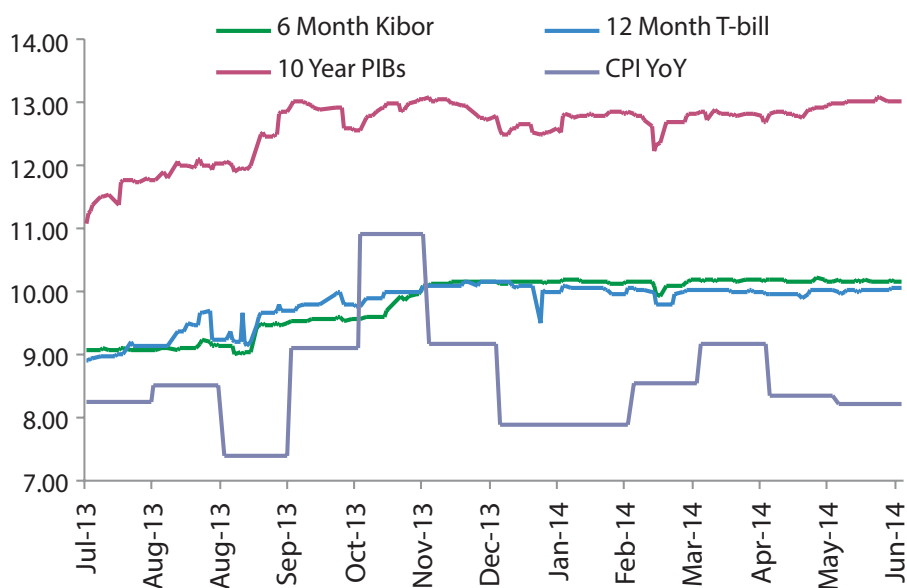
Fiscal year 2014 commenced with the SBP reverting back to a monetary tightening stance whereby the first two bi-monthly monetary policies (MPS) each saw a 50bps rise in the key rate which took it back to 10%. The usual speculation rounds were witnessed in subsequent MPSs but the discount rate was maintained without a change during the rest of the year.

The money market faced a mixed liquidity scenario throughout the year which was evidenced by SBP's Open Market Operations (OMOs); 35 OMOs were conducted to inject Rs. 6.2 trillion while 44 OMOs were conducted to mop up Rs. 2.7 trillion from the system. Alongside, 26 T-bill auctions and 12 PIB auctions were also conducted during the year; cumulatively, the government accepted Rs. 6.7 trillion against a participation of Rs. 7.3 trillion in T-bills while Rs. 2 trillion was accepted against a participation of Rs. 2.2 trillion in PIBs. During this fiscal year, the new government's focus was seen to have shifted towards longer-term borrowing whereby record participation and acceptance were seen in PIB auctions as mentioned above (in comparison to FY 2013's Rs. 251 billion acceptance in PIBs).

For the Shariah compliant end of the market, the year proved to be quite turbulent mainly on account of supply deficit of Ijarah Sukuks. The year saw four Ijarah maturities worth Rs. 182.35 billion but only one new auction which was ultimately carried out after excessive delays, right before the fiscal year end. The desperation for excess liquidity placement was evident from the fact that the auction target was Rs. 49.5 billion against which the SBP received bids worth almost Rs. 114 billion. The result was a cut off of 200bps below the six month T-bill yield which effectively produces a yield below 8%. This single auction during the outgoing fiscal year was not enough to manage the excess liquidity still prevalent in the Islamic market.

The forex front stayed quite active for most part of this fiscal year. By the end of first half FY 2014, the rupee had slid by around 9% in the interbank and open market. But concrete developments like forex inflows received in Pakistan Development Fund, successful and oversubscribed Euro Bond auction, installments disbursed under the IMF program and deferment received in oil payments, all helped the rupee in gaining its lost value. As a result of the above mentioned factors, the rupee closed the year around 1% stronger in the interbank and open market at Rs. 98.85/\$ and Rs. 99.40/\$ in comparison to the previous fiscal year.

Graphically, the overall interest rate, T-bill yield and inflation rate behaviors can be observed as under:



### Mutual Fund Industry Review

During the fiscal year 2014, Assets under Management (AUM) of the mutual fund industry witnessed an increase of 12.0% to Rs. 402 billion. Islamic funds grew by 25.6% during the year to Rs 85 billion, thus bringing the market share of Islamic funds to 21.0% in the mutual fund industry.

In terms of net assets, fixed income funds (comprising sovereign, money market and income fund) increased a measure 1.84% during FY14, reaching Rs 241 billion at period end. Islamic income funds in the above mentioned categories increased by 4.92% during the year. Al Meezan's market share in the mutual funds' industry stands at 14.0% as at June 30, 2014 while it represents 66.6% of the Islamic mutual funds industry.

## Performance Review

Name of Fund	Type	Net Assets June 30, 2014 (Rs. millions)	Growth in Net Assets for FY14	Return for FY14	Benchmark Return FY14
Meezan Islamic Income Fund (MIIF)	Open-End Income Fund	4,918	86%	11.90%	5.38%
Meezan Cash Fund (MCF)	Open-End Money Market	3,049	-53%	7.08%	6.55%
Meezan Sovereign Fund (MSF)	Open-End Income Fund	20,281	3%	8.50%	6.55%
<b>Total</b>		<b>28,248</b>			

## Operational Review

Please refer to respective fund management reports for operational reviews.

## Auditors

The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants retire and being eligible offer themselves as auditors of the collective investment schemes under management of AI Meezan for FY 2014-15. The board of directors on recommendation of the audit committee has approved their appointment for all the collective investment schemes under management of AI Meezan for FY 2014-15.

## Outlook

The current government has a clear cut mandate and with a simple majority in the national assembly, it is now in a better position to deliver on its manifesto. Right from the start, PML-N has undertaken some painful economic reforms, the pace of which has been affected due to an inevitable need of the government to focus on issues pertinent to external account. The government's efforts coupled with the IMF program helped the country in averting its balance of payment risk and achieve commendable improvement in macro indicators. This has strengthened the country's fiscal and economic profile. With the IMF hinting on the requirement of keeping interest rates elevated to support external account, monetary policy direction will depend on further improvement in the current forex reserves position. On local front, broadening of tax revenue (SRO's removal) and restructuring/privatization of State Owned Enterprises (SOEs) are challenges in the near term that the government will need to tackle to reduce fiscal deficit and divert funds to more productive developments.

We expect the government to focus more on infusing economic growth, improving transparency and bring about administrative efficiencies. Resultantly the stock market is also expected to gain on the back of a positive economic outlook, stable government with a focus on good governance and attractive valuations of fundamentally strong scrips.

The KMI-30 index is expected to consolidate at current levels; the index is currently trading at a PE Ratio of 8.1x, with FY'15 earnings growth of 16%. Following improved economic statistics, the potential of Pakistan's higher weightage in the MSCI Frontier Market (FM) index is expected to create positive vibes in the market and sustain positive momentum.

### Compliance with Code of Corporate Governance

Al Meezan Investment Management Limited always strives to maintain the highest standards of corporate governance. In compliance with the Code of Corporate Governance, the Board of Directors declares that:

- These financial statements, prepared by the management company of the Fund, present fairly the state of affairs of the Fund, the result of its operations, cash flows and changes in equity.
- The Fund has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards and International Financial Reporting Standards as applicable in Pakistan have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Fund's ability to continue as a going concern.
- The sale and repurchase of units of the Fund carried out by the Directors, CEO, CFO and Company Secretary of the management company including their spouses and their minor children during the year are as under:

#### Meezan Islamic Income Fund

Trades By	Designation	No. of units invested	No. of units redeemed
Mr. Ariful Islam	Chairman	1,281,247	402,434
Mr. Mohammad Shoaib, CFA	CEO	1,773,350	Nil
Syed Amir Ali Zaidi	Director	19,451	55,391
Syed Owais Wasti	CFO	Nil	4,507

#### Meezan Cash Fund

Trades By	Designation	No. of units invested	No. of units redeemed
Mr. Ariful Islam	Chairman	Nil	269,482
Mr. Mohammad Shoaib, CFA	CEO	Nil	Nil
Mr. Mazhar Sharif	Director	Nil	6,433
Mr. Tasnimul Haq Farooqui	Director	19,984	63,212
Syed Owais Wasti	CFO	Nil	124,714

### Meezan Sovereign Fund

Trades By	Designation	No. of units invested	No. of units redeemed
Mr. Ariful Islam	Chairman	197,433	1,562,614
Mr. Mohammad Shoaib, CFA	CEO	Nil	2,199,675
Mr. Mazhar Sharif	Director	199,063	80,454
Mr. Tasnimul Farooqui	Director	167,784	5,146
Syed Amir Ali	Director	78,694	64,707
Syed Owais Wasti	CFO	43,839	120,481

- Pattern of holding of units is given at the end of report of respective fund.
- Financial highlights are given in notes to the financial statements of respective fund.

### Board Meetings

Details of Board Meetings and attendance therein is provided in the financial statements.

### Acknowledgement

We take this opportunity to thank our valued investors for reposing faith in Al Meezan Investments and making it the largest asset management company in the private sector in Pakistan. We also thank the regulator, Securities and Exchange Commission of Pakistan and Trustee, 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 28, 2014  
Karachi

**Mohammad Shoaib, CFA**  
**Chief Executive**





# Meezan Islamic Income Fund (MIIF)

The objective of Meezan Islamic Income Fund is to provide investors with a high and stable rate of current income consistent with long term preservation of capital in a Shariah compliant way, and to take advantage of opportunities to realize capital appreciation.







# FUND INFORMATION

## MANAGEMENT COMPANY

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 MANAGEMENT COMPANY

Mr. Ariful Islam	Non-Executive	Chairman
Mr. P. Ahmed	Independent	
Mr. Moin M. Fudda	Independent	
Mr. Tasnimul Haq Farooqui	Non-Executive	
Mr. Mazhar Sharif	Non-Executive	
Syed Amir Ali	Non-Executive	
Syed Amir Ali Zaidi	Non-Executive	
Mr. Mohammad Shoaib, CFA	Chief Executive	

## CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

## AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Mr. Mazhar Sharif	Member
Syed Amir Ali	Member

## HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Ariful Islam	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoaib, 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

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sheikh Sultan Trust Building No.2, Beaumont Road, Karachi- 75530.

## SHARIAH ADVISER

Meezan Bank Limited

## BANKERS TO THE FUND

Al Baraka Islamic Bank B.S.C (E.C)	Allied Bank Limited - Islamic Banking
Askari Bank Limited - Islamic Banking	Bank Alfalah Limited - Islamic Banking
Bank Al Habib Limited - Islamic Banking	BankIslami Pakistan Limited
Burj Bank Limited	Dubai Islamic Bank Pakistan Limited
Faysal Bank Limited	Habib Metropolitan Bank Limited - Islamic Banking
HLB - Islamic Banking	Meezan Bank Limited
MCB Bank Limited - Islamic Banking	National Bank of Pakistan
UBL Ameen Islamic Banking	Standard Chartered Bank (Pakistan) Limited - Islamic Banking

## LEGAL ADVISER

Bawaney & Partners  
3rd & 4th Floor, 68-C, Lane - 13, Bokhari Commercial Area Phase - VI, DHA Karachi  
Phone: (9221) 35156191-94 Fax: (9221) 35156195  
E-mail: bawaney@cyber.net.pk

## TRANSFER AGENT

Meezan Bank Limited  
Meezan House  
C-25, Estate Avenue, SITE, Karachi.  
Phone: 38103538 Fax: 36406017  
Web site: www.meezanbank.com

## DISTRIBUTORS

Al Meezan Investment Management Limited  
Meezan Bank Limited



## REPORT OF THE FUND MANAGER

Meezan Islamic Income Fund (MIIF) is Pakistan's first and the largest Shariah Compliant open end mutual fund which falls under the category of Income Funds.

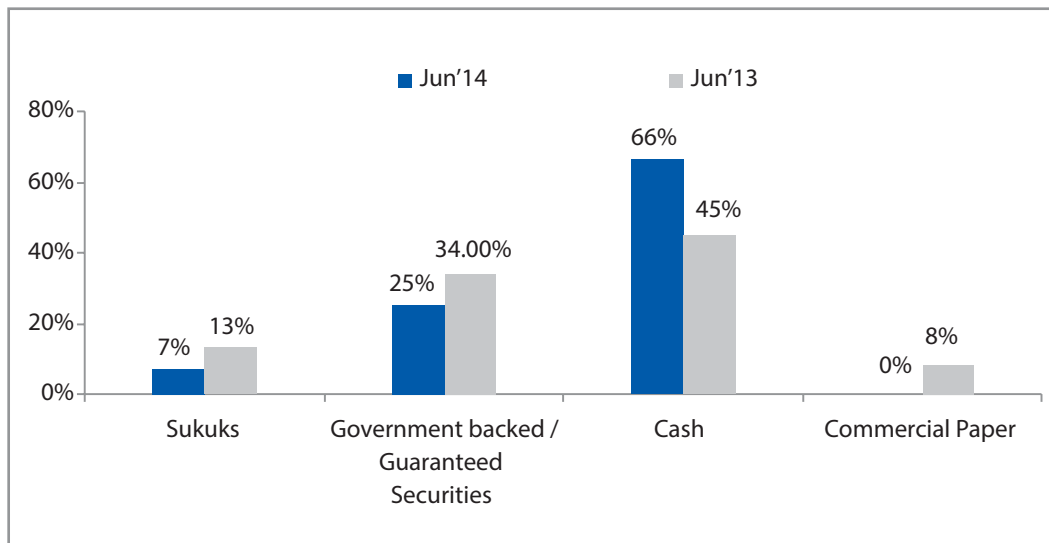
The Fund's primary objective is to provide investors with a competitive and stable rate of current income in a Shariah compliant way. A secondary objective is to take advantage of opportunities to realize capital appreciation. The Fund shall seek to provide the investors with a rate of total return consistent with a broadly diversified portfolio of long, medium and short term high quality Islamic Income instruments.

### Strategy, Investment policy and asset allocation

The instruments in which MIIF invests are Corporate and Sovereign Sukuks (Islamic Bonds), Musharaka and Murabaha instruments, Shariah Compliant spread transactions, Certificate of Islamic Investments, Islamic bank deposits, and other Islamic Income products.

During the year, the focus was on proactive and continuous reallocation between high yield instruments, so as to maximize fund yield, while maintaining a balance within the risk management constraints. In this connection, funds maturing from corporate Sukuks were deployed in government Ijarah Sukuks or reinvested in similar corporate Sukuks of high credit quality. To manage interest rate risk and meet liquidity objectives, the fund manager during the period has kept the duration below six months.

### Sector Allocation as on June 30, 2013 and 2014



### Performance Review

During the fiscal year 2014, Meezan Islamic Income Fund (MIIF) provided a full year return of 11.90% as compared to its benchmark return of 5.38%. The fund recently benefitted from principal repayments especially with regards to Maple Leaf Cement Sukuks which has been classified as performing by MUFAP and has been revalued accordingly. As at year end, the fund was invested 7% in Islamic Corporate Sukuks, 25% in GoP Ijarah Sukuks and 66% in Islamic Bank Deposits.

The Fund earned a gross income of Rs. 509.83 million, which was primarily due to profit on Sukuks certificates amounting worth Rs. 175.58 million. Cash in saving accounts at Islamic banks contributed Rs. 213.72 million, while realized gain on sale of Sukuks certificates was Rs. 184.70 million. On the other side, the fund incurred unrealized loss worth Rs. 60.89 million in addition to a provision of Rs. 18.29 million incurred in the Sukuks of Eden Housing Limited. The fund also incurred expenses totaling to Rs. 89.88 million and element of income and capital gains of Rs. 65.36 million, which brought the net income figure to Rs. 485.31 million. The net assets of the Fund as at June 30, 2014 were Rs. 4,918.35 million as compared to Rs. 2,644.68 million at the end of last year. The net asset value per unit as at June 30, 2014 was Rs. 50.17 as compared to Rs.53.95 per unit as on June 30, 2013.

	<b>MIF</b>	<b>Islamic Bank Deposits</b>
Net Asset Value as on June 30, 2013	53.95	
Net Asset Value as on June 30, 2014	50.17	
Return for the year	11.90%	5.38%
Outperformance	6.52%	

### Fund Rating

JCR-VIS Credit Rating Company has assigned Stability Rating of A- (f) to Meezan Islamic Income Fund.

### Distributions

The Board of Directors in its meeting held on August 28, 2014 approved NIL distribution for the year ended June 30, 2014. The interim distributions by the Fund during the fiscal year ended June 30, 2014 were Rs. 5.78 per unit (11.56%). Total distribution made by the fund was Rs. 489 million.

### Breakdown of unit holdings by size:

(As on June 30, 2014)

Range of units	Number of investors
1 - 9,999	1,243
10,000 - 49,999	376
50,000 - 99,999	64
100,000 - 499,999	62
500,000 and above	26
<b>Total</b>	<b>1,771</b>



**Meezan Bank**  
The Premier Islamic Bank

## Report of the *Shari'ah* Advisor – Meezan Islamic Income Fund

August 28, 2014/ Zul Qad 02, 1435

**Alhamdulillah**, the period from July 01, 2013 to June 30, 2014 was the eighth year of operations of Meezan Islamic Income Fund (MIIF) under management of Al Meezan Investment Management Limited (AMIM). We Meezan Bank Limited are the *Shari'ah* Advisors of the Fund and are issuing the report in accordance with clause 7.2.7 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the *Shari'ah* compliance of the Fund's activity.

In the capacity of *Shari'ah* Advisor, we have prescribed criteria and procedure to be followed in ensuring *Shari'ah* compliance in every investment.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure *Shari'ah* compliance with the *Shari'ah* 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.

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of MIIF in light of the *Shari'ah* guidelines.
- ii. All the provisions of the scheme and investments made on account of MIIF by Al Meezan are *Shari'ah* compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operation of MIIF for the year ended June 30, 2014 have been in compliance with *Shari'ah* principles.

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  
*Shari'ah* Advisor

**Meezan Bank Ltd.**

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**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  
Email: info@cdcpak.com



**TRUSTEE REPORT TO THE UNIT HOLDERS**

**MEEZAN ISLAMIC INCOME FUND**

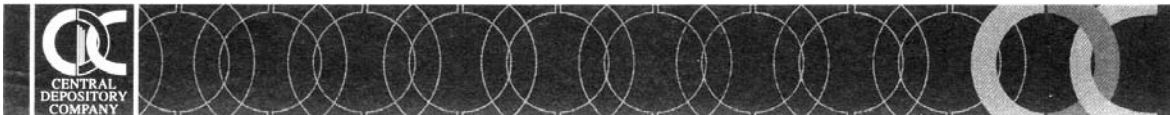
**Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

We, Central Depository Company of Pakistan Limited, being the Trustee of Meezan Islamic Income Fund (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

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

Karachi, September 19, 2014



## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED JUNE 30, 2014

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Karachi Stock Exchange Limited (Formerly Karachi Stock Exchange (Guarantee) Limited) for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Management Company has applied the principles contained in the CCG in the following manner:

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. P. Ahmed, Mr. Moin M. Fudda
Executive Director	Mohammad Shoaib, CFA - CEO
Non- Executive Directors	Mr. Ariful Islam Mr. Tasnimul Haq Farooqui Syed Amir Ali Mr. Mazhar Sharif Syed Amir Ali Zaidi

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred on the board on February 11, 2014 & April 29, 2014, which were filled up by the directors within 30 days. As required under clause (xi) of CCG regulation 35, all the relevant documents were circulated to the director and orientation will be conducted in forthcoming board of directors meeting. Further, as required under clause (v) of CCG regulation 35, mechanism for annual evaluation has been put in place and annual board's performance evaluation will be carried out in forthcoming year.
5. The Management Company has prepared a "Code of conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. Three of the directors of the Management Company have obtained 'Directors Training Certification' as at June 30, 2014.

10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the board.
13. The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unitholding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, all the three members are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of four members including CEO. All the other members, including chairman of the committee, are non-executive directors.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company / units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the NAV of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

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**Mohammad Shoaib, CFA**  
Chief Executive

Karachi  
Date: August 28, 2014





**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
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**Review Report to the Unitholders' of Meezan Islamic Income Fund ("the Fund") on Statement of Compliance with Best Practices of Code of Corporate Governance**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Al Meezan Investment Management Limited ("Management Company") of the Fund for the year ended 30 June 2014 to comply with the requirements of the Listing Regulations of the Karachi Stock Exchange Limited (formerly Karachi Stock Exchange (Guarantee) Limited), where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of Code. 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 Code.

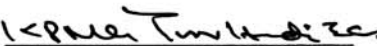
As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Fund's corporate governance procedures and risks.

The Code requires the Management Company of the Fund to place before the Board of Directors for their review and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured this compliance of requirement to the extent of approval of related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2014.

**Date: 28 August 2014**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



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## **Independent Auditors' Report to the Unitholders**

### *Report on the Financial Statements*

We have audited the accompanying financial statements of **Meezan Islamic Income Fund** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2014, and the related income statement, distribution statement, cash flow statement, statement of movement in unitholders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as the management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*


In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2014, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### *Report on Other Legal and Regulatory Requirements*

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

**Date: 28 August 2014**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**Muhammad Nadeem**

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



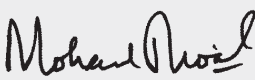
# STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2014

	Note	2014 (Rupees in '000)	2013
<b>Assets</b>			
Balances with banks	4	3,298,683	1,158,459
Investments	5	1,616,111	1,502,925
Deposits, prepayments and other receivables	6	70,975	50,596
<b>Total assets</b>		<b>4,985,769</b>	<b>2,711,980</b>
<b>Liabilities</b>			
Payable to Al Meezan Investment Management Limited (Al Meezan) - Management Company	7	15,890	7,777
Payable to Central Depository Company of Pakistan Limited (CDC) - Trustee	8	399	242
Payable to Securities and Exchange Commission of Pakistan (SECP)	9	2,701	1,286
Payable to Meezan Bank Limited (MBL)		112	97
Payable on redemption and conversion of units		7,139	27,549
Dividend payable		983	-
Accrued expenses and other liabilities	10	40,190	30,349
<b>Total liabilities</b>		<b>67,414</b>	<b>67,300</b>
<b>Net assets</b>		<b>4,918,355</b>	<b>2,644,680</b>
<b>Contingencies and commitments</b>	11		
<b>Unitholders' fund (as per statement attached)</b>		<b>4,918,355</b>	<b>2,644,680</b>
<b>(Number of units)</b>			
<b>Number of units in issue</b>	13	<b>98,043,044</b>	<b>49,019,878</b>
<b>(Rupees)</b>			
<b>Net assets value per unit</b>		<b>50.17</b>	<b>53.95</b>

The annexed notes 1 to 27 form an integral part of these financial statements.

For Al Meezan Investment Management Limited  
(Management Company)

  
Mohammad Shoaib, CFA  
Chief Executive

  
Syed Amir Ali Zaidi  
Director

# INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2014


	Note	2014 (Rupees in '000)	2013
<b>Income</b>			
Profit on saving accounts with banks		213,716	59,813
Profit on sukuk certificates		175,582	162,915
Realised gain on sale of sukuk certificates		184,698	30,413
Other income		15,014	45
		<b>589,010</b>	253,186
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)	5.1.1 & 5.1.4	(60,890)	(1,384)
(Provision) / reversal against sukuk certificates (net)	5.1.10	(18,289)	17,064
		<b>(79,179)</b>	15,680
<b>Total income</b>		<b>509,831</b>	268,866
<b>Expenses</b>			
Remuneration to Al Meezan Investment Management Limited - Management Company	7.1	54,024	25,712
Sindh Sales Tax and Federal Excise Duty on management fee	7.2 & 7.3	18,488	4,412
Remuneration to Central Depository Company of Pakistan Limited - Trustee	8	3,901	2,307
Annual fee to Securities and Exchange Commission of Pakistan	9	2,701	1,286
Auditors' remuneration	14	494	554
Fees and subscription		66	272
Amortisation of premium on 'available for sale' investments		18	3
Brokerage		53	71
Bank and settlement charges		117	82
Provision for Workers' Welfare Fund (WWF)	12	9,904	5,775
Printing expense		113	149
<b>Total Expenses</b>		<b>89,879</b>	40,623
<b>Net income from operating activities</b>		<b>419,952</b>	228,243
Element of income and capital gains included in prices of units sold less those in units redeemed (net)		65,356	60,526
<b>Net income for the year before taxation</b>		<b>485,308</b>	288,769
<b>Taxation</b>	20	-	-
<b>Net income for the year after taxation</b>		<b>485,308</b>	288,769
<b>Other comprehensive income for the year</b>		-	-
<b>Total comprehensive income for the year</b>		<b>485,308</b>	288,769

The annexed notes 1 to 27 form an integral part of these financial statements.

For Al Meezan Investment Management Limited  
(Management Company)



Mohammad Shoaib, CFA  
Chief Executive



Syed Amir Ali Zaidi  
Director


## DISTRIBUTION STATEMENT

### FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
	(Rupees in '000)	
Undistributed income / accumulated (loss) brought forward		
- Realised	181,397	459,693
- Unrealised	15,680	(413,873)
	<b>197,077</b>	45,820
Final distribution on July 8, 2013 for the year ended June, 30 2013		
- bonus units @ 7.5% (Rs. 3.75 per unit) (June 30, 2012 @ 3.94% Rs. 1.97 per unit)	<b>(178,637)</b>	(39,603)
- cash dividend @ 7.5% (Rs. 3.75 per unit) (June 30, 2012 @ 3.94% Rs. 1.97 per unit)	<b>(5,187)</b>	(6,288)
Interim distribution on December 24, 2013 for the period ended December 31, 2013		
- bonus units @ 4% (Rs. 2.00 per unit) (December 31, 2012 @ 6% Rs. 3.00 per unit)	<b>(110,267)</b>	(81,483)
- cash dividend @ 4% (Rs. 2.00 per unit) (December 31, 2012 @ 6% Rs. 3.00 per unit)	<b>(2,775)</b>	(10,138)
Interim distribution on March 24, 2014 for the period ended March 31, 2014		
- bonus units @ 3% (Rs. 1.50 per unit) (March 31, 2013 @ nil)	<b>(163,360)</b>	-
- cash dividend @ 3% (Rs. 1.50 per unit) (March 31, 2013 @ nil)	<b>(1,493)</b>	-
Interim distribution on May 30, 2014 for the period ended May 31, 2014		
- bonus units @ 2.56% (Rs. 1.28 per unit) (May 31, 2013 @ nil)	<b>(113,586)</b>	-
- cash dividend @ 2.56% (Rs. 1.28 per unit) (May 31, 2013 @ nil)	<b>(1,274)</b>	-
Interim distribution on June 24, 2014 for the period ended June 30, 2014		
- bonus units @ 2.00% (Rs. 1.00 per unit) (June 30, 2013 @ nil)	<b>(95,023)</b>	-
- cash dividend @ 2.00% (Rs. 1.00 per unit) (June 30, 2013 @ nil)	<b>(996)</b>	-
Total distribution	<b>(672,598)</b>	(137,512)
Net income for the year	<b>485,308</b>	288,769
Undistributed income carried forward	<b>9,787</b>	197,077
Undistributed income / accumulated (loss) carried forward		
- Realised	<b>88,966</b>	181,397
- Unrealised	<b>(79,179)</b>	15,680
	<b>9,787</b>	197,077

The annexed notes 1 to 27 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoaib, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director

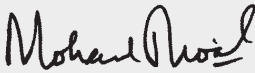
# STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND

## FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
	(Rupees in '000)	
Net assets at beginning of the year	2,644,680	1,208,964
Issue of 118,363,762 units (June 30, 2013: 49,288,233 units)	6,066,389	2,585,133
Redemption of 82,486,464 units (June 30, 2013: 25,963,948 units)	(4,200,941)	(1,361,234)
	1,865,448	1,223,899
Element of income and capital gains included in prices of units sold less those in units redeemed (net)	(65,356)	(60,526)
Issuance of 13,145,868 bonus units (2013: 2,400,936 bonus units)	660,873	121,086
Net realised gain on sale of sukuk certificates	184,698	30,413
Unrealised (diminution) / appreciation in value of investments (net)	(79,179)	15,680
Other net income for the year	379,789	242,676
Total comprehensive income for the year	485,308	288,769
Distribution for the year ended June 30, 2013		
- Issue of 3,558,522 bonus units (June 30, 2012: 793,166 units)	(178,637)	(39,603)
- Cash dividend @ 7.5% (Rs. 3.75 per unit) (June 30, 2012: Rs. 1.97 per unit)	(5,187)	(6,288)
Distribution for the period ended December 31, 2013		
- Issue of 2,180,921 bonus units (December 31, 2012: 1,607,770 units)	(110,267)	(81,483)
- Cash dividend @ 4% (Rs. 2 per unit) (December 31, 2012: Rs. 3 per unit)	(2,775)	(10,138)
Distribution for the period ended March 31, 2014		
- Issue of 3,238,055 bonus units (March 31, 2013: nil units)	(163,360)	-
- Cash dividend @ 3% (Rs. 1.5 per unit) (March 31, 2013: @ Rs. nil)	(1,493)	-
Distribution for the period ended May 31, 2014		
- Issue of 2,271,713 bonus units (May 31, 2013: nil units)	(113,586)	-
- Cash dividend @ 2.56% (Rs. 1.28 per unit) (May 31, 2013: @ Rs. nil)	(1,274)	-
Distribution for the period ended June 30, 2014		
- Issue of 1,896,657 bonus units (June 30, 2013: nil units)	(95,023)	-
- Cash dividend @ 2% (Rs. 1 per unit) (June 30, 2013: @ Rs. nil)	(996)	-
	(672,598)	(137,512)
Net assets at end of the year	4,918,355	2,644,680
	(Rupees)	
Net asset value per unit as at beginning of the year	53.95	51.90
Net asset value per unit as at end of the year	50.17	53.95

The annexed notes 1 to 27 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoaib, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director


# CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2014

Note	2014 (Rupees in '000)	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	485,308	288,769
<b>Adjustments for:</b>		
Unrealised loss on re-measurement of investments at fair value through profit or loss (net)	60,890	1,384
Provision / (reversal) against sukuk certificates (net)	18,289	(17,064)
Amortisation of premium on 'available for sale' investments	18	3
Element of income and capital gains included in prices of units sold less those in units redeemed (net)	(65,356)	(60,526)
	<b>499,149</b>	<b>212,566</b>
<b>Increase in assets</b>		
Investments (net)	(192,383)	(600,024)
Deposits, prepayments and other receivables	(20,379)	(5,441)
	<b>(212,762)</b>	<b>(605,465)</b>
<b>Increase / (decrease) in liabilities</b>		
Payable to Al Meezan Investment Management Limited - Management Company	8,113	5,856
Payable to Central Depository Company of Pakistan Limited - Trustee	157	88
Payable to Securities and Exchange Commission of Pakistan	1,415	(152)
Payable to Meezan Bank Limited	15	1
Accrued expenses and other liabilities	9,841	5,634
	<b>19,541</b>	<b>11,427</b>
<b>Net cash inflow from / (used in) operating activities</b>	<b>305,928</b>	<b>(381,472)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts against issuance of units	6,066,389	2,585,133
Payments against redemption of units	(4,221,351)	(1,342,785)
Dividend paid	(10,742)	(16,426)
<b>Net cash inflow from financing activities</b>	<b>1,834,296</b>	<b>1,225,922</b>
Net increase in cash and cash equivalents during the year	2,140,224	844,450
Cash and cash equivalents at beginning of the year	1,158,459	314,009
Cash and cash equivalents at end of the year	4	1,158,459

The annexed notes 1 to 27 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoaib, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

## 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** Meezan Islamic Income Fund (the Fund) was established under a Trust Deed executed between Al Meezan Investment Management Limited (Al Meezan) as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on September 13, 2006 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations) notified through S.R.O. 1203 (I) / 2008 on November 21, 2008. The Management Company has been licensed by the Securities and Exchange Commission of Pakistan (SECP) to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules) through a certificate of registration issued by the SECP. The registered office of the Management Company of the Fund is situated at Ground Floor, Block 'B', Finance and Trade Centre, Shahrah-e-Faisal, Karachi 74400, Pakistan.
- 1.2** The Fund has been formed to provide the unitholders safe and stable stream of halal income on their investments and to generate superior long-term risk adjusted returns. The Fund shall also keep an exposure in short-term instruments for the purpose of maintaining liquidity and to capitalize on exceptional returns if available at any given point of time. Under the Trust Deed all conducts and acts of the Fund are based on Shariah. Meezan Bank Limited (MBL) acts as its Shariah Advisor to ensure that the activities of the Fund are in compliance with the principles of Shariah.
- 1.3** The Fund is an open-end fund listed on the Karachi Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The Fund is categorized as an Income Scheme.
- 1.4** The Fund has been given a stability rating of A-(f) by JCR - VIS. The Management Company of the Fund has been given quality rating of AM2 by JCR - VIS.
- 1.5** Title to the assets of the Fund are in the name of CDC as the Trustee of the Fund.

## 2. BASIS OF PRESENTATION

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.

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the SECP. Wherever, the requirements of the NBFC Rules, 2003, the NBFC Regulations, 2008 and the said directives differ with the requirements of these standards, the requirements of the NBFC Rules, 2003, the NBFC Regulations, 2008 and the said directives shall prevail.

## 2.2 Basis of measurement

These financial statements have been prepared on the basis of historical cost convention except that investments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value.

## 2.3 Functional and presentation currency

These financial Statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and are rounded to the nearest thousand rupees.

## 2.4 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 Management Company to exercise its judgement in the process of applying the Fund's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable in the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- (a) Classification and valuation of financial instruments (notes 3.1 and 5)
- (b) Impairment of financial instruments (note 3.1.6)
- (c) Recognition of provision for Workers' Welfare Fund (note 12)

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after July 1, 2014:

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after January 1, 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 1, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.
- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1, 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after January 1, 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.

- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after July 1, 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.
- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after January 1, 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.
- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after January 1, 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a Fund can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.
- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after July 1, 2014). The new cycle of improvements contain amendments to the following standards:
  - IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.
  - IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.
  - IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
  - Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.



- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.
- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.
- The interpretations will not likely have an impact on Fund's financial statements.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### 3.1 Financial instruments

##### 3.1.1 Classification

The Fund classifies its financial assets in the following categories: loans and receivables, at fair value through profit or loss, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. The management determines the appropriate classification of its financial assets in accordance with the requirement of International Accounting Standard (IAS) 39 : ' Financial Instruments: Recognition and Measurement', at the time of initial recognition and re-evaluates this classification on a regular basis.

##### (a) Financial instruments as 'at fair value through profit or loss'

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated as 'at fair value through profit or loss' if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments as 'at fair value through profit or loss' are measured at fair value, and changes therein are recognised in Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

##### (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 at fair value through profit or loss or available for sale.

##### (d) Available for sale

These are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories mentioned in (a) to (c) above.

### 3.1.2 Regular way contract

All purchase and sale of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the asset.

### 3.1.3 Recognition

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

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

### 3.1.4 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 expensed immediately.

Subsequent to initial recognition, instruments classified as financial assets 'at fair value through profit or loss' and 'available for sale' are measured at their 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 transferred to 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.

### 3.1.5 Fair value measurement principles

The fair value of financial instruments is determined as follows:

#### *Basis of valuation of government securities*

The government securities not listed on a stock exchange and traded in the interbank market are valued at the average rates quoted on a widely used electronic quotation system which are based on the remaining tenor of the securities.

#### *Basis of valuation of debt securities*

The fair value of debt securities is based on the value determined and announced by MUFAP in accordance with the criteria laid down in Circular No. 1 of 2009 dated January 6, 2009 and Circular No. 33 of 2012 dated October 24, 2012 issued by SECP. In the determination of the rates, MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing, in accordance with the circular and subsequent clarification thereon. Additional provision may be recognised when there is objective evidence of the continuity of non-performance. Further, the reversal of provision is also made in accordance with the said circulars and subsequent clarifications.

Financial assets and financial liabilities are priced at their fair value.

### **3.1.6 Impairment**

Impairment loss on investment 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.

Impairment loss on investment classified as 'available for sale' debt instruments is recognised in the Income Statement whenever the acquisition cost of investment exceeds its recoverable amount. If in a subsequent period, the amount of an impairment loss recognised decreases, the impairment is reversed in the Income Statement.

### **3.1.7 Derecognition**

The Fund derecognises a financial asset when the contractual rights to the cash flows 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.

### **3.1.8 Offsetting of financial instruments**

Financial assets and financial liabilities are set off and the net amount is reported in the Statement of Assets and Liabilities 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.

## **3.2 Unitholders' fund**

Unitholders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

## **3.3 Issuance and redemption of units**

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours of the day when the application is received. The offer price represents the net assets value of the units as of the close of that business day plus the allowable sales load, provision of duties and charges and provision for transaction costs, if applicable. The sales load is payable to the distributors and the Management Company.

Units redeemed are recorded at the redemption price prevalent on the date on which the distributors receive redemption application during business hours on that date. The redemption price represents the net assets value per unit as on the close of business day less any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

### **3.4 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 issued 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 Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unitholders' fund in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unitholders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

The element is recognised in the Income Statement to the extent that it is represented by income earned during the year and unrealized appreciation / (diminution) arising during the year on 'available for sale' securities is included in the Distribution Statement.

### **3.5 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.

### **3.6 Net assets value per Unit**

The net assets value (NAV) per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at year end.

### **3.7 Taxation**

#### *Current*

The income of the Fund is exempt from income tax under clause 99 of part I to the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unitholders. Accordingly, the Fund has not recorded a tax liability in respect of income relating to the current year as the Fund has availed this exemption.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV to the Second Schedule of the Income Tax Ordinance, 2001.

#### *Deferred*

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit.

The deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on enacted tax rates.

However, the Fund has availed the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unitholders every year. Accordingly, no deferred tax has been recognised in these financial statements.

### **3.8 Revenue recognition**

- (i) Gains / (losses) arising on sale of investments are included in Income Statement currently and are recognised when the transaction takes place.
- (ii) Profit on bank deposits is recognised on time proportion basis using effective yield method.
- (iii) Income on sukuk certificates, placements and government securities is recognised on time proportion basis using the effective yield except for the securities which are classified as Non-Performing Asset under Circular No. 33 of 2012 issued by SECP for which the profits are recorded on cash basis.

### **3.9 Expenses**

All expenses, including Management fee, Trustee fee and Securities and Exchange Commission of Pakistan's fee are recognised in the Income Statement as and when incurred.

### **3.10 Earnings per unit**

Earnings per unit (EPU) has not been disclosed as in the opinion of the management, the determination of weighted average units for calculating EPU is not practicable.

### **3.11 Cash and cash equivalents**

Cash and cash equivalents are carried in the Statement of Assets and Liabilities at cost. Cash comprises current and saving 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.

### **3.12 Distribution**

Distribution including bonus units are recognised in the year in which they are approved.

	Note	2014 (Rupees in '000)	2013
<b>4. BALANCES WITH BANKS</b>			
On saving accounts	4.1	3,293,438	1,155,139
On current accounts		5,245	3,320
		<b>3,298,683</b>	<b>1,158,459</b>

**4.1** The balance in saving accounts have an expected profit ranging from 3.72% to 9.20% per annum (2013: 5.65% to 9.40% per annum).

## 5. INVESTMENTS

Investments - 'at fair value through profit or loss'	5.1	1,616,111	1,442,862
Investments - 'available for sale'	5.2	-	60,063
		<b>1,616,111</b>	<b>1,502,925</b>
<b>5.1 Investments at fair value through profit or loss</b>			
- Held for trading	5.1.1	1,249,006	854,879
- Investments at fair value through profit or loss upon initial recognition	5.1.4	367,105	587,983
		<b>1,616,111</b>	<b>1,442,862</b>

### 5.1.1 Held for trading - Sukuk certificates

Name of the Security	Maturity date	Profit rate	As at July 1, 2013	Purchases during the year	Sales / redemptions during the year	As at June 30, 2014	Carrying value as at June 30, 2014	Market value as at June 30, 2014	Unrealised gain	Percentage of market value of investment %
			----- Number of certificates -----			-- (Rupees in '000) --				
GoP Ijarah Sukuk Certificates - IX (note 5.1.2)	December 26, 2014	Weighted average 6 months T-Bills	1,700	-	-	1,700	170,000	172,176	2,176	10.65
GoP Ijarah Sukuk Certificates - XII (note 5.1.2)	June 28, 2015	Weighted average 6 months T-Bills	1,000	-	-	1,000	100,000	102,830	2,830	6.36
GoP Ijarah Sukuk Certificates - XIII	September 18, 2015	Weighted average 6 months T-Bills	2,249	-	2,249	-	-	-	-	-
GoP Ijarah Sukuk Certificates - XIV	March 28, 2016	Weighted average 6 months T-Bills	3,600	-	3,600	-	-	-	-	-
GoP Ijarah Sukuk Certificates - XV (note 5.1.2)	June 25, 2017	Weighted average 6 months T-Bills	-	10,000	260	9,740	974,000	974,000	-	60.27
<b>Grand Total</b>							<b>1,244,000</b>	<b>1,249,006</b>	<b>5,006</b>	
<b>Total cost of investments</b>							<b>1,244,000</b>			

**5.1.2** The nominal value of these sukuk certificates is Rs. 100,000 each.

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

#### 5.1.4 Investments at fair value through profit or loss upon initial recognition - Sukuk certificates

Name of the Security	Maturity date	Profit rate	As at July 1, 2013	Purchases during the year	Sales / redemptions during the year	As at June 30, 2014	*Carrying value as at June 30, 2014	*Market value as at June 30, 2014	Unrealised (loss)	Percentage of market value of investment %
			----- Number of certificates -----			-- (Rupees in '000) --				
Arzoo Textile Mills Limited (note 5.1.3 & 5.1.9)	April 15, 2014	6 months Kibor plus base rate of 2%	14,000	-	-	14,000	-	-	-	-
Eden Builders Limited	March 8, 2014	3 months Kibor plus base rate of 2.3%	1,800	-	1,800	-	-	-	-	-
Eden Housing Limited (note 5.1.5, 5.1.7 & 5.1.9)	September 29, 2014	6 months Kibor plus base rate of 2.5%	59,400	-	-	59,400	-	-	-	-
Engro Fertilizer Limited (note 5.1.3) (A-, PACRA, non-traded)	September 1, 2015	6 months Kibor plus base rate of 1.5%	35,500	-	-	35,500	177,681	177,349	(332)	10.97
Maple Leaf Cement Factory Limited (note 5.1.3, 5.1.6) (BBB, PACRA)	December 3, 2018	3 months Kibor plus base rate of 1%	57,464	-	6,400	51,064	255,320	189,756	(65,564)	11.74
Security Leasing Corporation Limited II (note 5.1.3, 5.1.8 & 5.1.9)	January 19, 2022	Nil	3,487	-	372	3,115	-	-	-	-
<b>Grand Total</b>							<b>433,001</b>	<b>367,105</b>	<b>(65,896)</b>	
<b>Total cost of investments</b>								<b>863,973</b>		

\* In case of debt securities against which provision has been made, these are carried at carrying value less provision.

**5.1.5** The nominal value of the sukuk certificates of Eden Housing Limited is Rs. 984.375 each.

**5.1.6** The sukuk of Maple Leaf Cement Factory Limited (MLCF) have been regular on its payments as per the restructuring agreement and meet all conditions of Circular 33 of 2012 for reclassification. Consequently, MUFAP has reclassified MPLC Sukuk from non performing to performing on June 23, 2014 and assigned it a value of Rs 77.5200 after applying a discretionary discount of 500 bps. However, the security has been reclassified but the issuer class risk still remains as "BBB" which is the lowest cadre in investment grade category. Additionally, MLCF's plans to go for an expansion in line with some other industry players are still not clear and if, in order to capture an increased share of the increasing demand going forward, the company goes for the expansion strategy which may result in stressed cash flows once again.

In the light of above and as allowed in Circular 33 of 2012, management has applied additional 200 bps discretionary discount which brought down the price of MPLC Sukuk to Rs. 74.3210.

**5.1.7** On May 6, 2011, Eden Housing sukuk certificates have been classified as non-performing by MUFAP. Therefore in accordance with the requirement of Circular No.33 of 2012, the sukuk certificates have been classified as non-performing assets and no further profit has been accrued thereafter. Further, in accordance with the said Circular, an amount of Rs 58.472 million has also been provided against the outstanding principal as at June 30, 2014.

**5.1.8** The agreement with Security Leasing Corporation Limited had been amended on February 19, 2012. In accordance with the revised terms no mark-up is payable on the said sukuk with the approval of contributories to the sukuk certificate. The sukuk certificates have been classified as non-performing by MUFAP on April 3, 2012. Therefore in accordance with the requirement of Circular No.33 of 2012, the sukuk certificates have been classified as non-performing assets and no further profit has been accrued thereafter. Further, in accordance with the provisioning policy of the Fund, an amount of Rs 15.572 million has also been provided against the outstanding principal as at June 30, 2014. The Fund has received all the installments due as per the restructured terms.

**5.1.9** The Securities and Exchange Commission of Pakistan vide circular 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. Al Meezan Investment Management Limited (Management Company) classified Meezan Islamic Income Fund (the Fund) as 'Income Scheme' in accordance with the said circular. As at June 30, 2014, the Fund is compliant with all the requirements of the said circular except for clause 9 (v) which requires the rating of any security in the portfolio shall not be lower than the investment grade.

Following investments of the Fund are in the sukuk which are below 'investment grade' securities:

Name of Non-Compliant Investment	Type of investments	Value of investment before provision	Provision held (if any)	Value of investment after provision	Percentage of net assets	Percentage of total assets
		Rs '000			%	
Arzoo Textile Mills Limited	Non-traded sukuk certificates	70,000	70,000	-	-	-
Eden Housing Limited	Non-traded sukuk certificates	58,472	58,472	-	-	-
Security Leasing Corporation Limited II	Non-traded sukuk certificates	15,572	15,572	-	-	-
		<b>144,044</b>	<b>144,044</b>	-		

#### 5.1.10 Provision on sukuk certificates

	2014	2013
	(Rupees in '000)	
Opening	125,755	142,819
Provision / (reversal) for the year - net	18,289	(17,064)
Closing	144,044	125,755

#### 5.2 Investments - available for sale

Name of the Security	Maturity date	Profit rate	As at July 1, 2013	Purchases during the year	Sales / redemptions during the year	As at June 30, 2014	Carrying value as at June 30, 2014	Market value as at June 30, 2014	Unrealised gain / (loss)	Percentage of market value of investment
			----- Number of certificates -----			-- (Rupees in '000) --				
GoP Ijarah Sukuk Certificates - VIII	May 16, 2014	Weighted average 6 months T-Bills	600	-	600	-	-	-	-	-
Hub Power Company Limited - CP Sukuk	September 12, 2013	6 months Kibor plus base rate of 1.25%	45,000	-	45,000	-	-	-	-	-
Kot Addu Power Company Limited - CP Sukuk	January 22, 2014	6 months Kibor plus base rate of 1.1%	-	45,000	45,000	-	-	-	-	-
Lalpir Power Limited CP Sukuk	April 21, 2014	6 months Kibor plus base rate of 1.5%	-	45,000	45,000	-	-	-	-	-
<b>Total cost of investments</b>										



	Note	2014 (Rupees in '000)	2013
<b>6. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Security deposits		2,603	2,600
Prepayments		367	-
Profit receivable on saving accounts with banks		59,154	18,885
Profit receivable on sukuk certificates		8,851	29,111
		<b>70,975</b>	<b>50,596</b>
<b>7. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) - Management Company</b>			
Management fee	7.1	5,801	3,044
Sindh Sales Tax and Federal Excise Duty on management fee	7.2 & 7.3	9,648	785
Sales load		277	3,391
Sindh Sales Tax and Federal Excise Duty on sales load	7.2 & 7.3	163	556
Certificate charges		1	1
		<b>15,890</b>	<b>7,777</b>

**7.1** Under the provisions of NBFC Regulations, the Management Company is entitled to a remuneration of an amount not exceeding 3% of the average annual net assets of the Fund during the first five year of the Fund's existence, and thereafter, of an amount equal to 2% of such assets of the Fund. The remuneration of the Management Company has been charged at the rate of 1.5% per annum.

**7.2** The Sindh Provincial Government has levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company and sales load through Sindh Sales Tax on Services Act 2011 effective from July 1, 2011.

**7.3** As per the requirement of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective June 13, 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law. The matter has been taken up collectively by the Mutual Fund Association of Pakistan where various options are being considered. During the period, the Honourable High Court Sindh in a Constitutional petition relating to levy of Federal Excise Duty (FED) on Mutual Fund has granted stay order for the recovery of Federal Excise Duty (FED). As a matter of abundant caution, the Management Company has made a provision with effect from June 13, 2013, aggregating to Rs. 7.70 million. Had the provision not being made, the Net Asset Value per unit of the Fund as at June 30, 2014 would have been higher by Rs. 0.08 per unit.

**8. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED (CDC) - Trustee**

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 value of the Fund. The tariff structure is as follows:

Net assets	Tariff
Up to 1 billion	0.17% p.a. of net assets subject to a minimum of Rs. 0.6 million
1 billion to 5 billion	Rs. 1.7 million plus 0.085% p.a. of net assets exceeding Rs. 1 billion
Over 5 billion	Rs. 5.1 million plus 0.07% p.a. of net assets exceeding Rs. 5 billion

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

This represents annual fee payable to the SECP. Fee at the rate of 0.075% of the average annual net assets of the Fund is payable to SECP under regulation 62 read with Schedule II of the NBFC Regulations.

## 10. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2014 (Rupees in '000)	2013
Auditors' remuneration		375	400
Zakat payable		95	62
Printing expenses payable		258	206
Workers' Welfare Fund (WWF) payable	12	38,906	29,002
Withholding tax payable		424	576
Brokerage payable		44	11
Other payable		88	92
		<b>40,190</b>	<b>30,349</b>

## 11. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2014.

## 12. WORKERS' WELFARE FUND

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 Collective Investment Schemes / mutual funds (CISs) 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, during the year ended June 30, 2010, a constitutional petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication.

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. However, on December 14, 2010, the Ministry 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 Court.

In 2012, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 declared the said amendments as unlawful and unconstitutional. In March 2013 a large bench of Sindh High Court (SHC) in various Constitutional Petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 do not suffer from any constitutional or legal infirmity. However, the Honorable High Court of Sindh has not addressed the other amendments made in WWF Ordinance 1971 about applicability of WWF to the CISs which is still pending before the court.

The decisions of SHC ( in against) and LHC ( in favour) are pending before Supreme Court. However, the management company as a matter of abundant caution has recognised WWF amounting to Rs. 38.906 million which includes Rs. 9.904 million pertaining to the current year and Rs. 29.002 million pertaining to prior years. Had the WWF not been provided, the NAV per unit of the Fund would have been higher by Rs. 0.40 (0.79%).

**2014**      **2013**  
**(Number of units)**

**13 NUMBER OF UNITS IN ISSUE**

**13.1** The movement in number of units in issue during the year is as follows:

Total units in issue at the beginning of the year	<b>49,019,878</b>	23,294,657
Add: units issued during the year	<b>118,363,762</b>	49,288,233
Add: bonus units issued during the year	<b>13,145,868</b>	2,400,936
Less: units redeemed during the year	<b>(82,486,464)</b>	(25,963,948)
Total units in issue at the end of the year	<b>98,043,044</b>	49,019,878

**13.2** The Fund may issue following classes of units:

Class	Description
A - Restricted	Units that shall be charged with no sales load (note 13.2.1).
A	Units that shall be charged with no sales load.
B	Units that shall be charged with front-end load.
C	Units that shall be charged with contingent back-end load.

**13.2.1** Class A (Restricted) units were issued as initial subscription in the form of seed capital which was received by the Fund during the period December 13, 2006 to December 15, 2006 with the restriction that these units are not redeemable or transferable for a period of two years from the date of such subscription.

**13.2.2** According to the supplemental offering document dated March 17, 2008, the Management Company of the Fund may issue the following types of units:

- Growth units which shall be entitled to bonus units in case of any distribution by the Fund. Bonus units issued to growth unitholders shall also be the growth units; and
- Income units which shall be entitled to dividend in case of any distribution by the Fund.

**14. AUDITORS' REMUNERATION**

**2014**      **2013**  
**(Rupees in '000)**

Statutory audit fee	<b>339</b>	290
Half yearly review fee	<b>125</b>	110
Other certifications	-	110
Out of pocket expenses	<b>30</b>	44
	<b>494</b>	554

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

The connected persons include Al Meezan Investment Management Limited (Al Meezan) being the Management Company, Central Depository Company of Pakistan Limited (CDC) being the Trustee, Meezan Bank Limited (MBL) being the holding company of the Management Company, Directors and Officers of the Management Company, Meezan Islamic Fund, Al Meezan Mutual Fund, KSE Meezan Index Fund, Meezan Sovereign Fund, Meezan Cash Fund, Meezan Capital Protected Fund - II, Meezan Financial Planning Fund of Funds, Meezan Balanced Fund, Meezan Capital Preservation Fund - III, Meezan Capital Preservation Fund - II and Meezan Tahaffuz Pension Fund being the Funds under the common management of the Management Company, Pakistan Kuwait Investment Company (Private) Limited being the associated company of the Management Company, Al Meezan Investment Management Limited - Staff Gratuity Fund and unitholders holding 10% or more of the Fund.

Transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Regulations and the Trust Deed respectively.

Details of transactions with connected persons and balances with them for the year ended June 30, 2014 and as of that date along with comparatives are as follows:

	2014	2013
	(Rupees in '000)	
<b>Al Meezan Investment Management Limited - Management Company</b>		
Remuneration payable	5,801	3,044
Sales load payable	277	3,391
Certificate charges payable	1	1
Sindh Sales Tax and Federal Excise Duty on management fee	9,648	785
Sindh Sales Tax and Federal Excise Duty on sales load	163	556
Investments as at June 30, 2014: 16,183,639 units (June 30, 2013: 4,347,920 units)	811,933	234,575
<b>Meezan Bank Limited</b>		
Sales load payable	112	97
Balances with bank	63,581	12,116
Profit receivable on saving accounts	336	207
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Trustee fee payable	399	242
Security deposit	100	100
<b>Meezan Capital Preservation Fund - III</b>		
Investments as at June 30, 2014: 18,713,377 units (June 30, 2013: nil units)	938,850	-
<b>Al Meezan Investment Management Limited - Staff Gratuity Fund</b>		
Investments as at June 30, 2014: 38,330 units (June 30, 2013: 31,851 units)	1,923	1,718
<b>Directors and executives of the Management Company</b>		
Investments as at June 30, 2014: 4,092,708 units (June 30, 2013: 1,050,502 units)	205,331	56,676

**Al Meezan Investment Management Limited - Management Company**

**For the year ended  
June 30,**

**2014                      2013  
(Rupees in '000)**

Remuneration for the year	<b>54,024</b>	25,712
Sindh Sales Tax & Federal Excise Duty on management fee for the year	<b>18,488</b>	4,412
Units issued: 10,693,809 units (June 30, 2013: 3,677,853 units)	<b>551,000</b>	189,000
Redemptions: 597,967 units (June 30, 2013: nil unit)	<b>30,000</b>	-
Bonus units issued: 1,739,877 units (June 30, 2013: 248,725 units)	<b>87,424</b>	12,593
<b>Meezan Bank Limited</b>		
Profit on saving accounts	<b>31,845</b>	324
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration for the year	<b>3,901</b>	2,307
CDS Charges for the year	<b>6</b>	8
<b>Meezan Capital Preservation Fund - III</b>		
Units issued: 37,463,033 units (2013: nil unit)	<b>1,927,000</b>	-
Redemptions: 20,582,148 units (2013: nil unit)	<b>1,043,292</b>	-
Bonus units issued: 1,832,492 units (2013: nil unit)	<b>92,050</b>	-
<b>Al Meezan Investment Management Limited - Staff Gratuity Fund</b>		
Units issued: nil units (2013: 28,270 units)	-	1,500
Bonus units issued: 6,479 units (2013: 328 units)	<b>326</b>	17
<b>Directors and executives of the Management Company</b>		
Units issued: 3,127,818 units (2013: 1,074,307 units)	<b>160,645</b>	55,849
Redemptions: 466,159 units (2013: 100,871 units)	<b>24,015</b>	3,980
Bonus units issued: 380,547 units (2013: 37,549 units)	<b>19,122</b>	1,902



## 16. FINANCIAL INSTRUMENTS BY CATEGORY

	2014				Total
	Loans and receivables	Financial assets 'at fair value through profit or loss'	Financial assets categorised as 'available for sale'	Financial liabilities measured at amortised cost	
	----- (Rupees in '000) -----				
<b>On balance sheet - financial assets</b>					
Balances with banks	3,298,683	-	-	-	3,298,683
Investments	-	1,616,111	-	-	1,616,111
Deposits, prepayments and other receivables	70,975	-	-	-	70,975
	<u>3,369,658</u>	<u>1,616,111</u>	<u>-</u>	<u>-</u>	<u>4,985,769</u>
<b>On balance sheet - financial liabilities</b>					
Payable to Al Meezan Investment Management Limited - Management Company	-	-	-	15,890	15,890
Payable to Central Depository Company of Pakistan - Trustee	-	-	-	399	399
Payable to Meezan Bank Limited	-	-	-	112	112
Payable on redemption and conversion of units	-	-	-	7,139	7,139
Dividend payable	-	-	-	983	983
Accrued expenses and other liabilities	-	-	-	765	765
	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,288</u>	<u>25,288</u>
	2013				Total
Loans and receivables	Financial assets 'at fair value through profit or loss'	Financial assets categorised as 'available for sale'	Financial liabilities measured at amortised cost		
	----- (Rupees in '000) -----				
<b>On balance sheet - financial assets</b>					
Balances with banks	1,158,459	-	-	-	1,158,459
Investments	-	1,442,862	60,063	-	1,502,925
Deposits and other receivables	50,596	-	-	-	50,596
	<u>1,209,055</u>	<u>1,442,862</u>	<u>60,063</u>	<u>-</u>	<u>2,711,980</u>
<b>On balance sheet - financial liabilities</b>					
Payable to Al Meezan Investment Management Limited - Management Company	-	-	-	7,777	7,777
Payable to Central Depository Company of Pakistan - Trustee	-	-	-	242	242
Payable to Meezan Bank Limited	-	-	-	97	97
Payable on redemption and conversion of units	-	-	-	27,549	27,549
Accrued expenses and other liabilities	-	-	-	709	709
	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,374</u>	<u>36,374</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 unitholders and seeks to minimise potential adverse effects on the Fund's financial performance.

Risks of the Fund are being managed by the 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 and interest rate risk), credit risk and liquidity risk. Further, the overall exposure of the Fund complies with the NBFC Regulations 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 that the fair value or future cash flows of a financial instruments will fluctuate because of a change in market price (other than Currency risk or Interest rate risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market. The Fund is not exposed to price risk as at June 30, 2014.

### 17.1.2 Interest Rate Risk

The interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates which effects cash flows pertaining to debt instruments and their fair values.

#### *Cash Flow interest rate risk*

The company's interest rate risk arises from the balances in saving accounts and investment in debt securities. At June 30, 2014, if there had been increase / decrease of 100 basis points in interest rates or in rates announced by Financial Market Association, with all other variables held constant, net assets of the Fund for the year then ended would have been higher / lower by Rs 49.095 million (2013: approximately Rs 26.581 million) mainly as a result of finance income.

#### *Fair value interest rate risk*

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

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Therefore, the sensitivity analysis prepared as of June 30, 2014 is not necessary indicative of the effect on the Fund's net asset due to future movements in interest rates.

### 17.1.3 Currency risk

Currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pakistani Rupees.

## 17.2 Credit Risk

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

Credit risk arises from deposits with banks and financial institutions, profit receivable on bank deposits, credit exposure arising as a result of investment in debt securities, profit receivable on debt 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 at least 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 unrated instruments based on internal ratings assigned by the Fund manager using an approach that is consistent with the approach used by the rating agencies. Credit risk arising on other financial assets is monitored through a regular analysis of financial position of brokers and other parties. For Debt instrument settlement, Delivery versus Payment (DvP) mechanism applied by Trustee of the Fund minimize the credit risk. In accordance with the risk management policy of the Fund, the investment manager monitors the credit position on a daily basis which is reviewed by the Board of Directors of the Management Company on a quarterly basis.

The maximum exposure to credit risk as at June 30, 2014 along with comparative is tabulated below:

	2014	2013
	(Rupees in '000)	
<b>Financial assets</b>		
Balances with banks	<b>3,298,683</b>	1,158,459
Investments	<b>367,105</b>	587,983
Deposits prepayments and other receivables	<b>70,975</b>	50,596
	<b>3,736,763</b>	1,797,038

Credit Rating wise analysis of balances with bank of the Fund are tabulated below:

	2014	2013
	..... (%) .....	
AAA	<b>0.10</b>	0.01
AA+	<b>0.86</b>	28.32
AA	<b>1.99</b>	1.23
A	<b>97.05</b>	70.44
	<b>100.00</b>	100.00

The credit rating wise analysis of investments in debt instruments have been tabulated below:

	2014	2013
	..... (%) .....	
Government guaranteed	<b>77.29</b>	60.88
AA+	-	14.97
A+	-	11.82
A-	<b>10.97</b>	0.60
BBB	<b>11.74</b>	-
Non-rated	-	11.73
	<b>100.00</b>	100.00

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 Fund does not have any collateral against any of the aforementioned assets. The issuer of the Sukuks, however, pledge securities with the investment agent in Trust for the benefit of the Sukuk Holder.

Due to the Fund's long standing business relationships with these counter parties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Fund except for Arzoo Textiles Limited Sukuk, Security Leasing Corporation Sukuk, Maple Leaf Cement Factory Limited Sukuk and Eden Housing Limited Sukuk.

### 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 unitholders' redemptions at any time. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's asset in highly liquid financial assets.

In accordance with the regulation 58(1)(k) of the NBFC Regulations, 2008 the Fund has the ability to borrow funds for meeting redemption requests, with the approval of the Trustee, for a period not exceeding three months to the extent of fifteen percent of its net assets. However, no such borrowing has been obtained during the year.

Further, the Fund is also allowed, in accordance with regulation 57(10) of the NBFC Regulations, 2008 to defer redemption request to next dealing day, had such requests exceeded ten percent of the total number of units in issue. However, no such defer redemption request has been exercised by the Fund during the year .

In accordance with the risk management policy of the Fund, the Fund investment committee reviews the liquidity position on a daily basis, which is reviewed by the Board of Directors of the Management Company on a quarterly basis.

In addition to Unitholders' fund, analysis of the financial liabilities into relevant maturity grouping as at June 30, 2014 along with comparative is tabulated below:

	Maturity upto				2014 Total
	Three months	Six months	One year	More than one year	
----- (Rupees in '000) -----					
Payable to Al Meezan Investment Management Limited - Management Company	15,890	-	-	-	15,890
Payable to Central Depository Company of Pakistan Limited - Trustee	399	-	-	-	399
Payable to Meezan Bank Limited	112	-	-	-	112
Payable on redemption and conversion of units	7,139	-	-	-	7,139
Dividend payable	983	-	-	-	983
Accrued expenses and other liabilities	765	-	-	-	765
	<u>25,288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,288</u>

	Maturity upto				2013 Total
	Three months	Six months	One year	More than one year	
----- (Rupees in '000) -----					
Payable to Al Meezan Investment Management Limited - Management Company	7,777	-	-	-	7,777
Payable to Central Depository Company of Pakistan Limited - Trustee	242	-	-	-	242
Payable to Meezan Bank Limited	97	-	-	-	97
Payable on redemption and conversion of units	27,549	-	-	-	27,549
Accrued expenses and other liabilities	709	-	-	-	709
	<u>36,374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,374</u>

Units of the Fund are redeemable on demand at the option of unitholders, however, the Fund does not anticipate significant redemption of units.

## **18. UNITHOLDERS' FUND RISK MANAGEMENT**

The unitholders' fund is represented by redeemable units. These units are entitled to distribution and payment of a proportionate share, based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown in the Statement of Movement in Unitholders' Fund.

The Fund's objectives when managing unitholders funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets under management.

The Fund has no restrictions on the subscription and redemption of units.

The Fund meets the requirement of sub-regulation 54(3a) which requires that the minimum size of an Open End Scheme shall be one hundred million rupees at all time during the life of the scheme.

In accordance with the risk management policies stated in the note 17, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short term borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.

## **19. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a 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 are based on the quoted market prices at the close of trading on the year end date.

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, those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets that are not traded in an active market is determined with reference to the rates quoted by Financial Market Association of Pakistan and MUFAP. The fair value quoted by MUFAP is calculated in accordance with the valuation methodology prescribed by Circular 1 of 2009 and Circular 33 of 2012 issued by SECP.

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in active market 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 (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).



The following table presents the assets that are measured at fair value as at June 30, 2014.

	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
<b>Assets</b>				
<b>Financial assets held for trading</b>				
- Debt securities	-	1,249,006	-	1,249,006
<b>Financial assets designated 'at fair value through profit or loss upon initial recognition'</b>				
- Debt securities	-	367,105	-	367,105
	<u>-</u>	<u>1,616,111</u>	<u>-</u>	<u>1,616,111</u>

The following table presents the assets that are measured at fair value as at June 30, 2013.

	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
<b>Assets</b>				
<b>Financial assets designated 'at fair value through profit or loss upon initial recognition'</b>				
- Debt securities *	-	186,701	401,282	587,983
	<u>-</u>	<u>186,701</u>	<u>401,282</u>	<u>587,983</u>

\* GoP Ijarah Sukuks have been carried at cost in the year 2013.

The following table presents the movement in level 3 instruments.

	<b>Debt Securities</b>	
	<b>2014</b>	<b>2013</b>
	(Rupees in '000)	
Opening balance	401,282	222,046
Transfers into level 2	(189,756)	-
Purchases	-	225,000
Sales / redemptions	(193,237)	(62,828)
Provision / reversal against sukuk certificates (net)	(18,289)	17,064
Closing balance	<u>-</u>	<u>401,282</u>

## 20. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains, whether realised or unrealised, is distributed amongst the unitholders. Furthermore, as per Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current period as the Management Company has distributed sufficient income of the Fund for the year ended June 30, 2014 as reduced by capital gains (whether realised or unrealised) to its unitholders.

## 21. PERFORMANCE TABLE

	2014	2013	2012	2011	2010
	----- (Rupees in '000) -----				
Net assets (Rs '000) (ex-distribution)	4,918,355	2,639,493	1,202,676	2,515,823	3,367,736
Net assets value / redemption price per unit					
as at June 30 (Rs) (ex-distribution)	50.17	50.20	49.93	50.06	50.62
Offer price per unit as at June 30 (Rs) (ex-distribution)	50.51	50.49	50.22	50.31	50.87
<b>Distribution (%)</b>					
- Interim					
- First quarter	-	-	-	3.00	2.50
- Second quarter	4.00	6.00	-	2.00	1.00
- Third quarter	3.00	-	4.00	3.50	0.27
- Fourth quarter (i)	2.56	-	-	2.00	-
- Fourth quarter (ii)	2.00	-	-	-	-
- Annual	-	7.50	3.94	2.00	2.50
Dates of distribution (interim)					
- First quarter	-	-	-	September 30, 2010	October 3, 2009
- Second quarter	December 24, 2013	December 31, 2012	-	December 31, 2010	January 4, 2010
- Third quarter	March 24, 2014	-	March 31, 2012	March 29, 2011	February 26, 2010
- Fourth quarter (i)	May 30, 2014	-	-	May 24, 2011	-
- Fourth quarter (ii)	June 24, 2014	-	-	-	-
Dates of distribution (annual)	-	July 8, 2013	July 9, 2012	July 7, 2011	July 7, 2010
Income distribution (Rupees in '000)	-	5,187	19,076	156,584	88,524
Growth distribution (Rupees in '000)	-	178,638	76,072	189,039	185,688
Highest offer price per unit (Rs)	54.55	54.22	52.41	52.61	52.36
Lowest offer price per unit (Rs)	50.35	50.16	50.00	50.34	50.34
Highest redemption price per unit (Rs)	54.19	53.95	52.11	52.35	52.10
Lowest redemption price per unit (Rs)	50.01	49.91	49.71	50.09	50.09
Total return (%)	11.90	14.45	7.81	11.78	7.31
Weighted Average Portfolio Duration (years)	2.57	2.05	2.94	2.63	3.87
	<b>One year</b>	<b>Two years</b>	<b>Three years</b>	<b>Four years</b>	<b>Five years</b>
Average annual return (%) as at June 30, 2014	11.90	13.17	11.35	11.46	10.62

Investment portfolio composition of the Fund as described in Note 5.

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

## 22. INVESTMENT COMMITTEE MEMBERS

22.1 Details of members of investment committee of the Fund are as follow:

Name	Designation	Qualification	Experience
Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Twenty four years
Mr. Muhammad Asad	Chief Investment Officer	CFA level II / MBA	Eighteen years
Ms. Sanam Ali Zaib	Head of Research	CFA / MBA	Ten years
Mr. Ahmed Hassan	AVP Investments	CFA / MBA	Seven years
Mr. Zain Malik	Senior Manager (Fund Management Department)	CFA level II / BBA	Five years
Mr. Gohar Rasool	Senior Manager (Fund Management Department)	MBBS	Seven years

22.2 The Fund manager of the Fund is Mr. Zain Malik. Other Funds being managed by the Fund Manager are as follows:

- Meezan Cash Fund
- Meezan Sovereign Fund

## 23. BROKERAGE COMMISSION BY PERCENTAGE

Name of the brokers	2014	2013
	..... % .....	
Invest Capital Management Limited	67.49	7.04
JS Global Capital Limited	27.63	7.04
Invest and Finance Securities Limited	4.88	64.79
BMA Capital Management Limited	-	21.13

## 24. PATTERN OF UNIT HOLDING

	As at June 30, 2014		
	Number of unitholders	Investment amount	Percentage of total investment
	(Rupees in '000)		
Individuals	1,693	1,495,956	30.42
Associated companies / directors	8	1,951,256	39.67
Insurance companies	1	16,892	0.34
Banks / DFIs	2	48,815	0.99
Retirement funds	44	729,023	14.82
Public limited companies	1	203,765	4.14
Others	22	472,648	9.62
Total	<u>1,771</u>	<u>4,918,355</u>	<u>100.00</u>

	As at June 30, 2013		
	Number of unitholders	Investment amount	Percentage of total investment
	(Rupees in '000)		
Individuals	1,696	1,382,627	52.28
Associated companies / directors	6	287,788	10.88
Insurance companies	1	15,096	0.57
Banks / DFIs	3	220,387	8.33
NBFCs	1	8,437	0.32
Retirement funds	39	528,831	20.00
Others	23	201,514	7.62
<b>Total</b>	<b>1,769</b>	<b>2,644,680</b>	<b>100.00</b>

## 25. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	Dates of Board of Directors Meetings and Directors' present therein				
		July 8, 2013	August 23, 2013	October 25, 2013	February 11, 2014	April 29, 2014
Mr. Ariful Islam	Chairman	No	Yes	Yes	Yes	Yes
Mr. P. Ahmed	Director	No	Yes	No	Yes	No
Mr. Salman Sarwar Butt	Director	Yes	Yes	Yes	..... Resigned .....	.....
Mr. Tasnimul Haq Farooqui	Director	Yes	No	Yes	Yes	Yes
Mr. Mazhar Sharif	Director	Yes	No	Yes	Yes	Yes
Syed Amir Ali	Director	Yes	No	Yes	Yes	Yes
Syed Amir Ali Zaidi	Director	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoab	Chief Executive	Yes	Yes	Yes	Yes	Yes


## 26. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 28, 2014 by the Board of Directors of the Management Company.

## 27. GENERAL

Corresponding figures have been rearranged and reclassified, wherever necessary, for better presentation and disclosure.

**For Al Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoab, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director

## PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE

AS AT JUNE 30, 2014

Units held by	Units Held	%
<b>Associated Companies</b>		
Al Meezan Investment Management Limited	16,183,639	16.51
Meezan Capital Preservation Fund - III	18,713,377	19.09
Al Meezan Investment Management Limited - Employees Gratuity Fund	38,330	0.04
<b>Chief Executive</b>		
Mr. Mohammad Shoaib, CFA	2,550,801	2.60
<b>Directors</b>		
Mr. Ariful Islam	1,363,069	1.39
Mr. Tasnimul Haq Farooqui	229	0.00
Syed Amir Ali	45,804	0.05
Syed Amir Ali Zaidi	1,306	0.00
<b>Executives</b>	131,499	0.13
<b>Banks and financial institutions</b>	973,077	0.99
<b>Individuals</b>	29,689,054	30.28
<b>Retirements funds</b>	14,532,430	14.82
<b>Other corporate sector entities</b>	13,820,429	14.10
<b>Total</b>	<b>98,043,044</b>	<b>100.00</b>





# Meezan Sovereign Fund (MSF)

Our aim is to seek maximum possible preservation of capital and a reasonable rate of return.







# FUND INFORMATION

## MANAGEMENT COMPANY

Al Meezan Investment Management Limited  
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Fax: (9221) 35676143, 35630808  
Web site: www.almeezangroup.com  
E-mail: info@almeezangroup.com

## BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

Mr. Ariful Islam	Non-Executive	Chairman
Mr. P. Ahmed	Independent	
Mr. Moin M. Fudda	Independent	
Mr. Tasnimul Haq Farooqui	Non-Executive	
Mr. Mazhar Sharif	Non-Executive	
Syed Amir Ali	Non-Executive	
Syed Amir Ali Zaidi	Non-Executive	
Mr. Mohammad Shoaib, CFA	Chief Executive	

## CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

## AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Mr. Mazhar Sharif	Member
Syed Amir Ali	Member

## HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Ariful Islam	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoaib, 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

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sheikh Sultan Trust Building No.2, Beaumont Road, Karachi- 75530.

## SHARIAH ADVISER

Meezan Bank Limited

## BANKERS TO THE FUND

Askari Bank Limited - Islamic Banking	Habib Bank Limited - Islamic Banking
Bank Alfalah Limited - Islamic Banking	Meezan Bank Limited
Bank Al Habib Limited - Islamic Banking	MCB Bank Limited - Islamic Banking
National Bank of Pakistan - Islamic Banking	Standard Chartered Bank (Pakistan) Limited - Islamic Banking
UBL Ameen	Habib Metropolitan Bank Limited - Islamic Banking
Faysal Bank Limited - Islamic Banking	

## LEGAL ADVISER

Bawaney & Partners  
3rd & 4th Floor, 68-C, Lane - 13, Bokhari Commercial Area Phase - VI, DHA Karachi  
Phone: (9221) 35156191-94 Fax: (9221) 35156195  
E-mail: bawaney@cyber.net.pk

## TRANSFER AGENT

Meezan Bank Limited  
Meezan House  
C-25, Estate Avenue, SITE, Karachi.  
Phone: 38103538 Fax: 36406017  
Web site: www.meezanbank.com

## DISTRIBUTORS

Al Meezan Investment Management Limited  
Meezan Bank Limited

## REPORT OF THE FUND MANAGER

Meezan Sovereign Fund (MSF) is Pakistan's first and largest Shariah Compliant open end mutual fund which falls under the category of Income Funds.

The Fund's primary objective is to provide investors with a low risk and stable rate of current income by primarily investing in Shariah Compliant Sovereign Securities.

### Investment Policy

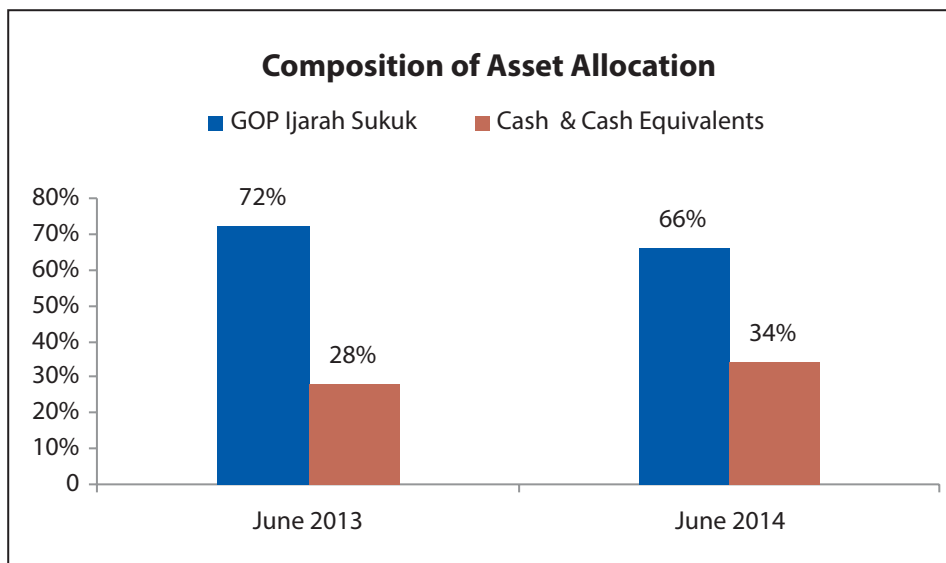
Meezan Sovereign Fund, an open end income fund, was launched in February 2010 with the investment policy stating that at least 70% of the net assets of the fund shall be invested in Shariah compliant fixed government securities. The remaining allocation will be in top rated banks and financial institutions.

### Strategy Implementation - Strategic and tactical Asset Allocation

The instruments in which MSF invests are Sovereign Sukuks (Islamic Bonds), Musharaka and Murabaha instruments; Certificate of Islamic Investments, Islamic bank deposits and other Sovereign Islamic income products.

### Sector Allocation for the year ended FY13 and FY14

The asset allocation of the fund on June 30, 2013 and June 30, 2014 is as follows:



### Performance Review

Meezan Sovereign Fund (MSF) provided a return of 8.50% to its investors for the year ended June 30, 2014. During the year, the Fund earned gross income of Rs. 1,981.30 million. Profit on Sukuks certificates contributed Rs. 1,322.94 million and profit on saving accounts with banks was Rs. 511.07 million. After accounting for expenses of Rs.343.46 million and element of loss and capital losses of Rs. 7.56 million, the net income of the Fund was Rs. 1,630.27 million. The net assets of the Fund as at June 30, 2014 were Rs. 20,280.68 million as compared to Rs. 19,654.23 million at the end of last year. The net asset value per unit as at June 30, 2014 was Rs. 50.48 as compared to Rs.51.07 per unit as on June 30, 2013.

	<b>MSF</b>	<b>Six Month Deposits at Islamic Banks</b>
Net Asset Value as on June 30, 2013	51.07	
Net Asset Value as on June 30, 2014	50.48	
Return for the year	8.50%	6.55%
Outperformance	1.95%	

### **Distributions**

The Board of Directors in its meeting held on August 28, 2014 approved NIL distribution for the year ended June 30, 2014. The interim distributions by the Fund during the fiscal year ended June 30, 2014 were Rs. 3.69 per unit (7.38%). Total distribution made by the fund was Rs. 1,479 million.

### **Fund Stability Rating**

JCR-VIS Credit Rating Company has assigned Stability Rating of AA(f) to Meezan Sovereign Fund.

### **Unit holder Break down:**

(As on June 30, 2014)

<b>Range of Units</b>	<b>Number of investors</b>
1 - 9,999	3,054
10,000 - 49,999	1,835
50,000 - 99,999	354
100,000 - 499,999	283
500,000 and above	50
<b>Total</b>	<b>5,576</b>



**Meezan Bank**  
The Premier Islamic Bank

## Report of the *Shari'ah* Advisor – Meezan Sovereign Fund

August 28, 2014/ Zul Qad 02, 1435

**Alhamdulillah**, the period from July 01, 2013 to June 30, 2014 was the fifth year of operations of Meezan Sovereign Fund (MSF) under management of Al Meezan Investment Management Limited (Al Meezan). We Meezan Bank Limited are the *Shari'ah* Advisor of the Fund and are issuing the report in accordance with clause 8.2.7 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the *Shari'ah* compliance of the Fund's activity.

In the capacity of *Shari'ah* Advisor, we have prescribed criteria and procedures to be followed in ensuring *Shari'ah* compliance in every investment.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure *Shari'ah* compliance with the *Shari'ah* 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.

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of MSF in light of the *Shari'ah* guidelines.
- ii. All the provisions of the scheme and investments made on account of MSF by Al Meezan are *Shari'ah* compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operation of MSF for the year ended June 30, 2014 have been in compliance with *Shari'ah* principles.

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

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

**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  
Email: info@cdcpak.com



**TRUSTEE REPORT TO THE UNIT HOLDERS**

**MEEZAN SOVEREIGN FUND**

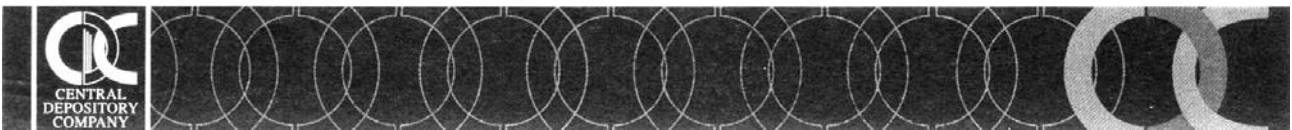
**Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

We, Central Depository Company of Pakistan Limited, being the Trustee of Meezan Sovereign Fund (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

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

Karachi, September 19, 2014





## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2014

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Karachi Stock Exchange Limited (Formerly Karachi Stock Exchange (Guarantee) Limited) for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Management Company has applied the principles contained in the CCG in the following manner:

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. P. Ahmed, Mr. Moin M. Fudda
Executive Director	Mohammad Shoaib, CFA - CEO
Non- Executive Directors	Mr. Ariful Islam Mr. Tasnimul Haq Farooqui Syed Amir Ali Mr. Mazhar Sharif Syed Amir Ali Zaidi

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred on the board on February 11, 2014 & April 29, 2014, which were filled up by the directors within 30 days. As required under clause (xi) of CCG regulation 35, all the relevant documents were circulated to the director and orientation will be conducted in forthcoming board of directors meeting. Further, as required under clause (v) of CCG regulation 35, mechanism for annual evaluation has been put in place and annual board's performance evaluation will be carried out in forthcoming year.
5. The Management Company has prepared a "Code of conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. Three of the directors of the Management Company have obtained 'Directors Training Certification' as at June 30, 2014.

10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the board.
13. The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unitholding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, all the three members are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of four members including CEO. All the other members, including chairman of the committee, are non-executive directors.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company / units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the NAV of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

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**Mohammad Shoaib, CFA**  
Chief Executive

Karachi  
Date: August 28, 2014



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847  
Fax + 92 (21) 3568 5095  
Internet www.kpmg.com.pk

**Review Report to the Unitholders' of Meezan Sovereign Fund ("the Fund") on  
Statement of Compliance with Best Practices of Code of Corporate Governance**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Al Meezan Investment Management Limited ("Management Company") of the Fund for the year ended 30 June 2014 to comply with the requirements of the Listing Regulations of the Islamabad Stock Exchange Limited (formerly Islamabad Stock Exchange (Guarantee) Limited), where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of Code. 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 Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Fund's corporate governance procedures and risks.

The Code requires the Management Company of the Fund to place before the Board of Directors for their review and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured this compliance of requirement to the extent of approval of related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2014.

**Date: 28 August 2014**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi, 75530 Pakistan

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Fax + 92 (21) 3568 5095  
Internet www.kpmg.com.pk

## **Independent Auditors' Report to the Unitholders**

### *Report on the Financial Statements*

We have audited the accompanying financial statements of **Meezan Sovereign Fund** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2014, and the related income statement, distribution statement, cash flow statement, statement of movement in unitholders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as the management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*


In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2014, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### *Report on Other Legal and Regulatory Requirements*

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

**Date: 28 August 2014**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Muhammad Nadeem

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.




# STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2014

	Note	2014 (Rupees in '000)	2013
<b>Assets</b>			
Balances with banks	4	6,690,140	5,259,781
Investments	5	13,724,316	14,398,331
Deposits, prepayments and other receivables	6	285,931	290,803
Preliminary expenses and floatation costs	7	312	824
<b>Total assets</b>		<b>20,700,699</b>	19,949,739
<b>Liabilities</b>			
Payable to Al Meezan Investment Management Limited (Al Meezan) - Management Company	8	54,698	23,146
Payable to Central Depository Company of Pakistan Limited (CDC) - Trustee	9	1,225	1,166
Payable to Securities and Exchange Commission of Pakistan (SECP)	10	15,287	14,720
Payable to Meezan Bank Limited (MBL)		270	307
Payable on redemption and conversion of units		225,016	162,664
Accrued expenses and other liabilities	11	123,518	93,503
<b>Total liabilities</b>		<b>420,014</b>	295,506
<b>Net assets</b>		<b>20,280,685</b>	19,654,233
Contingencies and commitments	12		
<b>Unitholders' fund (as per statement attached)</b>		<b>20,280,685</b>	19,654,233
		<b>(Number of units)</b>	
<b>Number of units in issue</b>	14	<b>401,746,086</b>	384,886,259
		<b>(Rupees)</b>	
<b>Net assets value per unit</b>		<b>50.48</b>	51.07

The annexed notes 1 to 28 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoaib, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director

# INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 (Rupees in '000)	2013
<b>Income</b>			
Profit on saving accounts with banks		511,075	507,769
Profit on sukuk certificates		1,322,945	1,473,481
Net realised (loss) / gain on sale of sukuk certificates		(562)	31,247
		<b>1,833,458</b>	2,012,497
Unrealised gain / (loss) on re-measurement of investments 'at fair value through profit or loss' (net)	5.1	147,842	(1,919)
<b>Total income</b>		<b>1,981,300</b>	2,010,578
<b>Expenses</b>			
Remuneration to Al Meezan Investment Management Limited - Management Company	8.1	203,823	196,270
Sindh Sales Tax and Federal Excise Duty on management fee	8.2 & 8.3	69,594	32,969
Remuneration to Central Depository Company of Pakistan Limited - Trustee	9	14,480	15,097
Annual fee to Securities and Exchange Commission of Pakistan	10	15,287	14,720
Auditors' remuneration	15	518	441
Fees and subscription		249	234
Amortisation of premium on investments held as 'available for sale'		2,999	7,432
Amortisation of preliminary expenses and floatation costs	7	512	511
Brokerage		1,407	1,045
Bank and settlement charges		183	253
Provision for Workers' Welfare Fund (WWF)	13	33,271	33,992
Printing expenses		1,139	260
<b>Total expenses</b>		<b>343,462</b>	303,224
<b>Net income from operating activities</b>		<b>1,637,838</b>	1,707,354
Element of loss and capital losses included in prices of units issued less those in units redeemed (net)		(7,565)	(7,754)
<b>Net income for the year before taxation</b>		<b>1,630,273</b>	1,699,600
Taxation	21	-	-
<b>Net income for the year after taxation</b>		<b>1,630,273</b>	1,699,600
<b>Other comprehensive income for the year</b>			
<b>Items that can be reclassified to income statement in subsequent periods</b>			
Net unrealised appreciation on re-measurement of investments classified as 'available for sale'	5.2	27,840	-
<b>Total comprehensive income for the year</b>		<b>1,658,113</b>	1,699,600

The annexed notes 1 to 28 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**



**Mohammad Shoaib, CFA  
Chief Executive**



**Syed Amir Ali Zaidi  
Director**




## DISTRIBUTION STATEMENT

FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
	(Rupees in '000)	
Undistributed income / accumulated (loss) brought forward		
- Realised	410,650	23,125
- Unrealised	(1,919)	(13,355)
	<b>408,731</b>	9,770
Less: Distributions during the year		
Less: Final distribution for the year ended June 30, 2013 :		
- bonus units @ 2.06 % (Rs.1.03 per units) (June 30,2012 : Rs Nil per unit)	(396,261)	-
- cash dividend @ 2.06 % (Rs.1.03 per units) (June 30,2012: Rs Nil per unit)	(181)	-
Less: Interim distribution on September 23, 2013		
- bonus units @ 1.80 % (Rs.0.90 per units) (September 24, 2012 : 2.38%)	(348,279)	(437,045)
- cash dividend @ 1.80 % (Rs.0.90 per units) (September 24, 2012: 2.38%)	(152)	(30)
Less: Interim distribution on December 24, 2013		
- bonus units @ 1.68 % (Rs.0.84 per units) (December 21, 2012 : 2.36%)	(322,143)	(463,358)
- cash dividend @ 1.68 % (Rs.0.84 per units) (December 21, 2012 : 2.36%)	(80)	(225)
Less: Interim distribution on March 24, 2014		
- bonus units @ 1.80 % (Rs.0.90 per units) (March 22, 2013 : 2.00%)	(373,709)	(399,787)
- cash dividend @ 1.80 % (Rs.0.90 per units) (March 22, 2013 : 2.00%)	(100)	(194)
Interim distribution on May 29, 2014		
- bonus units @ 2.10 % (Rs.1.05 per units) (June 30, 2013 : Rs nil per unit)	(434,791)	-
- cash dividend @ 2.10 % (Rs.1.05 per units) (June 30, 2013 : Rs nil per unit)	(73)	-
Total distribution	<b>(1,875,769)</b>	(1,300,639)
Net income for the year	<b>1,630,273</b>	1,699,600
Element of income and capital gain included in prices of units issued less those in units redeemed (net) pertaining to 'available for sale' investments	<b>442</b>	-
Undistributed income carried forward	<b>163,677</b>	408,731
Undistributed income / (loss) carried forward		
- Realised	<b>15,835</b>	410,650
- Unrealised	<b>147,842</b>	(1,919)
	<b>163,677</b>	408,731

The annexed notes 1 to 28 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoaib, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director


# STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND

## FOR THE YEAR ENDED JUNE 30, 2014

	2014 (Rupees in '000)	2013 (Rupees in '000)
Net assets at beginning of the year	19,654,233	19,709,509
Issue of 542,570,659 units (2013: 322,374,367 units)	27,562,097	16,287,901
Redemption of 563,035,844 units (2013: 357,452,249 units)	(28,600,737)	(18,050,082)
	(1,038,640)	(1,762,181)
Element of loss and capital losses included in prices of units sold less those in units redeemed (net)	7,565	7,754
Issue of 37,325,012 bonus units (2013: 25,998,614 bonus units)	1,875,183	1,300,190
Realised gain on sale of sukuk certificates	(562)	31,247
Unrealised diminution in the value of investments (net)	147,842	(1,919)
Other net income for the year	1,510,833	1,670,272
Total comprehensive income for the year	1,658,113	1,699,600
Final distribution for the year ended June 30, 2013		
Issue of 7,918,887 bonus units for the period ended June 30, 2013 (June 30, 2012: nil units)	(396,261)	-
- Cash distribution	(181)	-
Interim distribution on September 23, 2013		
Issue of 6,960,017 bonus units for the quarter ended September 30, 2013 (September 30, 2012 : 8,739,160 units)	(348,279)	(437,045)
- Cash distribution	(152)	(30)
Interim distribution on December 24, 2013		
Issue of 6,408,258 bonus units for the quarter ended December 31, 2013 (December 31, 2012 : 9,265,316 units)	(322,143)	(463,358)
- Cash distribution	(80)	(225)
Interim distribution on March 24, 2014		
Issue of 7,387,017 bonus units for the quarter ended March 24, 2014 (March 31, 2013 : 7,994,138 units)	(373,709)	(399,787)
- Cash distribution	(100)	(194)
Interim distribution on May 29, 2014		
- Issue of 8,650,833 bonus units for the period ended May 31, 2014 (May 31, 2013: nil units)	(434,791)	-
- Cash distribution	(73)	-
	(1,875,769)	(1,300,639)
Net assets at end of the year	20,280,685	19,654,233
	(Rupees)	
Net assets value per unit at beginning of the year	51.07	50.03
Net assets value per unit at end of the year	50.48	51.07

The annexed notes 1 to 28 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoaib, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director


## CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2014

<b>Note</b>	<b>2014</b>	<b>2013</b>
	<b>(Rupees in '000)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	<b>1,630,273</b>	1,699,600
<b>Adjustments for :</b>		
Unrealised (gain) / loss on re-measurement of investments 'at fair value through profit or loss' (net)	<b>(147,842)</b>	1,919
Amortisation of preliminary expenses and floatation costs	<b>512</b>	511
Amortisation of premium on investments held as 'available for sale'	<b>(2,999)</b>	7,432
Element of loss and capital losses included in prices of units sold less those in units redeemed (net)	<b>7,565</b>	7,754
	<b>1,487,509</b>	1,717,216
<b>Decrease / (increase) in assets</b>		
Investments (net)	<b>852,696</b>	(46,879)
Deposits, prepayments and other receivables	<b>4,872</b>	(43,092)
	<b>857,568</b>	(89,971)
<b>Increase / (decrease) in liabilities</b>		
Payable to Al Meezan Investment Management Limited - Management Company	<b>31,552</b>	1,965
Payable to Central Depository Company of Pakistan Limited - Trustee	<b>59</b>	(109)
Payable to Securities and Exchange Commission of Pakistan	<b>567</b>	1,791
Payable to Meezan Bank Limited	<b>(37)</b>	(392)
Accrued expenses and other liabilities	<b>30,015</b>	37,038
	<b>62,156</b>	40,293
<b>Net cash inflow from operating activities</b>	<b>2,407,233</b>	1,667,538
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts against issuance of units	<b>27,562,097</b>	16,287,901
Payments against redemption of units	<b>(28,538,385)</b>	(17,900,335)
Dividend paid	<b>(586)</b>	(29,307)
<b>Net cash used in financing activities</b>	<b>(976,874)</b>	(1,641,741)
Net increase in cash and cash equivalents during the year	<b>1,430,359</b>	25,797
Cash and cash equivalents at beginning of the year	<b>5,259,781</b>	5,233,984
Cash and cash equivalents at end of the year	<b>6,690,140</b>	5,259,781

The annexed notes 1 to 28 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoaib, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

## 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** Meezan Sovereign Fund (the Fund) was established under a trust deed executed between Al Meezan Investment Management Limited (Al Meezan) as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on May 14, 2009 and was approved by the Securities and Exchange Commission of Pakistan (SECP under) the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The Management Company has been licensed by the Securities and Exchange Commission of Pakistan (SECP) to act as an Asset Management Company under the Non-Banking Finance Companies Establishment and Regulations) Rules, 2003 (the NBFC Rules) through a certificate of registration issued by the SECP. The registered office of the Management Company of the Fund is situated at Ground Floor, Block 'B', Finance and Trade Centre, Shahrah-e-Faisal, Karachi 74400, Pakistan.
- 1.2** The Fund has been formed to provide the unitholders maximum possible preservation of capital along with Halal and reasonable returns by investing primarily in a portfolio of Shariah compliant government securities thus minimizing the credit risk of investments. The Fund shall also keep an exposure in short-term near cash instruments for the purpose of maintaining liquidity and to capitalise on exceptional returns if available at any given point of time. Under the Trust Deed all conducts and acts of the Fund are based on Shariah. Meezan Bank Limited (MBL) acts as its Shariah Advisor to ensure that the activities of the Fund are in compliance with the principles of Shariah.
- 1.3** The Fund is an open end Shariah Compliant (Islamic) Income Scheme, listed on the Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4** The Management Company of the Fund has been given quality rating of AM2 and the stability rating of the Fund is AA(f) given by JCR-VIS.
- 1.5** Title to the assets of the Fund are held in the name of CDC as a Trustee of the Fund.

## 2. BASIS OF PRESENTATION

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 earlier referred guidelines. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

### 2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by SECP. Wherever, the requirements of the NBFC Rules, 2003, the NBFC Regulations, 2008 and the said directives differ with the requirements of these standards, the requirements of the NBFC Rules, 2003, the NBFC Regulations, 2008 and the said directives shall prevail.

## 2.2 Basis of measurement

These financial statements have been prepared on the basis of historical cost convention except that investments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value.

## 2.3 Functional and presentation currency

These Financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

## 2.4 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 Management Company to exercise its judgement in the process of applying the Fund's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable in the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- (a) Classification and valuation of financial instruments (note 3.1)
- (b) Impairment of financial instruments (note 3.1.6)
- (c) Amortisation of preliminary expenses and floatation costs (notes 3.6 and 7)
- (d) Recognition of provision for Workers' Welfare Fund (note 13)

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after July 01, 2014:

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after January 01, 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off; and that some gross settlement systems may be considered equivalent to net settlement.
- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 01, 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after January 01, 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.
- Amendments to IAS 19 “Employee Benefits” Employee contributions – a practical approach (effective for annual periods beginning on or after July 01, 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.
- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after January 01, 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are ‘highly correlated’, or when the intangible asset is expressed as a measure of revenue.
- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after January 01, 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a fund can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.
- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after July 01, 2014). The new cycle of improvements contain amendments to the following standards:
  - IFRS 2 ‘Share-based Payment’. IFRS 2 has been amended to clarify the definition of ‘vesting condition’ by separately defining ‘performance condition’ and ‘service condition’. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.
  - IFRS 3 ‘Business Combinations’. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.
  - IFRS 8 ‘Operating Segments’ has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment’s assets to the entity assets is required only if this information is regularly provided to the entity’s chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.



- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.
- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.
- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.
- These amendments will not have an impact on the Fund's financial statements.

### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### **3.1 Financial instruments**

##### **3.1.1 Classification**

The Fund classifies its financial assets in the following categories: loans and receivables, at fair value through profit or loss, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. The management determines the appropriate classification of its financial assets in accordance with the requirement of International Accounting Standard (IAS) 39 : 'Financial Instruments: Recognition and Measurement', at the time of initial recognition and re-evaluates this classification on a regular basis.

##### **a) Financial instruments as 'at fair value through profit or loss'**

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated as 'at fair value through profit or loss' if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments as 'at fair value through profit or loss' are measured at fair value, and changes therein are recognised in Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

#### **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**

These are non-derivative financial assets that are either designated as available for sale or are not classified in any of the other categories mentioned in (a) to (c) above.

### **3.1.2 Regular way contracts**

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell assets.

### **3.1.3 Recognition**

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

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

### **3.1.4 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 asset or financial liability 'at fair value through profit or loss' are expensed 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.

### 3.1.5 Fair value measurement principles

The government securities not listed on a stock exchange and traded in the interbank market are valued at the average rates quoted on a widely used electronic quotation system which are based on the remaining tenor of the securities.

### 3.1.6 Impairment

Impairment loss on investment 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.

Impairment loss on investment classified as 'available for sale' debt instruments is recognised in the Income Statement whenever the acquisition cost of investment exceeds its recoverable amount. If in a subsequent period, the amount of an impairment loss recognised decreases, the impairment is reversed in the Income Statement.

### 3.1.7 Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire 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.

### 3.1.8 Offsetting of financial instruments

Financial assets and liability are set off and the net amount is reported in the Statement of Assets and Liabilities 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.

## 3.2 Unitholders' fund

Unitholders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

## 3.3 Issuance and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours of the day when the application is received. The offer price represents the net asset value of the units as of the close of that business day plus the allowable sales load, provision of duties and charges and provision for transaction costs, if applicable. The sales load is payable to the distributors and the Management Company.

Units redeemed are recorded at the redemption price prevalent on the date on which the distributors receive redemption application during business hours on that date. The redeemed price represents the net asset value per unit as of the close of the business day less back end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

### **3.4 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 issued 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 Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unitholder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unitholders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

### **3.5 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.

### **3.6 Preliminary expenses and floatation costs**

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to bankers to the issue, brokerage paid to members of the stock exchange and other expenses. These costs are being amortised over a period of five years commencing from February 10, 2010 in accordance with the requirements of the Trust Deed of the Fund and NBFC regulations.

### **3.7 Net assets value per unit**

The net assets value (NAV) per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at year end.

### **3.8 Taxation**

#### *Current*

The income of the Fund is exempt from income tax under clause 99 of part I of the second schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unitholders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV to the Second Schedule of the Income Tax Ordinance, 2001.

#### *Deferred*

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit.

The deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on enacted tax rates.

However, the Fund availed the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unitholders every year. Accordingly, no tax liability and deferred tax has been recognised in these financial statements.

### 3.9 Revenue recognition

- (i) Gains / (losses) arising on sale of investments are included in Income Statement currently and are recognised on the date at which the transaction takes place.
- (ii) Profit on bank deposit is recognised on time proportion basis using effective yield method.
- (iii) Income on sukuk certificates, placements and Government securities is recognised on a time proportionate basis using effective yield method.

### 3.10 Expenses

All expenses, including management fee, trustee fee and Securities and Exchange Commission of Pakistan fee are recognised in the Income Statement as and when incurred.

### 3.11 Earnings per unit

Earnings per unit (EPU) has not been disclosed as in the opinion of the management, the determination of weighted average units for calculating EPU is not practicable.

### 3.12 Cash and cash equivalents

Cash and cash equivalents are carried on the Statement of Assets and Liabilities at cost. 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.

### 3.13 Distribution

Distribution including bonus units are recognised in the year in which they are approved.

## 4. BALANCES WITH BANKS

	<i>Note</i>	2014	2013
(Rupees in '000)			
On saving accounts	4.1	6,679,679	5,250,490
On current accounts		10,461	9,291
		<u>6,690,140</u>	<u>5,259,781</u>

- 4.1 The balances in saving accounts have an expected profit ranging from 5.00% to 8.25 % per annum (2013: 5.65 % to 12.10% per annum).

## 5. INVESTMENTS

Investments - 'at fair value through profit or loss'	5.1	12,040,264	8,980,400
Investments - 'available for sale'	5.2	1,684,052	5,417,931
		<u>13,724,316</u>	<u>14,398,331</u>



## 5.1 Investments - 'at fair value through profit or loss' - Sukuk Certificates

Name of the Issuer	Maturity	Profit rate	As at July 1, 2013	Purchases during the year	Sales / redemptions during the year	As at June 30, 2014	Carrying value as at June 30, 2014	Market value as at June 30, 2014 (note 5.2.2)	Unrealised gain / (loss)	Percentage of total market value of investments %
			-----Number of Certificates-----			-----Rupees in '000-----				
GoP Ijarah Sukuk Certificates - V	November 15, 2013	Weighted average 6 months T-Bills	15,810	-	15,810	-	-	-	-	-
GoP Ijarah Sukuk Certificates - VI	December 20, 2013	Weighted average 6 months T-Bills	5,070	3,500	8,570	-	-	-	-	-
GoP Ijarah Sukuk Certificates - VII	March 7, 2014	Weighted average 6 months T-Bills	2,870	-	2,870	-	-	-	-	-
GoP Ijarah Sukuk Certificates - VIII	May 16, 2014	Weighted average 6 months T-Bills	3,520	5,000	8,520	-	-	-	-	-
GoP Ijarah Sukuk Certificates - IX (note 5.2.1)	December 26, 2014	Weighted average 6 months T-Bills	50,950	6,500	11,000	46,450	4,653,059	4,704,456	51,397	34.3
GoP Ijarah Sukuk Certificates - X (note 5.2.1)	March 02, 2015	Weighted average 6 months T-Bills	-	37,530	2,000	35,530	3,569,063	3,622,639	53,576	26.4
GoP Ijarah Sukuk Certificates - XII (note 5.2.1)	June 28, 2015	Weighted average 6 months T-Bills	904	16,700	-	17,604	1,769,500	1,810,219	40,719	13.2
GoP Ijarah Sukuk Certificates - XIII (note 5.2.1)	September 18, 2015	Weighted average 6 months T-Bills	9,150	1,000	9,150	1,000	100,800	102,950	2,150	0.8
GoP Ijarah Sukuk Certificates - XIV	March 28, 2016	Weighted average 6 months T-Bills	1,530	-	1,530	-	-	-	-	-
GoP Ijarah Sukuk Certificates - XV (note 5.2.1)	June 25, 2017	Weighted average 6 months T-Bills less 2 basis points	-	18,000	-	18,000	1,800,000	1,800,000	-	13.1
<b>Total cost of investments</b>							<b>11,892,422</b>	<b>12,040,264</b>	<b>147,842</b>	
								<b>11,907,696</b>		

## 5.2 Investments - 'available for sale' - Sukuk Certificates

Name of the Issuer	Maturity	Profit rate	As at July 1, 2013	Purchases during the year	Sales / redemptions during the year	As at June 30, 2014	Carrying value as at June 30, 2014	Market value as at June 30, 2014 (Note 5.2.2)	Unrealised gain / (loss)	Percentage of total market value of investments
			-----Number of Certificates-----			-----Rupees in '000-----				
GoP Ijarah Sukuk Certificates - VIII	May 16, 2014	Weighted average 6 months T-Bills	17,500	27,500	45,000	-	-	-	-	-
GoP Ijarah Sukuk Certificates - X (note 5.2.1)	March 02, 2015	Weighted average 6 months T-Bills	10,500	16,500	13,500	13,500	1,354,630	1,376,460	21,830	10.0
GoP Ijarah Sukuk Certificates - XI (note 5.2.1)	April 30, 2015	Weighted average 6 months T-Bills	2,000	8,300	7,290	3,010	301,582	307,592	6,010	2.2
GoP Ijarah Sukuk Certificates - XIII	September 18, 2015	Weighted average 6 months T-Bills	24,000	24,000	48,000	-	-	-	-	-
<b>Total cost of investments</b>							<b>1,656,212</b>	<b>1,684,052</b>	<b>27,840</b>	
								<b>1,656,212</b>		

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

**5.2.2** In the month of September 2013, GoP Ijarah Sukuks have been revalued at their market values disclosed in PKISRV. Previously, they were stated at amortised cost. The change was made in accordance with Circular No. SCD/AMCW/716/2013 dated September 19, 2013 issued by the Securities and Exchange Commission of Pakistan.

6. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	Note	2014 (Rupees in '000)	2013
Security deposit		100	100
Prepayments		93	87
Profit receivable on saving accounts with banks		105,515	103,376
Profit receivable on sukuk certificates		180,223	187,240
		<b>285,931</b>	<b>290,803</b>
<b>7. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>			
Opening balance		824	1,335
Amortised during the year	7.1	(512)	(511)
Closing balance		312	824
<b>7.1</b> Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of the operations of the Fund, restricted to one percent of Pre-IPO capital, and are being amortised over a period of five years commencing from the end of the initial offering period in accordance with the Trust Deed of the Fund.			
<b>8. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) - Management Company</b>			
Management fee	8.1	17,298	16,328
Sindh Sales Tax and Federal Excise Duty on Management Fee	8.2 & 8.3	34,440	4,178
Sales load		1,535	2,227
Sindh Sales Tax and Federal Excise Duty on Sales Load	8.2 & 8.3	1,425	413
		<b>54,698</b>	<b>23,146</b>
<b>8.1</b> Under the provisions of the NBFC Regulations, the Management Company is entitled to a remuneration of an amount not exceeding 3% of the average annual net assets of the Fund during the first five years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. The remuneration of the Management Company has been charged at the rate of 1% per annum of the average annual net assets of the Fund for the year ended June 30, 2014.			
<b>8.2</b> The Sindh Provincial Government has levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company and sales load through Sindh Sales Tax on Services Act, 2011 effective from July 01, 2011.			
<b>8.3</b> As per the requirement of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective from June 13, 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law. The matter has been taken up collectively by the Mutual Fund Association of Pakistan where various options are being considered. During the period, the Honourable High Court Sindh in a Constitutional petition relating to levy of Federal Excise Duty (FED) on Mutual Fund has granted stay order for the recovery of Federal Excise Duty (FED). As a matter of abundant caution, the Management Company has made a provision with effect from June 13, 2013, aggregating to Rs. 28.26 million. Had the provision not being made, the Net Asset Value per unit of the Fund as at June 30, 2014 would have been higher by Rs.0.07 per unit.			

## 9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED (CDC) - Trustee

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 value of the Fund.

Net Assets (Rupees)	Tariff
Up to 1 billion	0.15% p.a. of net assets
1 billion to 10 billion	Rs. 1.5 million plus 0.075% p.a. of net assets exceeding Rs. 1 billion
Over 10 billion	Rs. 8.25 million plus 0.06% p.a. of net assets exceeding Rs. 10 billion

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

This represents annual fee at the rate of 0.075% of the average annual net assets of the Fund payable to the SECP under regulation 62 read with Schedule II of the NBFC Regulations.

	Note	2014 (Rupees in '000)	2013
<b>11. ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Auditors' remuneration		340	300
Withholding tax payable		63	112
Zakat payable		53	27
Brokerage payable		8	73
Workers' Welfare Fund (WWF) payable	13	122,469	89,196
Printing expenses payable		585	100
Other Payable		-	3,695
		<b>123,518</b>	<b>93,503</b>

## 12. CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments outstanding as at June 30, 2014.

## 13. WORKERS' WELFARE FUND

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 Collective Investment Schemes / mutual funds (CISs) 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, during the year ended June 30, 2010, a constitutional petition has been filed by certain CISs through their Trustees in the Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication

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. However, on December 14, 2010, the Ministry 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 Court

In 2012, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 declared the said amendments as unlawful and unconstitutional. In March 2013 a large bench of Sindh High Court (SHC) in various Constitutional Petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 do not suffer from any constitutional or legal infirmity. However, the Honorable High Court of Sindh has not addressed the other amendments made in WWF Ordinance 1971 about applicability of WWF to the CISs which is still pending before the court.

The decisions of SHC (in against) and LHC (in favour) are pending before Supreme Court. However, the management company as a matter of abundant caution has decided to continue to maintain the provision for WWF for the year ended 30 June 2014. As at June 30, 2014, the Fund has recognised WWF amounting to Rs.122.47 million which includes Rs. 33.27 million pertaining to the current year and Rs. 89.20 million pertaining to prior years. Had the WWF not been provided, the NAV per unit of the Fund would have been higher by Rs. 0.30 (0.59%).

	<b>2014</b>	<b>2013</b>
	<b>(Number of units)</b>	
<b>14. NUMBER OF UNITS IN ISSUE</b>		
14.1 The movement in number of units in issue during the year is as follows:		
Total units in issue at the beginning of the year	<b>384,886,259</b>	393,965,527
Add: units issued during the year	<b>542,570,659</b>	322,374,367
Add: bonus units issued during the year	<b>37,325,012</b>	25,998,614
Less: units redeemed during the year	<b>(563,035,844)</b>	(357,452,249)
Total units in issue at the end of the year	<b>401,746,086</b>	384,886,259
14.2 The Fund may issue following classes of units:		
<b>Class Description</b>		
A Units shall be issued to Core Investors with no Front-end Load and no Back-end Load. Any bonus units issued for distribution of income shall also be Class A units (note 14.2.1).		
B Units shall be issued to Pre-IPO investors and during the IPO. These units shall be charged with applicable Front-end Load.		
C Units shall be issued after the IPO period and may be charged with Front-end Load.		
D Units shall be issued after the IPO period and may be charged with a Back-end Load.		
<b>14.2.1</b> Core units subscribed by the Core Investors shall be offered and issued at the par value. Rupees 50 million from that shall not be redeemable for a period of two years from the date of issue.		
<b>14.3</b> Management Company of the Fund may issue the following types of units:		
- Growths units which shall be entitled to bonus units in case of any distribution by the Fund. Bonus units issued to growth unit holders shall also be the growth units.		
- Income units which shall be entitled to cash dividend in case of any distribution by the Fund.		
<b>14.4</b> The par value of each unit is Rs 50. The Management Company of the Fund has set a minimum initial investment limit of Rs 5,000 and the minimum amount for adding to an existing account is Rs 1,000. All units carry equal rights and are entitled to dividends and payment of net asset value on liquidation.		

## 15. AUDITORS' REMUNERATION

2014  
2013  
(Rupees in '000)

Statutory Audit fee	225	225
Half yearly review fee	125	110
Other certification fee	115	75
Out of pocket expenses	53	31
	<u>518</u>	<u>441</u>

## 16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

The connected persons include Al Meezan Investment Management Limited (Al Meezan) being the Management Company, Central Depository Company of Pakistan Limited (CDC) being the Trustee, Meezan Bank Limited (MBL) being the holding company of the Management Company and Meezan Islamic Fund, Al Meezan Mutual Fund, KSE Meezan Index Fund, Meezan Islami Income Fund, Meezan Cash Fund, Meezan Capital Protected Fund - II, Meezan Financial Planning Fund of Funds, Meezan Balanced Fund, Meezan Capital Preservation Fund – III, Meezan Capital Preservation Fund – II and Meezan Tahaffuz Pension Fund being the Funds under the common management of the Management Company, Pakistan Kuwait Investment Company (Private) Limited being the associated company of the Management Company and Al Meezan Investment Management Limited - Staff Gratuity Fund and unitholders holding 10% or more of the Fund.

Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.

Transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Regulations, 2008 and the Trust Deed respectively.

Details of transactions with connected persons and balances with them at the year end are as follows:

2014  
2013  
(Rupees in '000)

### Al Meezan Investment Management Limited - Management Company

Remuneration payable	17,298	16,328
Sindh Sales Tax and Federal Excise Duty payable on management fee	34,440	4,178
Sales load payable	1,535	2,227
Sindh Sales Tax and Federal Excise Duty payable on sales load	1,425	413
Investments as at June 30, 2014: 619,702 units (June 30, 2013: 12,335,789 units)	31,283	629,989



	2014	2013
	(Rupees in '000)	
<b>Meezan Bank Limited</b>		
Balances with bank	167,608	34,784
Profit receivable on saving accounts	18,464	1,774
Sales load payable	270	307
Investments as at June 30, 2014: 129,875,189 units (June 30, 2013: 148,829,382 units)	655,100	7,600,717
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Trustee fee payable	1,225	1,166
Deposits	100	100
<b>Al Meezan Investment Management Limited - Staff Gratuity Fund</b>		
Investments as at June 30, 2014: 44826 units (2013: 40,842 units)	2,263	2,086
<b>Meezan Financial Planning Fund of Funds</b>		
Investment of 1,942,386 units - Aggressive Allocation Plan (2013: 1,206,429 units)	98,052	61,612
Investment of 5,044,442 units - Conservative Allocation Plan (2013: 3,798,177 units)	254,644	193,973
Investment of 2,489,711 units - Moderate Allocation Plan (2013: 1,468,730 units)	125,681	75,008
Meezan Capital Preservaion Funds III Investments as at June 30,2014: nil units ( June 30, 2013: units nil )	-	-
<b>Meezan Capital Preservaion Funds II</b> Investments as at June 30,2014: 99 units ( June 30, 2013: units nil )	5	-
<b>Directors and officers of the Management Company</b> Investments as at June 30, 2014: 1,419,337 units (2013: 4,406,004 units)	71,648	225,015
	<b>For the year ended June 30</b>	
	2014	2013
	(Rupees in '000)	
<b>Al Meezan Investment Management Limited - Management Company</b>		
Remuneration for the year	203,823	196,270
Sindh Sales Tax and Federal Excise Duty on management fee	69,594	32,969
Units issued 12,920,271 units (June 30, 2013: 9,171,835 units)	654,563	464,687
Units redeemed 25,555,094 units (June 30, 2013: 11,978,046 units)	1,297,102	606,800
Bonus units issued: 918,736 units (June 30, 2013: 1,007,998 units)	46,080	50,410

	<b>For the year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Rupees in '000)</b>	
<b>Meezan Bank Limited</b>		
Profit on saving accounts	135,890	2,413
Units issued 78,400,627 units (June 30 2013: 76,202,098 units)	4,000,000	3,861,020
Units redeemed 109,828,451 units (June 30, 2013: 79,811,256 units)	5,590,439	4,033,275
Bonus units issued: 12,473,631 units (June 30, 2013: 9,635,441 units)	626,483	481,868
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration Fee	14,480	15,097
CDS Charges	6	6
<b>Al Meezan Investment Management Limited - Staff Gratuity Fund</b>		
Bonus units issued 3,984 units (June 30 2013: 2,633 units)	200	132
<b>Meezan Financial Planning Fund of Funds</b>		
Purchase of 1,210,797 units - Aggressive Allocation Plan (June 30 2013: 1,367,273 units)	61,211	69,044
Purchase of 3,413,704 units - Conservative Allocation Plan (June 30 2013: 4,242,070 units)	172,860	214,155
Purchase of 1,923,283 units - Moderate Allocation Plan (June 30 2013: 1,745,401 units)	97,433	88,365
Sale of 612,146 units - Aggressive Allocation Plan (June 30 2013: 160,844 units)	31,043	8,142
Sale of 2,605,238 units - Conservative Allocation Plan (June 30 2013: 443,893 units)	131,972	22,575
Sale of 1,063,587 units - Moderate Allocation Plan (June 30 2013: 276,671 units)	53,814	14,050
Bonus units issued 137,306 units - Aggressive Allocation Plan ( June 30, 2013: units nil )	6,901	-
Bonus units issued 437,799 units - Conservative Allocation Plan (June 30, 2013: units nil )	21,996	-
Bonus units issued 161,285 units - Moderate Allocation Plan ( June 30, 2013: units nil )	8,105	-
<b>Meezan Capital Preservation Fund III</b>		
Units issued 43,920,901 ( June 30, 2013: nil units)	2,230,000	-
Units redeemed 44,044,851 units ( June 30, 2013: nil units)	2,249,015	-
Bonus units issued 123,950 ( June 30, 2013: nil units)	6,271	-
<b>Meezan Capital Preservation Fund II</b>		
Units issued 99 ( June 30, 2013: nil units)	5	-
<b>Directors and officers of the Management Company</b>		
Units issued 925,780 units (June 30 2013: 2,516,472 units)	46,998	127,611
Units redeemed 4,187,313 units (June 30 2013: 2,368,130 units)	213,639	119,228
Bonus units issued 274,866 units (June 30 2013: 281,683 units)	13,788	14,087

## 17. FINANCIAL INSTRUMENTS BY CATEGORY

	2014				Total
	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets categorised as 'available for sale'	Financial liabilities measured at amortised cost	
----- (Rupees in '000) -----					
<b>On balance sheet - financial assets</b>					
Balances with banks	6,690,140	-	-	-	6,690,140
Investments	-	12,040,264	1,684,052	-	13,724,316
Deposits and other receivables	285,838	-	-	-	285,838
	<b>6,975,978</b>	<b>12,040,264</b>	<b>1,684,052</b>	<b>-</b>	<b>20,700,294</b>
<b>On balance sheet - financial liabilities</b>					
Payable to Al Meezan Investment Management Limited - Management Company	-	-	-	54,698	54,698
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	1,225	1,225
Payable to Meezan Bank Limited	-	-	-	270	270
Payable on redemption and conversion of units	-	-	-	225,016	225,016
Accrued expenses and other liabilities	-	-	-	933	933
	<b>-</b>	<b>-</b>	<b>-</b>	<b>282,142</b>	<b>282,142</b>

	2013				Total
	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets categorised as 'available for sale'	Financial liabilities measured at amortised cost	
----- (Rupees in '000) -----					
<b>On balance sheet - financial assets</b>					
Balances with banks	5,259,781	-	-	-	5,259,781
Investments	-	8,980,400	5,417,931	-	14,398,331
Deposits and other receivables	290,716	-	-	-	290,716
	<b>5,550,497</b>	<b>8,980,400</b>	<b>5,417,931</b>	<b>-</b>	<b>19,948,828</b>
<b>On balance sheet - financial liabilities</b>					
Payable to Al Meezan Investment Management Limited - Management Company	-	-	-	23,146	23,146
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	-	1,166	1,166
Payable to Meezan Bank Limited	-	-	-	307	307
Payable on redemption and conversion of units	-	-	-	162,664	162,664
Accrued expenses and other liabilities	-	-	-	4,168	4,168
	<b>-</b>	<b>-</b>	<b>-</b>	<b>191,451</b>	<b>191,451</b>

## 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 unitholders and seeks to minimise potential adverse effects on the Fund's financial performance.

Risks of the Fund are being managed by the 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 NBFC Regulations and the directives issued by the 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 that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from Currency risk or Interest rate risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instrument traded in the market. The Fund is not exposed to any price risk as at June 30, 2014.

### **18.1.2 Interest rate risk**

The interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates which effects cashflows pertaining to debt instruments and their fair values.

#### *Cash flow interest rate risk*

The company's interest rate risk arises from the balances in savings accounts and investment in debt securities. At June 30, 2014, if there had been increase / decrease of 100 basis points in interest rates or in rates announced by Financial Market Association, with all other variables held constant, net assets of the Fund for the year then ended would have been higher / lower by Rs 204.0229 million (2013: Rs 196.488 million) mainly as a result of finance income.

#### *Fair value interest rate risk*

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

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Therefore, the sensitivity analysis prepared as of June 30, 2014 is not necessary indicative of the effect on the fund's net asset due to future movements in interest rates.

## **18.2 Credit risk and concentration of credit risk**

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. Credit risk arising on the debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of at least investment grade by the recognised rating agencies. The Fund receives a monthly rating update, against which investments are reviewed. All the debt instruments in which the Fund has invested as at June 30, 2014 are Government guaranteed securities.

Credit risk arises from deposits with banks and financial instruments, profit receivable on bank deposits, and credit exposure arising as a result of receivable against sale of investments. Credit risk arising on other financial assets is monitored through a regular analysis of financial position of brokers and other parties. For debt instrument settlement, Delivery versus Payment (DvP) mechanism applied by the Trustee of the fund minimises the credit risk. 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 of the Management Company on a quarterly basis.

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 mainly comprises of government guaranteed GoP Ijara Sukuks and balances with banks. As transactions are entered with credit worthy parties thereby any significant concentration of credit risk is mitigated.

The maximum exposure to credit risk as at June 30, 2014 along with comparative is tabulated below:

	2014	2013
	(Rupees in '000)	
<b>Financial assets</b>		
Balances with banks	<b>6,690,140</b>	5,259,781
Deposits and other receivables	<b>285,838</b>	290,716
	<b><u>6,975,978</u></b>	<u>5,550,497</u>

Credit rating wise analysis of the bank balances of the Fund are tabulated below:

	2014	2013
	(%)	
AAA	<b>78.42</b>	19.07
AA+	<b>19.00</b>	16.51
AA	<b>2.58</b>	64.42
	<b><u>100.00</u></b>	<u>100.00</u>

The Fund does not have any collateral against any of the aforementioned assets.

None of the financial assets were considered to be past due or impaired as on 30 June 2014.

### 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 unitholder's redemptions at any time. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's asset in highly liquid financial assets.

In accordance with regulation 58(1)(k) of the NBFC Regulations, the Fund has the ability to borrow funds for meeting the redemption requests, with the approval of the trustee, for a period not exceeding three months to the extent of fifteen per cent of the net assets. However, no such borrowing has been obtained during the year.

Further, the Fund is also allowed, as per regulation 57(10) of the NBFC Regulations to defer redemption requests to next dealing day, had such requests exceed ten percent of the total number of units in issue.

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 Management Company on a quarterly basis.

In addition to Unitholders' fund, analysis of the financial liabilities into relevant maturity grouping as at June 30, 2014 along with comparative is tabulated below:



**2014**

Maturity upto			More than one year	Total
Three months	Six months	One year		
----- (Rupees in '000) -----				

Payable to Al Meezan Investment Management Limited - Management Company	<b>54,698</b>	-	-	-	<b>54,698</b>
Payable to Central Depository Company of Pakistan Limited - Trustee	<b>1,225</b>	-	-	-	<b>1,225</b>
Payable to Meezan Bank Limited	<b>270</b>	-	-	-	<b>270</b>
Payable on redemption and conversion of units	<b>225,016</b>	-	-	-	<b>225,016</b>
Accrued expenses and other liabilities	<b>933</b>	-	-	-	<b>933</b>
	<b>282,142</b>	-	-	-	<b>282,142</b>

**2013**

Maturity upto			More than one year	Total
Three months	Six months	One year		
----- (Rupees in '000) -----				

Payable to Al Meezan Investment Management Limited - Management Company	<b>23,146</b>	-	-	-	<b>23,146</b>
Payable to Central Depository Company of Pakistan Limited - Trustee	<b>1,166</b>	-	-	-	<b>1,166</b>
Payable to Meezan Bank Limited	<b>307</b>	-	-	-	<b>307</b>
Payable on redemption and conversion of units	<b>162,664</b>	-	-	-	<b>162,664</b>
Accrued expenses and other liabilities	<b>4,168</b>	-	-	-	<b>4,168</b>
	<b>191,451</b>	-	-	-	<b>191,451</b>

Units of the Fund are redeemable on demand at the option of unitholder, however, the Fund does not anticipate significant redemption of units.

**19. UNITHOLDERS' FUND RISK MANAGEMENT**

The unitholders' fund is represented by redeemable units. These units are entitled to distribution and payment of a proportionate share, based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown in the Statement of Movement in Unitholders' Fund.

The Fund's objective when managing unitholders funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unitholders and to maintain a strong base of assets under management.

The Fund has no restrictions on the subscription and redemption of units.

The Fund meets the requirement of sub-regulation 54(3a) which requires that the minimum size of an Open End Scheme shall be one hundred million rupees at all time during the life of the scheme.

In accordance with the risk management policies stated in the note 18, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short term borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.

## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a 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 or adverse terms.

The fair value of financial assets and liabilities traded in active markets are based on the quoted market prices at the close of trading on the year end date. The fund does not hold any securities that are based on quoted market prices.

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 that are not traded in an active market is determined with reference to the rates quoted by Financial Market Association of Pakistan and MUFAP. The fair value quoted by MUFAP is calculated in accordance with the valuation methodology prescribed by Circular 1 of 2009 and Circular 33 of 2012 issued by SECP.

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in active markets for an 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 (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

### Financial assets at fair value

The following table represents the assets that are measured at fair value as at June 30, 2014:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	----- (Rupees in '000) -----			
Financial assets as at fair value through profit or loss				
- Debt securities	-	12,040,264	-	12,040,264
Financial assets as available for sale				
- Debt securities	-	1,684,052	-	1,684,052
	-	13,724,316	-	13,724,316

The following table represents the assets that are measured at fair value as at June 30, 2013:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	----- (Rupees in '000) -----			
Financial assets as at fair value through profit or loss				
- Debt securities *	-	8,991,690	-	8,991,690
Financial assets as available for sale				
- Debt securities *	-	5,405,965	-	5,405,965
	-	14,397,655	-	14,397,655

\* GoP Ijarah Sukuks have been carried at cost in the year 2013.

## 21. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current period as the management company has distributed sufficient income of the Fund for the year ended June 30, 2014 as reduced by capital gains (whether realised or unrealised) to its unitholders.

## 22. PERFORMANCE TABLE

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	----- (Rupees in '000) -----				
Net assets (Rs '000) (ex-distribution)	<b>20,280,685</b>	19,654,233	19,709,509	12,455,125	970,896
Net assets value / redemption price per unit as at June 30 (Rs) (ex-distribution)	<b>50.48</b>	50.04	50.03	50.01	50.02
Offer price per unit as at June 30 (Rs) (ex-distribution)	<b>50.82</b>	50.38	50.32	50.26	50.27
Distribution (%)					
Interim					
- First quarter	<b>1.80</b>	2.38	2.60	2.50	-
- Second quarter	<b>1.68</b>	2.36	2.60	1.30	-
- Third quarter	<b>1.80</b>	2.00	2.60	4.20	-
- Fourth quarter	<b>2.10</b>	-	2.92	1.75	-
Annual	-	2.06	-	1.28	3.60

	2014	2013	2012	2011	2010
	----- (Rupees in '000) -----				
Dates of distribution (interim)					
- First quarter	<b>Sep 23, 2013</b>	Sep 21, 2012	Sep 23, 2011	Sep 30, 2010	-
- Second quarter	<b>Dec 24, 2013</b>	Dec 31, 2012	Dec 22, 2011	Dec 31, 2011	-
- Third quarter	<b>Mar 24, 2014</b>	Mar 22, 2013	Mar 22, 2012	Mar 30, 2011	-
- Fourth quarter	<b>May 29, 2014</b>	-	Jun 28, 2012	May 24, 2011	-
Dates of distribution (annual)	-	July 8, 2013	-	July 7, 2011	July 7, 2010
Income distribution (Rupees in '000)	<b>586</b>	449	647,696	520,589	-
Growth distribution (Rupees in '000)	<b>1,875,183</b>	1,300,190	1,204,181	362,249	-
Highest offer price per unit (Rs)	<b>51.86</b>	51.50	51.73	52.37	52.08
Lowest offer price per unit (Rs)	<b>50.36</b>	50.31	50.32	50.29	50.25
Highest redemption price per unit (Rs)	<b>51.51</b>	51.20	51.47	52.11	51.82
Lowest redemption price per unit (Rs)	<b>50.02</b>	50.02	50.03	50.04	50.00
Total return (%)	<b>8.50</b>	9.11	11.18	11.46	9.70
Weighted Average Portfolio Duration (years)	<b>0.78</b>	1.43	2.02	2.43	2.48
	<b>One Year</b>	Two Year	Three Year	Four Year	Five Year
Average annual return (%) as at June 30, 2014	<b>8.50</b>	17.61	14.40	13.42	12.49

Investment portfolio composition of the Fund as described in note 5.

Past performance is not necessarily indicative of future performance and unit prices and investment returns may fluctuate as described in Note 18.

### 23. INVESTMENT COMMITTEE MEMBERS

23.1 Details of members of investment committee of the Fund is as follows:

Name	Designation	Qualification	Experience in years
1. Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Twenty four years
2. Mr. Muhammad Asad	Chief Investment Officer	CFA level II / MBA	Eighteen years
3. Mrs. Sanam Ali Zaib	Head of Research	CFA / MBA	Ten years
4. Mr. Ahmed Hassan	AVP Investments	CFA / MBA	Seven years
5. Mr. Zain Malik	Senior Manager (Fund Management Department)	CFA level II / BBA	Five years
6. Mr. Gohar Rasool	Senior Manager (Fund Management Department)	MBBS	Seven years

23.2 The Fund Manager of the Fund is Mr. Zain Malik. Other Funds being managed by the Fund Manager are as follows:

- Meezan Cash Fund
- Meezan Islamic Income Fund

## 24. BROKERAGE COMMISSION BY PERCENTAGE

Name of the broker	2014	2013
	%	
Invest Capital Markets Limited	63	8
JS Global Capital Limited	26	58
Invest one Markets Limited	6	-
Elixir Securities Pakistan (Private) Limited	2	18
Invest & Finance Securities Limited	1	9
C&M Management (Private) Limited	2	7

## 25. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	--Dates of Board of Directors Meetings and Directors' present therein--				
		Jul 8, 2013	Aug 23, 2013	Oct 25, 2013	Feb 11, 2014	Apr 29, 2014
Mr. Ariful Islam	Chairman	No	Yes	Yes	Yes	Yes
Mr. P. Ahmed	Director	No	Yes	No	Yes	No
Mr. Salman Sarwar Butt	Director	Yes	Yes	Yes	..... Resigned .....	
Mr. Tasnimul Haq Farooqui	Director	Yes	No	Yes	Yes	Yes
Mr. Mazhar Sharif	Director	Yes	No	Yes	Yes	Yes
Syed Amir Ali	Director	Yes	No	Yes	Yes	Yes
Syed Amir Ali Zaidi	Director	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoab	Chief Executive	Yes	Yes	Yes	Yes	Yes

## 26. PATTERN OF UNIT HOLDING

	As at June 30, 2014		
	Number of investors	Investment amount Rupees in '000	Percentage of total investment
Individuals	5,350	6,705,461	33.06
Associated companies / directors	12	7,121,767	35.12
Insurance companies	14	699,458	3.45
Banks / DFIs	1	2,000,846	9.87
NBFCs	-	-	-
Retirement funds	61	710,289	3.50
Public limited companies	109	2,296,475	11.32
Others	29	746,389	3.68
Total	5,576	20,280,685	100.00



As at June 30, 2013			
	Number of investors	Investment amount Rupees in '000	Percentage of total investment
Individuals	5,317	6,732,722	34.26
Associated companies / directors	11	8,771,209	44.63
Insurance companies	14	338,931	1.72
Banks / DFIs	1	498,231	2.53
NBFCs	1	3,298	0.02
Retirement funds	49	529,118	2.69
Public limited companies	5	468,360	2.38
Others	162	2,312,364	11.77
Total	5,560	19,654,233	100.00

## 27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 28, 2014 by the Board of Directors of the Management Company.

## 28. GENERAL

Corresponding figures have been rearranged and reclassified, wherever necessary, for better presentation and disclosure.

**For Al Meezan Investment Management Limited  
(Management Company)**



**Mohammad Shoaib, CFA  
Chief Executive**



**Syed Amir Ali Zaidi  
Director**

## PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2014

Units held by	Units Held	%
<b>Associated Companies</b>		
Meezan Bank Limited	129,875,189	32.33
Al Meezan Investment Management limited	619,702	0.15
Al Meezan Investment Management Limited - Employee Gratuity Fund	44,826	0.01
Meezan Capital Preservation fund II	99	0.00
Meezan Financial Planning Fund		
- Aggressive Allocation Plan	1,942,386	0.48
- Conservative Allocation Plan	5,044,442	1.26
- Moderate Allocation Plan	2,489,711	0.62
<b>Chief Executive</b>		
Mr. Mohammad Shoaib, CFA	198,635	0.05
<b>Directors</b>		
Mr. Arif ul Islam	210,986	0.05
Mr. Syed Amir Ali	126,932	0.03
Mr. Mazhar sharif	334,364	0.08
Mr. Tasnim ul haq farooqi	189,908	0.05
<b>Executives</b>	358,512	0.09
<b>Public Limited Companies</b>	45,491,553	11.32
<b>Bank &amp; Financial Institutes</b>	39,635,355	9.87
<b>Mutual Funds</b>	-	-
<b>Retirement Funds</b>	14,070,320	3.50
<b>Other Corporate Sector entities</b>	28,641,219	7.13
<b>Individuals</b>	132,471,947	32.97
<b>Total</b>	<b>401,746,086</b>	<b>100</b>





# Meezan Cash Fund (MCF)

Our objective is to seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in liquid Shariah compliant money market and debt securities.





# FUND INFORMATION

## MANAGEMENT COMPANY

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 MANAGEMENT COMPANY

Mr. Ariful Islam	Non-Executive	Chairman
Mr. P. Ahmed	Independent	
Mr. Moin M. Fudda	Independent	
Mr. Tasnimul Haq Farooqui	Non-Executive	
Mr. Mazhar Sharif	Non-Executive	
Syed Amir Ali	Non-Executive	
Syed Amir Ali Zaidi	Non-Executive	
Mr. Mohammad Shoaib, CFA	Chief Executive	

## CFO & COMPANY SECRETARY OF THE MANAGEMENT COMPANY

Syed Owais Wasti

## AUDIT COMMITTEE

Mr. P. Ahmed	Chairman
Mr. Mazhar Sharif	Member
Syed Amir Ali	Member

## HUMAN RESOURCES & REMUNERATION COMMITTEE

Mr. Ariful Islam	Chairman
Mr. Tasnimul Haq Farooqui	Member
Mr. Mazhar Sharif	Member
Mr. Mohammad Shoaib, 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

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sheikh Sultan Trust Building No.2, Beaumont Road, Karachi- 75530.

## SHARIAH ADVISER

Meezan Bank Limited

## BANKERS TO THE FUND

Askari Bank Limited - Islamic Banking	MCB Bank Limited - Islamic Banking
Bank Al Habib Limited - Islamic Banking	Meezan Bank Limited
Bank Alfalah Limited - Islamic Banking	National Bank of Pakistan - Islamic Banking
Faysal Bank Limited - Islamic Banking	Standard Chartered Bank (Pakistan) Limited - Islamic Banking
Habib Bank Limited - Islamic Banking	UBL Ameen
Habib Metropolitan Bank Limited - Islamic Banking	

## LEGAL ADVISER

Bawaney & Partners  
3rd & 4th Floor, 68-C, Lane - 13, Bokhari Commercial Area Phase - VI, DHA Karachi  
Phone: (9221) 35156191-94 Fax: (9221) 35156195  
E-mail: bawaney@cyber.net.pk

## TRANSFER AGENT

Meezan Bank Limited  
Meezan House  
C-25, Estate Avenue, SITE, Karachi.  
Phone: 38103538 Fax: 36406017  
Web site: www.meezanbank.com

## DISTRIBUTORS

Al Meezan Investment Management Limited  
Meezan Bank Limited



## REPORT OF THE FUND MANAGER

Meezan Cash Fund (MCF) is an open end cash fund investing primarily in Shariah compliant money market and Islamic bonds (Sukuks).

Its objective is to seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in liquid Shariah compliant money market & Shariah compliant debt securities.

### Investment Policy

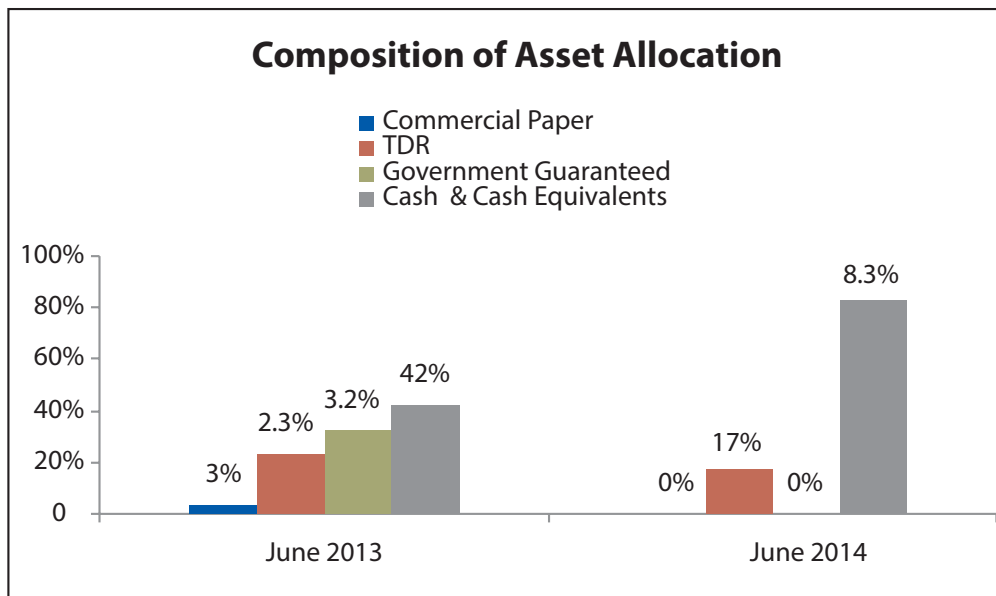
The fund provides investors with the opportunity to park their excess liquidity in secure high quality instruments. To minimize the impact of interest rate volatility, the investment policy limits the investment avenues to short term

### Strategy Implementation - Strategic and tactical Asset Allocation

Al Meezan Investments launched Pakistan's first Shariah compliant money market fund - Meezan Cash Fund in June 2009. The fund completed its fourth full year of operations during the year. As per its investment policy, MCF can invest or place funds in instruments/avenues with a credit rating of 'double A' (AA) and above. Moreover, the investment policy limits interest rate risk by capping the maturity of instruments up to a maximum of six months, along with maximum portfolio duration of three months.

### Sector Allocation as on June 30th 2013 and 2014

Details of asset allocations are briefed here:



## Performance Review

Meezan Cash Fund (MCF) provided a competitive return of 7.08% to its investors for the year ended June 30, 2014.

The Fund earned a gross income of Rs. 481.23 million, which was primarily due to profit on bank deposits and placements amounting to Rs. 361.55 million and profit on Sukuks certificates amounting to Rs.120.24 million, The fund also incurred expenses totaling to Rs. 94.31 million and element of loss and capital losses of Rs. 6.53 million, which brought the net income figure to Rs. 380.40 million. The net assets of the Fund as at June 30, 2014 were Rs. 3,049.37 million as compared to Rs. 6,510.77 million at the end of last year. The net asset value per unit as at June 30, 2014 was Rs. 50.07 as compared to Rs.50.06 per unit as on June 30, 2013.

## Performance Table with Benchmark

	<b>MCF</b>	<b>Six Month Deposits with Islamic Banks</b>
Net Asset Value as on June 30, 2013	50.06	
Net Asset Value as on June 30, 2014	50.07	
Return During the Period - Net	7.08%	6.55%
Outperformance - Net	0.53%	

## Distributions

The Board of Directors in its meeting held on August 28, 2014 approved NIL distribution for the year ended June 30, 2014. The interim distributions by the Fund during the fiscal year ended June 30, 2014 were Rs. 3.42 per unit (6.84%). Total distribution made by the fund was Rs. 380 million.

## Fund Stability Rating

JCR-VIS Credit Rating Company has assigned Stability Rating of AA(f) to Meezan Cash Fund.

## Breakdown of unit holdings by size

(As on June 30, 2014)

<b>Range (Units)</b>	<b>Number of investors</b>
1 - 9,999	1,750
10,000 - 49,999	705
50,000 - 99,999	120
100,000 - 499,999	80
500,000 and above	11
<b>Total</b>	<b>2,666</b>



**Meezan Bank**  
The Premier Islamic Bank

## Report of the *Shari'ah* Advisor – Meezan Cash Fund

August 28, 2014/ Zul Qad 02, 1435

**Alhamdulillah**, the period from July 1, 2013 to June 30, 2014 was the sixth year of operations of Meezan Cash Fund (MCF) under management of Al Meezan Investment Management Limited (Al Meezan). We Meezan Bank Limited are the *Shari'ah* Advisor of the Fund and are issuing the report in accordance with clause 8.2.7 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the *Shari'ah* compliance of the Fund's activity.

In the capacity of *Shari'ah* Advisor, we have prescribed criteria and procedure to be followed in ensuring *Shari'ah* compliance in every investment.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure *Shari'ah* compliance in line with the *Shari'ah* 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.

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of MCF in light of the *Shari'ah* guidelines.
- ii. All the provisions of the scheme and investments made on account of MCF by Al Meezan are *Shari'ah* compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operation of MCF for the year ended June 30, 2014 have been in compliance with *Shari'ah* principles.

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  
*Shari'ah* Advisor

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

**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  
Email: info@cdcpak.com



**TRUSTEE REPORT TO THE UNIT HOLDERS**

**MEEZAN CASH FUND**

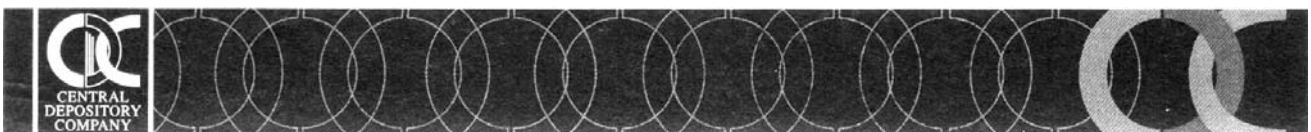
**Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

We, Central Depository Company of Pakistan Limited, being the Trustee of Meezan Cash Fund (the Fund) are of the opinion that Al Meezan Investment Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

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

Karachi, September 19, 2014



## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2014

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of Karachi Stock Exchange Limited (Formerly Karachi Stock Exchange (Guarantee) Limited) for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Management Company has applied the principles contained in the CCG in the following manner:

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	Mr. P. Ahmed, Mr. Moin M. Fudda
Executive Director	Mohammad Shoaib, CFA - CEO
Non- Executive Directors	Mr. Ariful Islam Mr. Tasnimul Haq Farooqui Syed Amir Ali Mr. Mazhar Sharif Syed Amir Ali Zaidi

The independent directors meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including the Management Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred on the board on February 11, 2014 & April 29, 2014, which were filled up by the directors within 30 days. As required under clause (xi) of CCG regulation 35, all the relevant documents were circulated to the director and orientation will be conducted in forthcoming board of directors meeting. Further, as required under clause (v) of CCG regulation 35, mechanism for annual evaluation has been put in place and annual board's performance evaluation will be carried out in forthcoming year.
5. The Management Company has prepared a "Code of conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
8. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. Three of the directors of the Management Company have obtained 'Directors Training Certification' as at June 30, 2014.

10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the board.
13. The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unitholding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, all the three members are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises of four members including CEO. All the other members, including chairman of the committee, are non-executive directors.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company / units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the NAV of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

**Mohammad Shoaib, CFA**  
Chief Executive

Karachi  
Date: August 28, 2014





**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi, 75530 Pakistan

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Fax + 92 (21) 3568 5095  
Internet www.kpmg.com.pk

### **Review Report to the Unitholders' of Meezan Cash Fund ("the Fund") on Statement of Compliance with Best Practices of Code of Corporate Governance**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Al Meezan Investment Management Limited ("Management Company") of the Fund for the year ended 30 June 2014 to comply with the requirements of the Listing Regulations of the Islamabad Stock Exchange Limited (formerly Islamabad Stock Exchange (Guarantee) Limited), where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of Code. 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 Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Fund's corporate governance procedures and risks.

The Code requires the Management Company of the Fund to place before the Board of Directors for their review and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured this compliance of requirement to the extent of approval of related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2014.

**Date: 28 August 2014**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847  
Fax + 92 (21) 3568 5095  
Internet www.kpmg.com.pk

## **Independent Auditors' Report to the Unitholders**

### *Report on the Financial Statements*

We have audited the accompanying financial statements of **Meezan Cash Fund** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2014, and the related income statement, distribution statement, cash flow statement, statement of movement in unitholders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as the management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*


In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2014, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### *Report on Other Legal and Regulatory Requirements*

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

**Date: 28 August 2014**

**Karachi**

  
**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**Muhammad Nadeem**

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

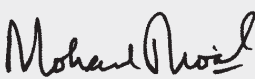
# STATEMENT OF ASSETS AND LIABILITIES

AS AT JUNE 30, 2014

	Note	2014 (Rupees in '000)	2013
<b>Assets</b>			
Balances with banks	4	2,544,117	2,620,449
Investments	5	-	3,842,500
Receivable against Bai Muajjal	6	530,078	-
Profit receivable		63,959	133,404
Preliminary expenses and floatation costs	7	-	572
Deposit and prepayments		318	318
<b>Total assets</b>		<b>3,138,472</b>	<b>6,597,243</b>
<b>Liabilities</b>			
Payable to AI Meezan Investment Management Limited (AI Meezan) - Management Company	8	11,668	6,805
Payable to Central Depository Company of Pakistan Limited (CDC) - Trustee	9	282	469
Payable to Securities and Exchange Commission of Pakistan (SECP)	10	4,199	5,024
Payable on redemption and conversion of units		18,367	25,315
Brokerage payable		-	129
Dividend payable		-	13
Accrued expenses and other liabilities	11	54,590	48,714
<b>Total liabilities</b>		<b>89,106</b>	<b>86,469</b>
<b>Net assets</b>		<b>3,049,366</b>	<b>6,510,774</b>
<b>Contingencies and commitments</b>	12		
<b>Unitholders' funds (as per statement attached)</b>		<b>3,049,366</b>	<b>6,510,774</b>
<b>Number of units</b>			
<b>Number of units in issue</b>	13	<b>60,905,742</b>	<b>130,063,253</b>
<b>Rupees</b>			
<b>Net assets value per unit</b>		<b>50.07</b>	<b>50.06</b>

The annexed notes 1 to 28 form an integral part of these financial statements.

**For AI Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoaib, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director


# INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 (Rupees in '000)	2013
<b>Income</b>			
Profit on saving accounts with banks		335,341	442,480
Profit on placements		26,205	157,482
Profit on sukuk certificates		24,306	42,579
Profit on Government of Pakistan (GoP) Ijarah Sukuks		95,937	35,733
Realised loss on sale of sukuk certificates (net)		(562)	-
Other income		-	10
		<b>481,227</b>	678,284
Unrealised loss on re-measurement of investments 'at fair value through profit or loss' (net)		-	(1,982)
<b>Total income</b>		<b>481,227</b>	676,302
<b>Expenses</b>			
Remuneration to Al Meezan Investment Management Limited - Management Company	8.1	55,992	67,734
Sindh Sales Tax and Federal Excise Duty on management fee	8.2 & 8.3	19,053	11,348
Remuneration to Central Depository Company of Pakistan Limited - Trustee	9	4,949	6,213
Annual fee to Securities and Exchange Commission of Pakistan	10	4,200	5,024
Auditors' remuneration	14	481	431
Fees and subscription		265	250
Amortisation of preliminary expenses and floatation costs	7	572	599
Amortisation of premium on 'available for sale' investments		698	-
Brokerage		116	129
Bank and settlement charges		121	138
Printing and stationery expenses		95	427
Provision for Workers' Welfare Fund (WWF)	15	7,763	11,371
<b>Total expenses</b>		<b>94,305</b>	103,664
<b>Net income from operating activities</b>		<b>386,922</b>	572,638
Element of loss and capital losses included in prices of units issued less those in units redeemed (net)		(6,526)	(4,067)
<b>Net income for the year before taxation</b>		<b>380,396</b>	568,571
Taxation	21	-	-
<b>Net income for the year after taxation</b>		<b>380,396</b>	568,571
Other comprehensive income for the year		-	-
<b>Items can be reclassified to income statement in subsequent periods</b>			
<b>Total comprehensive income for the year</b>		<b>380,396</b>	568,571

The annexed notes 1 to 28 form an integral part of these financial statements.

For Al Meezan Investment Management Limited  
(Management Company)

  
Mohammad Shoaib, CFA  
Chief Executive

  
Syed Amir Ali Zaidi  
Director



## DISTRIBUTION STATEMENT

### FOR THE YEAR ENDED JUNE 30, 2014

	2014 (Rupees in '000)	2013
Undistributed income brought forward		
- Realised	10,169	10,288
- Unrealised	(1,982)	-
	8,187	10,288
Less: Distributions for the year		
Interim distribution on July 23, 2013		
- bonus units @ 0.54% (Rs.0.27 per unit)	(35,505)	-
- cash dividend @ 0.54% (Rs.0.27 per unit)	(15)	-
Interim distribution on July 22, 2012		
- bonus units @ 0.60% (Rs 0.30 per unit)	-	(41,008)
- cash dividend @ 0.60% (Rs 0.30 per unit)	-	(39)
Interim distribution on August 22, 2013		
- bonus units @ 0.60% (Rs.0.30 per unit)	(40,046)	-
- cash dividend @ 0.60% (Rs.0.30 per unit)	(17)	-
Interim distribution on August 22, 2012		
- bonus units @ 1.00% (Rs 0.50 per unit)	-	(68,325)
- cash dividend @ 1.00% (Rs 0.50 per unit)	-	(3)
Interim distribution on September 20, 2013		
- bonus units @ 0.60% (Rs.0.30 per unit)	(38,550)	-
- cash dividend @ 0.60% (Rs.0.30 per unit)	(14)	-
Interim distribution September 20, 2012		
- bonus units @ 0.76% (Rs 0.38 per unit)	-	(50,316)
- cash dividend @ 0.76% (Rs 0.38 per unit)	-	(6)
Interim distribution on October 23, 2013		
- bonus units @ 0.64% (Rs.0.32 per unit)	(40,276)	-
- cash dividend @ 0.64% (Rs.0.32 per unit)	(13)	-
Interim distribution on October 22, 2012		
- bonus units @ 0.84% (Rs 0.42 per unit)	-	(56,221)
- cash dividend @ 0.84% (Rs 0.42 per unit)	-	(6)
Interim distribution on November 21, 2013		
- bonus units @ 0.54% (Rs.0.27 per unit)	(34,727)	-
- cash dividend @ 0.54% (Rs.0.27 per unit)	(11)	-
Interim distribution on November 22, 2012		
- bonus units @ 0.72% (Rs 0.36 per unit)	-	(49,177)
- cash dividend @ 0.72% (Rs 0.36 per unit)	-	(5)
Interim distribution on December 24, 2013		
- bonus units @ 0.60% (Rs.0.30 per unit)	(34,751)	-
- cash dividend @ 0.60% (Rs.0.30 per unit)	(13)	-
Interim distribution on December 20, 2012		
- bonus units @ 0.64% (Rs 0.32 per unit)	-	(42,866)
- cash dividend @ 0.64% (Rs 0.32 per unit)	-	(4)
Interim distribution January 24, 2014		
- bonus units @ 0.60% (Rs.0.30 per unit)	(33,621)	-
- cash dividend @ 0.60% (Rs.0.30 per unit)	(13)	-
Interim distribution on January 22, 2013		
- bonus units @ 0.72% (Rs 0.36 per unit)	-	(47,382)
- cash dividend @ 0.72% (Rs 0.36 per unit)	-	(6)

# DISTRIBUTION STATEMENT

FOR THE YEAR ENDED JUNE 30, 2014

	2014 (Rupees in '000)	2013
Interim distribution February 24, 2014		
- bonus units @ 0.60% (Rs.0.30 per unit)	(32,897)	-
- cash dividend @ 0.60% (Rs.0.30 per unit)	(13)	-
Interim distribution on February 21, 2013		
- bonus units @ 0.64% (Rs 0.32 per unit)	-	(44,774)
- cash dividend @ 0.64% (Rs 0.32 per unit)	-	(8)
Interim distribution March 24, 2014		
- bonus units @ 0.60% (Rs.0.30 per unit)	(28,135)	-
- cash dividend @ 0.60% (Rs.0.30 per unit)	(13)	-
Interim distribution on March 22, 2013		
- bonus units @ 0.62% (Rs 0.31 per unit)	-	(41,555)
- cash dividend @ 0.62% (Rs 0.31 per unit)	-	(8)
Interim distribution April 24, 2014		
- bonus units @ 0.52% (Rs.0.26 per unit)	(23,319)	-
- cash dividend @ 0.52% (Rs.0.26 per unit)	(11)	-
Interim distribution on April 23, 2013		
- bonus units @ 0.68% (Rs 0.34 per unit)	-	(46,197)
- cash dividend @ 0.68% (Rs 0.34 per unit)	-	(8)
Interim distribution May 23, 2014		
- bonus units @ 0.48% (Rs.0.24 per unit)	(20,025)	-
- cash dividend @ 0.48% (Rs.0.24 per unit)	-	-
Interim distribution on May 23, 2013		
- bonus units @ 0.60% (Rs 0.30 per unit)	-	(40,078)
- cash dividend @ 0.60% (Rs. 0.30 per unit)	-	(16)
Interim distribution on June 24, 2014		
- bonus units @ 0.52% (Rs 0.26 per unit)	(17,795)	-
- cash dividend @ 0.52% (Rs 0.26 per unit)	-	-
Interim distribution on June 24, 2013		
- bonus units @ 0.66% (Rs 0.33 per unit)	-	(42,646)
- cash dividend @ 0.66% (Rs 0.33 per unit)	-	(18)
	<b>(379,780)</b>	<b>(570,672)</b>
Net income for the year	<b>380,396</b>	<b>568,571</b>
Undistributed income carried forward	<b>8,803</b>	<b>8,187</b>
Undistributed income carried forward		
- Realised	<b>8,803</b>	<b>10,169</b>
- Unrealised	<b>-</b>	<b>(1,982)</b>
	<b>8,803</b>	<b>8,187</b>

The annexed notes 1 to 28 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**



**Mohammad Shoaib, CFA  
Chief Executive**



**Syed Amir Ali Zaidi  
Director**




## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2014

	2014 (Rupees in '000)	2013
Net assets at beginning of the year	6,510,774	7,418,771
Issue of 162,030,500 units ( 2013: 154,199,655 units)	8,126,625	7,739,667
Redemption of 238,782,704 units 2013: 183,694,789 units)	(11,974,822) (3,848,197)	(9,220,175) (1,480,508)
Element of loss and capital losses included in prices of units issued less those in units redeemed (net)	6,526	4,067
Issue of 7,594,693 bonus units (2013: 11,406,183 bonus units)	379,647	570,545
Unrealised loss on re-measurement of investments 'at fair value through profit or loss' (net)	-	(1,982)
Other net income for the year	380,396	570,553
Total comprehensive income for the year	380,396	568,571
<b>Interim distributions:</b>		
- Issue of 709,882 bonus units and cash distribution on July 23, 2013	(35,520)	-
- Issue of 818,800 bonus units and cash distribution on July 22, 2012	-	(41,047)
- Issue of 800,874 bonus units and cash distribution on August 22, 2013	(40,063)	-
- Issue of 1,364,407 bonus units and cash distribution on August 22, 2012	-	(68,328)
- Issue of 771,881 bonus units and cash distribution on September 20, 2013	(38,564)	-
- Issue of 1,006,995 bonus units and cash distribution on September 20, 2012	-	(50,322)
- Issue of 806,314 bonus units and cash distribution on October 23, 2013	(40,289)	-
- Issue of 1,124,342 bonus units and cash distribution on October 22, 2012	-	(56,227)
- Issue of 694,674 bonus units and cash distribution on November 21, 2013	(34,738)	-
- Issue of 983,149 bonus units and cash distribution on November 22, 2012	-	(49,182)
- Issue of 694,883 bonus units and cash distribution on December 24, 2013	(34,764)	-
- Issue of 856,387 bonus units and cash distribution on December 20, 2012	-	(42,870)
- Issue of 672,296 bonus units for the period ended January 24, 2014	(33,634)	-
- Issue of 947,589 bonus units and cash distribution on January 22, 2013	-	(47,388)
- Issue of 658,014 bonus units for the period ended February 24, 2014	(32,910)	-
- Issue of 895,139 bonus units and cash distribution on February 21, 2013	-	(44,782)
- Issue of 562,918 bonus units for the period ended March 24, 2014	(28,148)	-
- Issue of 830,957 bonus units and cash distribution on March 22, 2013	-	(41,563)
- Issue of 466,449 bonus units for the period ended April 24, 2014	(23,330)	-
- Issue of 923,756 bonus units and cash distribution on April 23, 2013	-	(46,205)
- Issue of 400,507 bonus units for the period ended May 23, 2014	(20,025)	-
- Issue of 801,394 bonus units and cash distribution on May 23, 2013	-	(40,094)
- Issue of 356,001 bonus units for the period ended June 24, 2014	(17,795)	-
- Issue of 853,268 bonus units for the period ended June 24, 2013	-	(42,664)
	(379,780)	(570,672)
Net assets at end of the year	3,049,366	6,510,774
	<b>(Rupees)</b>	
Net assets value per unit at beginning of the year	50.06	50.08
Net assets value per unit at end of the year	50.07	50.06

The annexed notes 1 to 28 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoab, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director


# CASH FLOW STATEMENT

## FOR THE YEAR ENDED JUNE 30, 2014

	2014 (Rupees in '000)	2013
<b>Note</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	<b>380,396</b>	568,571
<b>Adjustments for:</b>		
Amortisation of preliminary expenses and floatation costs	<b>572</b>	599
Element of loss and capital losses included in prices of units issued less those in units redeemed (net)	<b>6,526</b>	4,067
	<b>387,494</b>	573,237
<b>Decrease / (increase) in assets</b>		
Deposit and prepayments	-	(16)
Profit receivable	<b>69,445</b>	123,749
Receivable against Bai Muajjal	<b>(530,078)</b>	-
Investments (net)	<b>3,842,500</b>	(1,239,000)
	<b>3,381,867</b>	(1,115,267)
<b>Increase / (decrease) in liabilities</b>		
Payable to Al Meezan Investment Management Limited - Management Company	<b>4,863</b>	(962)
Payable to Central Depository Company of Pakistan Limited - Trustee	<b>(187)</b>	(131)
Payable to Securities and Exchange Commission of Pakistan	<b>(825)</b>	(183)
Brokerage payable	<b>(129)</b>	129
Accrued expenses and other liabilities	<b>5,876</b>	13,339
	<b>9,598</b>	12,192
<b>Net cash inflow / (used in) from operating activities</b>	<b>3,778,959</b>	(529,838)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts against issuance of units	<b>8,126,625</b>	7,739,667
Payment against redemption of units	<b>(11,981,770)</b>	(9,203,459)
Dividend paid	<b>(146)</b>	(119)
<b>Net cash used in financing activities</b>	<b>(3,855,291)</b>	(1,463,911)
Net decrease in cash and cash equivalents during the year	<b>(76,332)</b>	(1,993,749)
Cash and cash equivalents at beginning of the year	<b>2,620,449</b>	4,614,198
Cash and cash equivalents at end of the year	<b>2,544,117</b>	2,620,449

The annexed notes 1 to 28 form an integral part of these financial statements.

**For Al Meezan Investment Management Limited  
(Management Company)**

  
**Mohammad Shoaib, CFA**  
Chief Executive

  
**Syed Amir Ali Zaidi**  
Director

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

## 1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** Meezan Cash Fund (the Fund) was established under a trust deed executed between Al Meezan Investment Management Limited (Al Meezan) as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The trust deed was executed on May 14, 2009 and was approved by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). The Management Company has been licensed by the Securities and Exchange Commission of Pakistan (SECP) to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules) through a certificate of registration issued by the SECP. The registered office of the Management Company of the Fund is situated at Ground Floor, Block 'B', Finance and Trade Centre, Shahrah-e-Faisal, Karachi 74400, Pakistan.
- 1.2** The Fund has been formed to provide the unitholders safe and stable stream of halal income on their investments and to generate superior long term risk adjusted returns. The Fund shall also keep an exposure in short-term instruments for the purpose of maintaining liquidity and to capitalise on exceptional returns if available at any given point in time. Under the Trust Deed all the conducts and acts of the Fund are based on Shariah. Meezan Bank Limited (MBL) acts as its Shariah Advisor to ensure that the activities of the Fund are in compliance with the principles of Shariah.
- 1.3** The Fund is an open-end Shariah compliant (Islamic) Money Market Scheme listed on the Islamabad Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4** The Management Company has been given a quality rating of AM2 and the stability rating of the Fund is AA(f) given by JCR-VIS.
- 1.5** Title to the assets of the Fund are held in the name of CDC as a Trustee.

## 2. BASIS OF PRESENTATION

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 earlier referred guidelines. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the SECP. Wherever, the requirements of the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.

## 2.2 Basis of measurement

These financial statements have been prepared on the basis of historical cost convention except that investments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value.

## 2.3 Functional and presentational currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

## 2.4 Critical accounting estimates and judgements

The preparation of the financial statements in conformity with approved accounting standards requires the use of critical accounting estimates. It also requires the Management Company to exercise its judgement in the process of applying the Fund's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable in the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- (a) Classification and valuation of financial instruments (notes 3.1 and 5);
- (b) Impairment of financial instruments (note 3.1.6);
- (c) Amortisation of preliminary expenses and floatation costs (notes 3.6 & 7);
- (d) Recognition of provision for Workers' Welfare Fund (note 15).

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after July 01, 2014:

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after January 01, 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.
- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 01, 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after January 01, 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.

- Amendments to IAS 19 “Employee Benefits” Employee contributions – a practical approach (effective for annual periods beginning on or after July 01, 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.
- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after January 01, 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are ‘highly correlated’, or when the intangible asset is expressed as a measure of revenue.
- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after January 01, 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a fund can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.
- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after July 01, 2014). The new cycle of improvements contain amendments to the following standards:
  - IFRS 2 ‘Share-based Payment’. IFRS 2 has been amended to clarify the definition of ‘vesting condition’ by separately defining ‘performance condition’ and ‘service condition’. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.
  - IFRS 3 ‘Business Combinations’. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.
  - IFRS 8 ‘Operating Segments’ has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment’s assets to the entity assets is required only if this information is regularly provided to the entity’s chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
  - Amendments to IAS 16 ‘Property, plant and equipment’ and IAS 38 ‘Intangible Assets’. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.
  - IAS 24 ‘Related Party Disclosure’. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.
- These amendments will not likely to have an impact on the Fund's financial statements.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### **3.1 Financial instruments**

##### **3.1.1 Classification**

The Fund classifies its financial assets in the following categories: loans and receivables, at fair value through profit or loss, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. The management determines the appropriate classification of its financial assets in accordance with the requirement of International Accounting Standard (IAS) 39 : ' Financial Instruments: Recognition and Measurement', at the time of initial recognition and re-evaluates this classification on a regular basis.

##### **a) Financial instruments as 'at fair value through profit or loss'**

An instrument is classified as 'at fair value through profit or loss' if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated as 'at fair value through profit or loss' if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments as 'at fair value through profit or loss' are measured at fair value, and changes therein are recognised in Income Statement.

All derivatives in a net receivable position (positive fair value), are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.

##### **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 / Bai Muajjal**

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.

In Bai Muajjal financing, the Fund sells shariah compliant sukuk on credit to customers. The credit price is agreed at the time of sale and such proceeds are received at the end of the credit period.

##### **d) Available for sale**

These are non-derivatives financial assets that are either designated in this category or are not classified in any of the other categories mentioned in (a) to (c) above.



### 3.1.2 Regular way contracts

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the fund commits to purchase or sell assets.

### 3.1.3 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.

### 3.1.4 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.

### 3.1.5 Fair value measurement principles

The fair value of financial instruments is determined as follows:

#### *Basis of valuation of government securities*

- The government securities not listed on a stock exchange and traded in the interbank market are valued at the average rates quoted on a widely used electronic quotation system which are based on the remaining tenor of the securities.

#### *Basis of valuation of debt securities*

- The fair value of debt securities is based on the value determined and announced by MUFAP in accordance with the criteria laid down in Circular No 33 of 2012 dated October 24, 2012 issued by SECP.
- Provisions are recognised when there is objective evidence that a financial asset or group of financial assets are non-performing, in accordance with the circular and subsequent clarification thereon. Additional provision may be recognised when there is objective evidence of the continuity of non-performance. Further, the reversal of provisions are also made in accordance with the said circular and subsequent clarification.

Financial assets and financial liabilities are priced at their fair value.

### **3.1.6 Impairment**

Impairment loss on investment 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.

Impairment loss on investment classified as 'available for sale' debt instruments is recognised in the Income Statement whenever the acquisition cost of investment exceeds its recoverable amount. If in a subsequent period, the amount of an impairment loss recognised decreases, the impairment is reversed in the Income Statement.

### **3.1.7 Derecognition**

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire 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.

### **3.1.8 Offsetting of financial instruments**

Financial assets and financial liabilities are set off and the net amount is reported in the Statement of Assets and Liabilities 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.

## **3.2 Unitholders' fund**

Unitholders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

## **3.3 Issuance and redemption of units**

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours of the day when the application is received. The offer price represents the net assets value of the units as of the close of that business day plus the allowable sales load, provision for duties and charges and provision for transaction costs, if applicable.

Units redeemed are recorded at the redemption price prevalent on the date on which the distributors receive redemption application during business hours on that date. The redeemed price represents the net assets value per unit less back end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

## **3.4 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 issued 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 Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unitholder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unitholders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

### 3.5 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.

### 3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and includes underwriting commission, commission to bankers to issue, brokerage paid to members at the stock exchange and other expenses. These costs are being amortised over a period of five years commencing from June 15, 2009 in accordance with the requirements of the NBFC Regulations 2008.

### 3.7 Net assets value per unit

The net assets value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities, is calculated by dividing the net assets of the Fund by the number of units in issue at year end.

### 3.8 Taxation

#### *Current*

The income of the Fund is exempt from income tax under clause 99 of part I of the second schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unitholders.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV to the Second Schedule of the Income Tax Ordinance, 2001.

#### *Deferred*

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit.

The deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on enacted tax rates.

However, the Fund availed the tax exemption by distributing at least 90% of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unitholders every year. Accordingly, no tax liability and deferred tax has been recognised in these financial statements.

### 3.9 Revenue recognition

- (i) Gains / (losses) arising on sale of investments are included in the Income Statement currently on the date when the transaction takes place.
- (ii) Profit on bank deposits is recognised on time proportion basis using effective yield method.
- (iii) Income on sukuk certificates, placements and government securities is recognised on a time proportionate basis using effective yield method.

### 3.10 Expenses

All expenses, including Management fee, Trustee fee and Securities and Exchange Commission of Pakistan fee are recognised in the Income Statement as and when incurred.

### 3.11 Earnings per unit

Earnings per unit (EPU) has not been disclosed as in the opinion of the management, the determination of weighted average units for calculating EPU is not practicable.

### 3.12 Cash and cash equivalents

Cash and cash equivalents are carried in the Statement of Assets and Liabilities at cost. Cash comprises current and saving 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.

### 3.13 Distribution

Distribution including bonus units are recognised in the year in which they are approved.

## 4. BALANCES WITH BANKS

	Note	2014 (Rupees in '000)	2013
On saving accounts	4.1 & 4.2	2,541,500	2,607,116
On current accounts	4.2	2,617	13,333
		<u>2,544,117</u>	<u>2,620,449</u>

4.1 The balances in saving accounts have an expected profit ranging from 3.72% to 8.25% per annum (2013: 5.65% to 9.05% per annum).

4.2 The balance includes Rs. 23.239 million (2013: Rs. 44.908 million) with related party, Meezan Bank Limited, on which average return is earned at 4.87% (2013: 5.65%) per annum.

5. INVESTMENTS	Note	2014 (Rupees in '000)	2013
Investments - 'loans and receivables' - Placements	5.1	-	1,500,000
Investments - 'available for sale'	5.2	-	-
Investments - 'fair value through profit or loss'			
- Held for trading		-	2,117,500
- Fair value through profit or loss upon initial recognition	5.3	-	225,000
		-	2,342,500
		-	3,842,500

### 5.1 Placements

Name of the bank	Maturity	Profit range	As at July 01, 2013	Placements made during the year	Matured during the year	As at June 30, 2014	Percentage of total value of investments
Bank Al -Falah Limited	October 12, 2013	8.85	1,500,000	-	(1,500,000)	-	-

### 5.2 Available for sale

Name of the Issuer	Maturity	Profit rate	As at July 01, 2013	Purchases during the year	Sales / redemptions during the year	As at June 30, 2014	Carrying value as at June 30, 2014	Market value as at June 30, 2014	Unrealised gain / (loss)	Percentage of market value of total investments
GoP Ijarah Sukuk - V	November 15, 2013	Weighted Average 6 months T-Bills	-	12,000	12,000	-	-	-	-	-
Kot Addu Power Company Limited - Sukuk	Jan 22, 2014	6 months KIBOR plus base rate of 1.1%	-	45,000	45,000	-	-	-	-	-
Lalpir Power - Sukuk	Apr 21, 2014	6 months KIBOR plus base rate of 1.15%	-	45,000	45,000	-	-	-	-	-

### 5.3 Fair Value through profit or loss upon initial recognition (Held for trading & Fair Value Initial Recognition)

Name of the Issuer	Maturity	Profit rate	As at July 01, 2013	Purchases during the year	Sales / redemptions during the year	As at June 30, 2014	Carrying value as at June 30, 2014	Market value as at June 30, 2014	Unrealised gain / (loss)	Percentage of total market value of investments
			-----Number of Certificates-----			-----Rupees in '000-----			----	----
Hub Power Company Limited - Sukuk	Jul 12, 2013	6 months KIBOR plus base rate of 1.25%	45,000	-	45,000	-	-	-	-	-
GoP Ijarah Sukuk - V	November 15, 2013	Weighted Average 6 months T-Bills	21,175	-	21,175	-	-	-	-	-
GoP Ijarah Sukuk - VIII	May 16, 2014	Weighted Average 6 months T-Bills	-	5,000	5,000	-	-	-	-	-
<b>Total</b>							<u>-</u>	<u>-</u>	<u>-</u>	
<b>Total cost of investment</b>							<u>-</u>	<u>-</u>	<u>-</u>	

## 6. RECEIVABLE AGAINST BAI MUAJJAL

The return on this product is 9.5% (2013: nil). The balance is maturing on November 12, 2014. The sale of sukuk has been made to a DFI with a credit rating of AA+.

	Note	2014 (Rupees in '000)	2013
<b>7. PRELIMINARY EXPENSES AND FLOATATION COSTS</b>			
Opening balance		572	1,171
Less: Amortised during the year	7.1	(572)	(599)
Closing balance		<u>-</u>	<u>572</u>

7.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of the operations of the Fund, restricted to one percent of Pre-IPO capital, and are being amortised over a period of five years, commencing from the end of the initial offering period, in accordance with the trust deed of the Fund and NBFC Regulations, 2008.

	Note	2014 (Rupees in '000)	2013
<b>8. PAYABLE TO AL MEEZAN INVESTMENT MANAGEMENT LIMITED (Al Meezan) - Management Company</b>			
Management Fee	8.1	2,935	5,426
Sindh Sales Tax and Federal Excise Duty on Management Fee	8.2 & 8.3	8,733	1,379
		<u>11,668</u>	<u>6,805</u>



- 8.1** Under the provisions of the NBFC Regulations, 2008, the Management Company is entitled to a remuneration of an amount not exceeding three percent of the average annual net assets of the Fund during the first five years of the Fund's existence, and thereafter, of an amount equal to two percent of such assets of the Fund. In accordance with the offering document of the Fund, the remuneration of the Management Company is restricted to 1% per annum of average annual net assets of the Fund for the year ended June 30, 2014.
- 8.2** The Sindh Provincial Government has levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company through Sindh Sales Tax on Services Act, 2011, effective from July 01, 2011.
- 8.3** As per the requirement of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective from June 13, 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law. The matter has been taken up collectively by the Mutual Fund Association of Pakistan where various options are being considered. During the period, the Honourable High Court Sindh in a Constitutional petition relating to levy of Federal Excise Duty (FED) on Mutual Fund has granted stay order for the recovery of Federal Excise Duty (FED). As a matter of abundant caution, the Management Company has made a provision with effect from June 13, 2013, aggregating to Rs. 7.01 million. Had the provision not being made, the Net Asset Value per unit of the Fund as at June 30, 2014 would have been higher by Rs. 0.11 per unit.

**9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED (CDC) - Trustee**

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 value of the Fund. The tariff structure is as follows:

<b>Net Assets</b>	<b>Tariff</b>
Up to Rs. 1 billion	0.15% p.a. of net assets
Rs. 1 billion to Rs. 10 billion	Rs. 1.5 million plus 0.075% p.a. of net assets exceeding Rs. 1 billion
Over Rs. 10 billion	Rs. 8.25 million plus 0.06% p.a. of net assets exceeding Rs. 10 billion

**10. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP)**

This represents annual fee at the rate of 0.075% of the average annual net assets of the Fund payable to the SECP under regulation 62 read with Schedule II of NBFC Regulations, 2008.

<b>11. ACCRUED EXPENSES AND OTHER LIABILITIES</b>	<b>Note</b>	<b>2014 (Rupees in '000)</b>	<b>2013</b>
Auditors' remuneration		<b>325</b>	300
Withholding tax payable		<b>131</b>	162
Printing expense		<b>362</b>	486
Zakat payable		<b>5</b>	85
WWF payable	15	<b>53,767</b>	46,004
Other payable		<b>-</b>	1,677
		<b>54,590</b>	48,714

## **12. CONTINGENCIES AND COMMITMENTS**

There were no contingencies and commitments outstanding as at June 30, 2014.

## **13. NUMBER OF UNITS IN ISSUE**

**13.1** The movement in number of units in issue during the year is as follows:

	<b>2014</b>	<b>2013</b>
Total units in issue at the beginning of the year	<b>130,063,253</b>	148,152,204
Add: units issued during the year	<b>162,030,500</b>	154,199,655
Add: bonus units issued during the year	<b>7,594,693</b>	11,406,183
Less: units redeemed during the year	<b>(238,782,704)</b>	(183,694,789)
Total units in issue at the end of the year	<b>60,905,742</b>	130,063,253

**13.2** The Fund may issue following classes of units:

### **Class Description**

- A Units have been issued to Core Investors with no front-end load and no back-end load. Any bonus units issued for distribution of income shall also be Class A units.
- B Units shall be issued to Pre-IPO investors and may be charged with front-end load.
- C Units shall be issued after the IPO period and may be charged with front-end load.
- D Units shall be issued after the IPO period and may be charged with a back-end load.

**13.3** According to the offering document dated June 5, 2009, the Management Company of the Fund may issue the following types of units:

- Growth units which shall be entitled to bonus units in case of any distribution by the Fund. Bonus units issued to growth unit holders shall also be the growth units; and
- Income units which shall be entitled to dividend in case of any distribution by the Fund.

2014                      2013  
(Rupees in '000)

**14. AUDITORS' REMUNERATION**

Statutory Audit fee	<b>227</b>	190
Half yearly review	<b>114</b>	100
Other certifications and services	<b>110</b>	110
Out of pocket expenses	<b>30</b>	31
	<b>481</b>	431

**15. WORKERS' WELFARE FUND**

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 Collective Investment Schemes / mutual funds (CISs) 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, during the year ended June 30, 2010, a constitutional petition has been filed by certain CISs through their Trustees in the Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication.

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. However, on December 14, 2010, the Ministry 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 Court.

In 2012, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 declared the said amendments as unlawful and unconstitutional. In March 2013 a large bench of Sindh High Court (SHC) in various Constitutional Petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 do not suffer from any constitutional or legal infirmity. However, the Honorable High Court of Sindh has not addressed the other amendments made in WWF Ordinance 1971 about applicability of WWF to the CISs which is still pending before the court.

The decisions of SHC (in against) and LHC (in favour) are pending before Supreme Court. However, the management company as a matter of abundant caution has decided to continue to maintain the provision for WWF for the year ended 30 June 2014. As at June 30, 2014, the Fund has recognised WWF amounting to Rs. 53.76 million which includes Rs. 7.76 million pertaining to the current year and Rs. 46 million pertaining to prior years. Had the WWF not been provided, the NAV per unit of the Fund would have been higher by Rs. 0.88 (1.76%).

## 16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTY

The connected persons include Al Meezan Investment Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, Meezan Bank Limited being the holding company of the Management Company, directors and officers of the Management Company, Al Meezan Mutual Fund, Meezan Islamic Fund, Meezan Tahaffuz Pension Fund, Meezan Islamic Income Fund, Meezan Balanced Fund, Meezan Capital Protected Fund - II, KSE Meezan Index Fund, Meezan Sovereign Fund and Meezan Financial Planning Fund of Funds, Meezan Capital Preservation Fund - III and Meezan Capital Preservation Fund - II being the Funds under the common management of the Management Company, Pakistan Kuwait Investment Company (Private) Limited being the associated company of the Management Company, Al Meezan Investment Management Limited - Staff Gratuity Fund and unitholders holding 10% or more of the Fund.

Transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provision of NBFC Rules and Regulations and the Trust Deed respectively.

Details of balances and transactions with connected persons at year end are as follows:

	2014	2013
	(Rupees in '000)	
<b>Al Meezan Investment Management Limited</b>		
<b>- Management Company</b>		
Remuneration payable	2,935	5,426
Sindh Sales Tax and Federal Excise Duty on management fee payable	8,733	1,379
<b>Meezan Bank Limited</b>		
Balances with bank	23,240	44,908
Profit receivable on saving account	9,781	1,111
<b>Central Depository Company of Pakistan Limited</b>		
Trustee fee payable	282	469
Deposit	100	100
<b>Al Meezan Investment Management Limited</b>		
<b>- Staff Gratuity Fund</b>		
Investments of 43,913 units (June 30, 2013 : 41,018 units)	2,199	2,053
<b>Directors and officers of the Management Company</b>		
Investments of 25,694 units (June 30, 2013: 463,275 units)	1,286	23,192

**For the year ended June 30,**  
**2014**                      **2013**  
**(Rupees in '000)**

**Al Meezan Investment Management Limited**

**- Management Company**

Remuneration for the year  
Sindh Sales Tax and Federal Excise Duty on management fee

<b>55,992</b>	67,734
<b>19,053</b>	11,348

**Meezan Bank Limited**

Profit on saving account

<b>112,747</b>	1,526
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**Central Depository Company of Pakistan Limited**

Trustee fee for the year  
CDS charges

<b>4,949</b>	6,213
<b>5</b>	6

**Al Meezan Investment Management Limited**

**- Staff Gratuity Fund**

Bonus units issued: 2,895 units (June 30, 2013: 3,322 units)

<b>145</b>	166
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**Directors and officers of the Management Company**

Units issued: 128,429 units (June 30, 2013: 219,970 units)  
Redemptions: 576,146 units (June 30, 2013: 265,894 units)  
Bonus units issued: 10,136 units (June 30, 2013: 29,505 units)

<b>6,434</b>	11,011
<b>28,917</b>	13,317
<b>508</b>	1,476

## 17. FINANCIAL INSTRUMENTS BY CATEGORY

Loans and receivables	2014			Total
	Financial assets at fair value through profit or loss	Financial assets categorised as 'available for sale'	Financial liabilities measured at amortised cost	
----- (Rupees in '000) -----				
<b>On balance sheet - financial assets</b>				
Balances with banks	2,544,117	-	-	2,544,117
Receivable against Bai Muajjal	530,078	-	-	530,078
Profit receivable	63,959	-	-	63,959
Deposit	100	-	-	100
	<b>3,138,254</b>	-	-	<b>3,138,254</b>

### On balance sheet - financial liabilities

Payable to Al Meezan Investment Management Limited - Management Company	-	-	-	11,668	11,668
Payable to Central Depository Company - Trustee	-	-	-	282	282
Payable on redemption and conversion of units	-	-	-	18,367	18,367
Accrued expenses and other liabilities	-	-	-	687	687
	-	-	-	<b>31,004</b>	<b>31,004</b>

Loans and receivables	2013			Total	
	Financial assets at fair value through profit or loss	Financial assets categorised as 'available for sale'	Financial liabilities measured at amortised cost		
----- (Rupees in '000) -----					
<b>On balance sheet - financial assets</b>					
Balances with banks	2,620,449	-	-	-	2,620,449
Investments - placements	1,500,000	-	-	-	1,500,000
Investments - sukuk certificates	-	2,342,500	-	-	2,342,500
Profit receivable	133,404	-	-	-	133,404
Deposit	100	-	-	-	100
	<b>4,253,953</b>	<b>2,342,500</b>	-	-	<b>6,596,453</b>

### On balance sheet - financial liabilities

Payable to Al Meezan Investment Management Limited - Management Company	-	-	-	6,805	6,805
Payable to Central Depository Company - Trustee	-	-	-	469	469
Payable on redemption and conversion of units	-	-	-	25,315	25,315
Brokerage payable	-	-	-	129	129
Dividend payable	-	-	-	13	13
Accrued expenses and other liabilities	-	-	-	2,463	2,463
	-	-	-	<b>35,194</b>	<b>35,194</b>



## 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 unitholders and seeks to minimise potential adverse effects on the Fund's financial performance.

Risks of the Fund are being managed by the 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, currency risk and interest rate risk), credit risk and liquidity risk. Further, the overall exposure of the Fund complies with the NBFC Regulations, 2008 and the directives issued by SECP.

Risks managed and measured by the Fund are explained below:

### 18.1 Market risk

#### 18.1.1 Interest rate risk

The interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates which affects cash flows pertaining to debt instruments and their fair values.

##### *Cash flow interest rate risk*

The Funds interest rate risk arises from the balances in saving accounts, investment in debt securities and short-term placements.

At June 30, 2014, if there had been increase / (decrease) of 100 basis points in interest rates, with all other variables held constant, net assets of the Fund for the year then ended would have been higher / (lower) by Rs. 25.415 million (2013: Rs 49.496 million) mainly as a result of finance income.

#### 18.1.2 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of a change in market price (other than Currency risk or Interest rate risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instrument traded in the market. The Fund, at present is not exposed to price risk as at June 30, 2014 as it does not invest in equity securities.

#### 18.1.3 Currency risk

Currency risk is that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pakistani Rupees.

### 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 short-term placements with banks, deposits with banks, profit receivable and investments in debt securities. Credit risk arising on other financial assets is monitored through a regular analysis of financial position of brokers and other parties. Credit risk arising on the debt instruments is mitigated by investing in rated instruments or instruments issued by rated counterparties of credit ratings of at least investment grade by the recognised rating agencies. The fund receives a monthly rating update, against which investments are reviewed. For debt instrument settlement, Delivery versus Payment (DvP) mechanism applied by the Trustee of the fund further minimises the credit risk. 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 of the Management Company on a quarterly basis.

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, 2014, along with comparative is tabulated below:

	2014	2013
	(Rupees in '000)	
<b>Financial assets</b>		
Balances with banks	<b>2,544,117</b>	2,620,449
Investments	-	1,725,000
Receivable against Bai Muajjal	<b>530,078</b>	-
Profit receivable	<b>63,959</b>	108,241
Deposit	<b>100</b>	100
	<b><u>3,138,254</u></b>	<u>4,453,790</u>

Credit rating wise analysis of balances with banks and placements of the Fund are tabulated below:

	2014	2013
	..... % .....	
AAA	<b>39.92</b>	0.15
AA+	<b>58.94</b>	60.20
AA	<b>1.14</b>	39.65
	<b><u>100.00</u></b>	<u>100.00</u>

None of the financial assets were considered to be past due or impaired as on June 30, 2014.

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

Due to the Fund's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, the Fund does not expect non-performance by these counter parties on their obligations to the Fund.

### 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 unitholder's redemptions at any time. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund manages the liquidity risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

In accordance with the regulation 58(1)(k) of the NBFC Regulations, 2008, the Fund has the ability to borrow Funds for meeting the redemption requests, with the approval of the trustee, for a period not exceeding three months to the extent of fifteen percent of the net assets. However, no such borrowing has been obtained during the year.

Further, the Fund is also allowed, as per regulation 57(10) of the NBFC Regulations, 2008, to defer redemption request to next dealing day, had such requests exceed ten percent of the total number of units in issue. However, no such defer redemption request has been exercised by the Fund during the year.

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 Management Company on a quarterly basis.

In addition to Unitholders' fund, analysis of the financial liabilities into relevant maturity grouping as at June 30, 2014, alongwith comparative is tabulated below:

	2014				Total
	Maturity upto				
	Three months	Six months	One year	More than one year	
	----- (Rupees in '000) -----				
Payable to Al Meezan Investment Management Limited - Management Company	11,668	-	-	-	11,668
Payable to Central Depository Company - Trustee	282	-	-	-	282
Payable on redemption and conversion of units	18,367	-	-	-	18,367
Accrued expenses and other liabilities	687	-	-	-	687
	<b>31,004</b>	-	-	-	<b>31,004</b>

	2013				Total
	Maturity upto				
	Three months	Six months	One year	More than one year	
	----- (Rupees in '000) -----				
Payable to Al Meezan Investment Management Limited - Management Company	6,805	-	-	-	6,805
Payable to Central Depository Company - Trustee	469	-	-	-	469
Payable on redemption and conversion of units	25,315	-	-	-	25,315
Brokerage payable	129	-	-	-	129
Dividend payable	13	-	-	-	13
Accrued expenses and other liabilities	2,463	-	-	-	2,463
	<b>35,194</b>	-	-	-	<b>35,194</b>

Units of the Fund are redeemable on demand at the option of the unitholder, however, the Fund does not anticipate significant redemption of units.

## 19. UNITHOLDERS' FUND RISK MANAGEMENT

The unitholders' fund is represented by redeemable units. These units are entitled to distribution and payment of a proportionate share, based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown in the Statement of Movement in Unitholders' Fund.

The Fund's objective when managing unitholders funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets under management.

The Fund has no restrictions on the subscription and redemption of units.

The Fund meets the requirement of sub-regulation 54(3a) which requires that the minimum size of an Open End Scheme shall be one hundred million rupees at all time during the life of the scheme.

In accordance with the risk management policies stated in the note 18, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short term borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.

Units of the Fund are redeemable on demand at the option of the unitholder, however, the Fund does not anticipate significant redemption of units.

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## 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a 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 or adverse terms.

The fair value of financial assets and liabilities traded in active markets are based on the quoted market prices at the close of trading on the year end date. The Fund does not hold any securities that are based on quoted market prices.

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.

Investments on the Statement of Assets and Liabilities are carried at fair value. The Management Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The fair value of financial assets that are not traded in an active market is determined with reference to the rates quoted by Financial Market Association of Pakistan and MUFAP. The fair value quoted by MUFAP is calculated in accordance with the valuation methodology prescribed by Circular 1 of 2009 and Circular 33 of 2012 issued by SECP.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in active markets for an 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 (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

**20.1** There is no asset that are measured at fair value as at June 30, 2014.

The following table presents the asset that are measured at fair value as at June 30, 2013.

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments - 'at fair value through profit or loss'	----- (Rupees in '000) -----			
Financial assets classified as held for trading - Debt securities *	-	-	-	-
Financial assets designated as 'at fair value through profit or loss'				
- Debt securities *	-	-	225,000	225,000
	<u>-</u>	<u>-</u>	<u>225,000</u>	<u>225,000</u>

\*GoP Ijarah Sukuk have been carried at cost in the year 2013.

During the year ended June 30, 2013 no transfers were made between the aforementioned levels.

**21. TAXATION**

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains, whether realised or unrealised, is distributed amongst the unitholders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current year as the management company has distributed sufficient income of the Fund for the year ended June 30, 2014 as reduced by capital gains (whether realised or unrealised) to its unitholders.



22. PERFORMANCE TABLE	2014	2013	2012	2011	2010	2009
Net assets (Rs '000) (ex-distribution)	3,049,366	6,510,774	7,418,771	5,955,829	5,224,268	623,857
Net Income (Rs '000)	380,396	568,571	708,427	623,075	418,517	2,050
Net assets value / redemption price per unit as at June 30 (Rs) (ex-distribution) *	50.07	50.06	50.08	50.03	50.00	50.01
Offer price per unit as at June 30 (Rs) (ex-distribution) *	50.07	50.06	50.08	50.03	50.00	50.01
<b>Distribution (%)</b>						
- First interim distribution	0.54	0.60	1.70	2.45	3.50	-
- Second interim distribution	0.60	1.00	0.90	2.50	3.00	-
- Third interim distribution	0.60	0.76	0.88	2.70	-	-
- Fourth interim distribution	0.64	0.84	0.98	1.70	-	-
- Fifth interim distribution	0.54	0.72	0.80	-	-	-
- Sixth interim distribution	0.60	0.64	0.86	-	-	-
- Seventh interim distribution	0.60	0.72	0.88	-	-	-
- Eighth interim distribution	0.60	0.64	0.80	-	-	-
- Ninth interim distribution	0.60	0.62	0.80	-	-	-
- Tenth interim distribution	0.52	0.68	0.90	-	-	-
- Eleventh interim distribution	0.48	0.60	0.64	1.16	3.38	0.30
- Twelvth interim distribution (Final distribution)	0.52	0.66	-	-	-	-
<b>Dates of distribution</b>						
- First interim distribution	Jul 23, 2013	July 22, 2012	Aug 23, 2011	Sep 30, 2010	Jan 04, 2010	-
- Second interim distribution	Aug 22, 2013	Aug 22, 2012	Sep 23, 2011	Dec 31, 2010	Apr 02, 2010	-
- Third interim distribution	Sep 20, 2013	Sep 20, 2012	Oct 20, 2011	Mar 29, 2011	-	-
- Fourth interim distribution	Oct 23, 2013	Oct 22, 2012	Nov 22, 2011	May 23, 2011	-	-
- Fifth interim distribution	Nov 21, 2013	Nov 22, 2012	Dec 21, 2011	-	-	-
- Sixth interim distribution	Dec 24, 2013	Dec 20, 2012	Jan 22, 2012	-	-	-
- Seventh interim distribution	Jan 24, 2014	Jan 22, 2013	Feb 22, 2012	-	-	-
- Eighth interim distribution	Feb 24, 2014	Feb 21, 2013	Mar 19, 2012	-	-	-
- Ninth interim distribution	Mar 24, 2014	Mar 22, 2013	Apr 22, 2012	-	-	-
- Tenth interim distribution	Apr 24, 2014	Apr 23, 2013	May 22, 2012	-	-	-
- Eleventh interim distribution	May 23, 2014	May 23, 2013	June 21, 2012	June 28, 2011	July 7, 2010	July 6, 2009
- Twelvth interim distribution (Final distribution)	June 24, 2014	June 24, 2013	-	-	-	-
Income distribution (Rupees in '000)	133	127	125,485	50,126	12,104	-
Growth distribution (Rupees in '000)	379,647	570,545	576,365	569,253	406,583	1,865
Highest offer price per unit (Rs)	50.35	50.51	50.86	51.69	52.48	50.16
Lowest offer price per unit (Rs)	50.00	50.00	50.01	50.01	50.11	50.00
Highest redemption price per unit (Rs)	50.35	50.51	50.86	51.69	52.48	50.16
Lowest redemption price per unit (Rs) *	50.00	50.00	49.96	50.01	50.11	50.00
Total return (%)	7.08	8.78	10.55	11.03	10.10	10.62
Average annual return (%) as at June 30, 2014	One Year 7.08	Two Year 7.89	Three Year 8.70	Four Year 9.24	Five Year 9.40	Six Year 9.60

\* Back end load will apply as per the requirements of the offering document of the Fund.

### Investment portfolio composition of the Fund

The Fund is a money market fund as per the categorisation of open end collective investment scheme defined in Circular 7 of 2009 dated March 6, 2010. Investment avenues for money market fund as defined in the said circular are restricted to government securities, debt securities, cash and near cash instruments which includes cash in bank accounts (excluding term deposit receipts), treasury bill, money market placements, deposits, certificate of deposits (COD), certificate of Musharakas (COM), commercial paper and reverse repo. The Fund has, therefore, placed all its assets in saving accounts and placements with banks and has invested in debt securities as disclosed in note 5.

### 23. INVESTMENT COMMITTEE MEMBERS

23.1 Details of members of investment committee of the Fund are as follow:

Name	Designation	Qualification	Experience in years
1. Mr. Mohammad Shoaib	Chief Executive Officer	CFA / MBA	Twenty four years
2. Mr. Muhammad Asad	Chief Investment Officer	CFA level II / MBA	Eighteen years
3. Ms. Sanam Ali Zaib	Head of Research	CFA / MBA	Ten years
4. Mr. Ahmed Hasan	AVP Investments	CFA / MBA	Seven years
5. Mr. Zain Malik	Senior Manager (Fund Management Department)	CFA level II / BBA	Five years
6. Mr. Gohar Rasool	Senior Manager (Fund Management Department)	MBBS	Seven years

23.2 The Fund manager of the Fund is Mr. Zain Malik. Other Funds being managed by the Fund manager are:  
 - Meezan Islamic Income Fund  
 - Meezan Sovereign Fund

### 24. BROKERAGE COMMISSION BY PERCENTAGE

Broker's Name	2014	2013
	..... % .....	
C&M Management (Private) Limited	100	-
JS Global Capital	-	76.78
Invest and Finance Securities	-	15.47
KASB Securities Limited	-	7.75

### 25. PATTERN OF UNIT HOLDING

	As at June 30, 2014		
	Number of investors	Investment amount (Rupees in '000)	Percentage of total investment %
Individuals	2,573	1,984,787	65.09
Associated companies / directors	4	3,141	0.10
Insurance companies	10	159,387	5.23
Banks / DFIs	2	100,082	3.28
Retirement Funds	29	90,611	2.97
Public limited companies	6	244,197	8.01
Others	42	467,161	15.32
Total	<u>2,666</u>	<u>3,049,366</u>	<u>100.00</u>

As at June 30, 2013

	Number of investors	Investment amount (Rupees in '000)	Percentage of total investment %
Individuals	6,664	3,061,070	47.02
Associated companies / directors	4	17,666	0.27
Insurance companies	13	219,728	3.37
Banks / DFIs	8	334,355	5.14
Retirement Funds	40	118,657	1.82
Public limited companies	23	1,021,304	15.69
Others	157	1,737,994	26.69
<b>Total</b>	<b>6,909</b>	<b>6,510,774</b>	<b>100.00</b>

## 26. DETAILS OF MEETINGS OF BOARD OF DIRECTORS

Name	Designation	Dates of Board of Directors Meetings and Directors' present therein				
		July 8, 2013	Aug 23, 2013	Oct 25, 2013	Feb 11, 2014	Apr 29, 2014
Mr. Ariful Islam	Chairman	No	Yes	Yes	Yes	Yes
Mr. P. Ahmed	Director	No	Yes	No	Yes	No
Mr. Salman Sarwar Butt	Director	Yes	Yes	Yes	..... Resigned .....	.....
Mr. Tasnimul Haq Farooqui	Director	Yes	No	Yes	Yes	Yes
Mr. Mazhar Sharif	Director	Yes	No	Yes	Yes	Yes
Syed Amir Ali	Director	Yes	No	Yes	Yes	Yes
Syed Amir Ali Zaidi	Director	Yes	Yes	Yes	Yes	Yes
Mr. Mohammad Shoab	Chief Executive	Yes	Yes	Yes	Yes	Yes


## 27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 28, 2014 by the Board of Directors of the Management Company.

## 28. GENERAL

Corresponding figures have been rearranged and reclassified, wherever necessary, for better presentation and disclosure.

For Al Meezan Investment Management Limited  
(Management Company)

  
Mohammad Shoab, CFA  
Chief Executive

  
Syed Amir Ali Zaidi  
Director

## PATTERN OF HOLDINGS (UNITS) AS PER THE REQUIREMENT OF CODE OF CORPORATE GOVERNANCE AS AT JUNE 30, 2014

Units held by	Units Held	%
<b>Associated Companies</b>		
Al Meezan Investment Management Limited Staff Gratuity Fund	43,913	0.07
<b>Directors</b>		
Tasneem ul haq Farooqui	11,124	0.02
Mazhar Shareef	6,191	0.01
<b>Chief Executive</b>		
Mr. Mohammad Shoaib, CFA	1,512	0.00
<b>Executives</b>	24,182	0.04
<b>Public Limited Companies</b>	4,877,117	8.01
<b>Banks and financial institutions</b>	1,998,957	3.28
<b>Individuals</b>	39,618,483	65.05
<b>Retirement funds</b>	1,809,787	2.97
<b>Other corporate sector entities</b>	11,199,698	18.39
<b>Non-Profit Organizaton</b>	1,314,776	2.16
<b>Total</b>	<b>60,905,742</b>	<b>100.00</b>





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