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# Our Mission

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*“To provide higher risk adjusted returns to investors at large by investing into a diversified range of investment assets on consistent basis.”*

# Our Vision

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*“Pak Oman Islamic Asset Allocation Fund aims to provide diversified portfolio and return that is risk adjusted to suit investors at large, on a consistent basis.”*



## **FUND INFORMATION**

### **MANAGEMENT COMPANY**

Pak Oman Asset Management Company Limited  
Horizon Vista, Mezzanine Floor - 2  
Plot No Commercial – 10 Scheme – 5,  
Block 4, Clifton, Karachi – 75600,  
Phone: (9221) 35361465-68  
Fax: (9221) 35361469  
Web site: www.pakomanfunds.com

### **BOARD OF DIRECTOR OF THE MANAGEMENT COMPANY**

H.E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman
Mr. Humayun Murad	Director
Mr. Agha Ahmed Shah	Director
Mr. Sulaiman Hamad Al Harthy	Director
Mr. Ali Said Ali	Director
Mr. Saif Said Salim Al Yazidi	Director
Ms. Hina Ghazanfar	MD & CEO

### **AUDIT COMMITTEE**

H.E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman
Mr. Humayun Murad	Member
Mr. Sulaiman Hamad Al Harthy	Member

### **INVESTMENT COMMITTEE**

Mr. Ali Said Ali	Chairman
Mr. Agha Ahmed Shah	Member
Mr. Sulaiman Hamad Al Harthy	Member
Mr. Saif Said Salim Al Yazidi	Member

### **HUMAN RESOURCE & REMUNERATION COMMITTEE**

Mr. Saif Said Salim Al Yazidi	Chairman
Mr. Humayun Murad	Member
Ms. Hina Ghazanfar	Member

### **UNIT HEAD FINANCE**

Mr. Syed Raheel Ahmed Shah

### **COMPANY SECRETARY**

Mr. Asif Javed



**TRUSTEE**

MCB Financial Services Limited  
3rd Floor, Adamjee House,  
I.I.Chundigar Road,  
Karachi - 74000  
Phone: (9221) 32419770  
Fax: (9221) 32416371

**AUDITORS**

KPMG TASEER HADI & CO.  
Chartered Accountants  
First Floor, Sheikah Sultan Trust Buliding,  
No.2 Beamount Road, Karachi-75530  
Pakiatan

**BANKERS TO THE FUND**

Bank Al-Falah Ltd- Islamic Banking  
Dubai Islamic Bank  
Bank Islamic  
Al-Barka Islamic  
MCB Bank Limited - Islamic Banking  
UBL Bank Limited - Islamic Banking  
Faysal Bank Limited - Islamic Banking

**SHARIAH ADVISER**

Dr. Muhammad Najeeb Khan

**LEGAL ADVISER**

Mohsin Tayebaly & Co.  
2nd Floor, Dime Center,  
BC-4, Block-9,  
KDA Scheme 5, Clifton,  
Karachi  
Phone: (9221) 35375658-9

**TRANSFER AGENT**

JWAFS Registrar Services (Pvt.) Limited  
Kashif Center, Room No. 505,  
Near Hotel Mehran,  
Shahrah-e-Faisal, Karachi  
Phone: (9221) 36543871-72  
Fax: (9221) 35643873

**RATING OF THE FUND**

5 Star (PACRA)



## REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors (BOD) of Pak Oman Asset Management Company Limited, the Management Company of **Pak Oman Islamic Asset Allocation Fund (POIAAF)** is pleased to present the audited financial statements of the Fund for the year ended June 30, 2012.

### Economic Review

The fiscal year closed with significant improvement in Pak-US relationship, as NATO supplies were restored by the government. The political scenario of the country remained volatile as Prime Minister Gilani was dismissed by the Supreme Court.

The country witnessed current account deficit of USD 4.52bn in FY12 against surplus of USD 214mn in FY11. The trade deficit enhanced to 46% which was mainly due to the increase in import bill of oil products and agro-chemical products. On the other hand, exports of the country further worsened the conditions and declined by 3% to USD 24.7bn. Food items were the major culprit showing a decline of 8% during the year whereas textiles remained almost stagnant despite of suffering from gas curtailments.

However, few factors of the economy showed remarkable improvements such as foreign remittances which crossed the USD 13bn mark for the first time in the history. Inflation for the year remained at 11% which is well below the target of 12% set by government. The tax collection increased by 23% accumulating PKR 1,920bn in FY12 against last year increase of 17.4% with total tax collection of PKR 1,584bn.

### Capital Market:

From the equity market perspective, the KSE-100 performance was divided into two halves. In first half, KSE-100 index declined by 9.19%, however, in the second half, KSE-100 index made a come back due to the imposition of Capital Gain Tax (CGT) and surged by 21.62%. Finally, it closed with a gain of 10.45% for the FY12. KSE 100 stood at second place in the region in terms of local currency return as well as currency adjusted return in FY12. Foreign investor's portfolio investments recorded the net outflow of USD 189mn during FY12 as compared to net inflow of USD 280mn in FY11.

### Operating Performance

The Fund during the year ended June 30, 2012, earned a total income of PKR. 23.201mn. The income for the period comprised mainly sale of investment of PKR.15.735mn, profit earned profit on bank deposit amounting to PKR.3.672mn and dividend income amounting to PKR.2.147mn. After accounting for expenses of PKR.9.872mn, the net gain for the period was PKR.12.443mn. The net assets of the fund as at June 30, 2012 were PKR.118.131mn and PKR.58.41 per unit. The fund also declared a final dividend of PKR 5.84 per unit for the year ended June 30, 2012.

### Future Outlook

The pressure on balance of payment is likely to remain during FY13 as imports will increase due to prevailing gas shortages, election year developments and IMF repayments. Moreover, FY13 being the election year is expected to witness more PSDP projects which will essentially increase the import bill due to import of construction materials.

The foreign exchange reserves are expected to remain under pressure as IMF repayments are scheduled during the year. However the issuance of USD 1.12bn under Coalition Support Fund will provide some relief. The expected auction of 3G may also provide some support to depleting foreign reserves. These short term reliefs will provide some stability to rupee dollar parity.

The activity in the capital market is likely to increase as KSE-100 benchmark showed bullish trend upon better political situation and Pak-US settlement on NATO supplies. Further, positive corporate results can also work as a trigger for the index.

### Investment Policy

Investment Policy of the Fund is stated in Clause 2.2 of the Offering Document. The Investment Policy of the Scheme is constructed to help ensure overall compliance with the investment objective stated above. The Investment Policy shall focus on selecting investments, executing transactions and constructing a portfolio to match the investment objective. The Investment Policy of the Scheme shall select instruments from within the specified Authorized Investments as stated in Clause 17.7 of the Offering Document.



**Statement on Corporate and Financial Reporting Framework**

- These financial statements, prepared by the management of the Fund, present its state of affairs fairly, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Fund have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed and explained.
- The system of internal control is sound in design and has been effectively implemented and monitored: and
- There are no significant doubts upon the Fund's ability to continue as a going concern.
- The Directors, Executives of the Management Company including their spouse and minor children do not hold any interest in the shares of the Company other than those disclosed in the financial statements.
- Pattern of units holding is given on note 21.3 of the financial statements.
- Key financial data for the year ended June 30, 2012 and previous years are given in note 21.2 of the financial statements.
- The number of board and committees` meeting held during the year and attendance by each director is as follows

	Designation	Board		Audit Committee		Investment Committee	
		Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
H. E. Yahya Bin Said Bin Abdullah Al-Jabri	Chairman	5	5	4	4	0	0
Agha Ahmed Shah,	Director	5	5	1	1	3	3
Mr. Humayun Murad	Director	5	4	4	3	0	0
Mr. Parvez Usman*	Director	5	0	4	0	0	0
Mr. Sulaiman Hammad Al Harty	Director	5	4	3	3	4	4
Mr. Ali Said Ali	Director	5	5	0	0	4	4
Mr.Saif Said Salim Al Yazidi **	Director	4	4	0	0	4	3
Ms. Hina Ghazanfar	MD & CEO	5	5	4	4	4	4

\* Vacated office of Director w.e.f. April 28, 2012.

\*\* Appointed Director w.e.f. July 11, 2011

- Mr. Agha Ahmed Shah is a certified director from Pakistan Institute of Corporate Governance. In addition H. E. Yahya Bin Said Bin Abdullah Al-Jabri, Chairman and Mr. Humayun Murad, Director meet the criteria of exemption under clause (xi) of CCG and are accordingly exempted from directors` training program.

**Re-appointment of Auditors**

The present auditors M/s KPMG Taseer Hadi & Co. Chartered Accountants, retired and being eligible, offered themselves for re-appointment. The Audit Committee of the Management Company recommended and the Board of Directors approved their re-appointment as auditors for the year ending June 30, 2013.

**Mutual Fund Rating**

The Pakistan Credit Rating Agency (PACRA) has assigned Mutual fund Star ranking "5" (Five) to the Fund. Further, Quality Rating of the Management Company is 'AM3'; by the Credit Rating Agency JCR-VIS which is defined as stable management quality.



## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

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### Acknowledgement

We thank all our investors who have placed their confidence in us. We also offer our sincere gratitude to the Securities and Exchange Commission of Pakistan, the Trustee – MCB Financial Services Limited and the management of the Karachi Stock Exchange. We also wish to place on record our appreciation for the personnel of the Management Company.

October 14, 2012  
Muscat, Oman.

For and on behalf of the Board  
Hina Ghazanfar  
MD & CEO



## REPORT OF THE FUND MANAGERS OF THE MANAGEMENT COMPANY

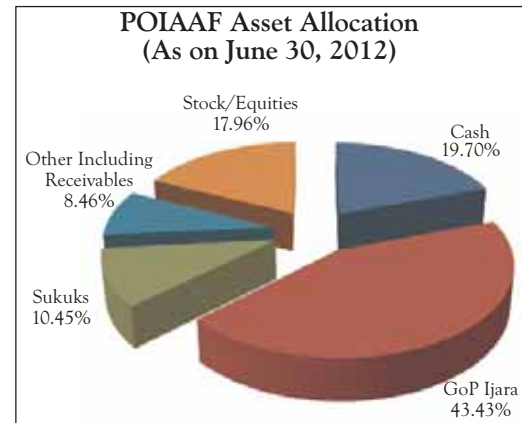
Pak Oman Asset Management Company Limited, the Management Company of Pak Oman Islamic Asset Allocation Fund (the Fund) is pleased to present the Fund Manager's Report of the Fund for the year ended June 30, 2012.

### Investment Objective

The primary investment objective is to provide investor(s) with competitive current income and long-term capital growth primarily by investing in a diversified portfolio of Shariah compliant investment instruments, including Shariah compliant securities available for investments outside Pakistan, subject to applicable laws.

### Terms and Structure

Type of Scheme	Open-end Fund
Nature of Scheme	Shariah Compliant Asset Allocation
Inception Date	Oct 30th, 2008
Face Value	PKR 50 per Unit
Fund Size	PKR 118.13mn
NAV (Jun 30th, 2012)	PKR 58.41 per Unit
Benchmark	50% 6-month average deposit rate of 4 Islamic Banks plus 50% KMI-30
Listing	KSE (Guarantee) Ltd
Trustee	MCB Financial Services Limited
Shariah Advisor	Mr. Muhammad Najeeb Khan
Auditor	KPMG Taseer Hadi & Co.
Legal Advisor	Mohsin Tayebaly & Co.
Transfer Agent	JWAFFS Registrar Services Pvt Ltd.
Fund Ranking	5-Star (PACRA)
AMC Rating	AM3 (JCR-VIS)
Fund Manager	Mr. Ahmed Nabeel
Investment Committee	Ms. Hina Ghazanfar, CEO Mr. Ahmed Nabeel, Chief Investment Advisor Mr. Malik Faiz Rasool, Equity Trader



### Unit Holding Pattern

Units	# of Unit Holders
0 – 1,000	33
1,001 – 50,000	05
50,001 – 500,000	00
500,001 – 1,000,000	00
1000,001 - Above	01

Asset Allocation (% of Assets)	June 2012	June 2011
GoP Ijara	43.43	27.49
Stock/Equities	17.96	22.22
TFCs/Sukuks	10.45	14.26
Others Including Receivables	8.46	7.23
Cash	19.70	28.71

### POIAAF Performance

Yield since inception (%)	49.72
Year to Date returns (FY12) (%)	11.79
Risk free rate (1Yr T-Bill) (%)	12.30
Sharpe Ratio	-0.89
Distribution (FY12) (PKR)	5.84

Name of non-compliant Investment	Type of Investment	Value of Investment before provision	Provision held if any	Value of investment after provision	% of Net Assets Before Provisioning	% of Gross Assets Before Provisioning	% of Net Assets After Provisioning	% of Gross Assets After Provisioning
Maple Leaf Cement	Sukuk	19,957,500	8,984,044	10,973,456	16.89	15.75	9.29	8.66
Kohat	Sukuk	2,265,000	-	2,265,000	1.92	1.79	1.92	1.79

### FUND REVIEW

The economy of the country remained in the troubled waters due to national and international political uncertainties as well as poor law and order situation and power outages. Inflation remained below the target, discount rate was slashed by 2% to 12.0% and the remittances crossed ever high figure of USD 13bn. The improvement in Pak-US relationship increased foreign investor's confidence on Pakistan's equity market and the equity market gained momentum in the second half of the year.

The performance of the equity market can be divided into two halves. In the first half, it remained in the bearish mode whereas in the second half, it entered into bullish mode. KMI 30 gained 2,840 points during the year posting the return of 13.57% in FY12.

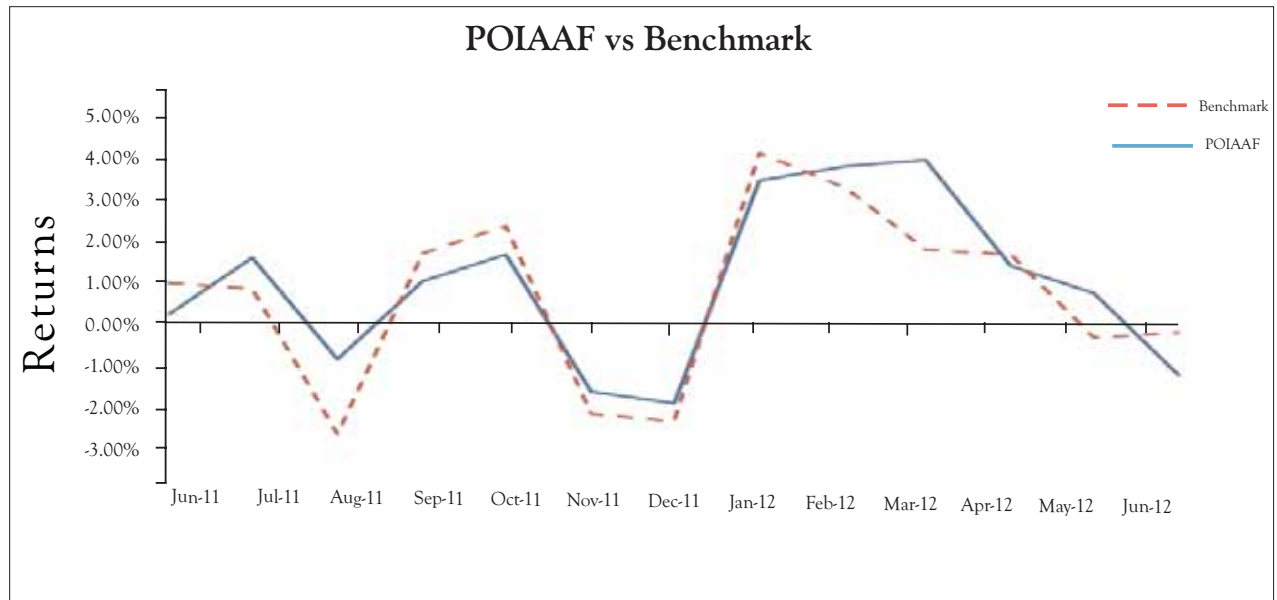
During FY12, the POIAAF outperformed the benchmark generating the YTD return of 11.79% against the benchmark of 10.08%. The fund had to absorb the loss of reversal of markup of Maple Leaf Sukuk during the year. The fund's YTD return would have been 15.60% if it did not have to absorb the hits. POIAAF remained at third best in its category during the year despite the losses faced.





## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

Funds Returns	POIAAF	Benchmark
Year to Date (YTD)	11.79%	10.08%



We appreciate the trust you have placed in our expertise to manage your investments. Going forward, we believe that macroeconomic headwinds will ease off once things start to materialize. The Fund will endeavor to outperform the competition as well as its benchmark and will strive to provide high quality risk-adjusted returns in the future. We look forward to your continued support and patronage.

August 30, 2012  
Karachi.

Ahmed Nabeel  
Chief Investment Advisor



## REPORT OF THE SHARIAH ADVISOR

Karachi

July 13, 2012

Alhamdulillah, the period from July 1, 2011 to June 30, 2012 was the forth year of operations of Pak Oman Islamic Asset Allocation Fund (POIAAF). This report is being issued in accordance with clause 3.A.4 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shar'iah Compliance of Fund's activity.

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

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

- i. I have reviewed and approved the modes of investments of POIAAF in light of Shar'iah requirements. I have checked the investments of POIAAF as on June 30, 2012 and their evaluation according to the screening criteria established by us. (December 31, 2011 accounts of the investee companies have been used)
- ii. In light of above, I hereby certify that all the provisions of the Scheme and investments in equities made on account of POIAAF by POAMCL are Shar'iah compliant and are in accordance with the Shar'iah policies & guidelines.
- iii. On the basis of information provided by the management, all operations of the POIAAF for the year ended June 30, 2012 have been in compliance with the Shar'iah principles.
- iv. There are investments made by POIAAF where Investee companies have earned a part of their income from non-compliant sources (e.g. interest income). In such cases, the management company has been directed to set a side as charity such proportion of the Income from Investee companies in order to purify the earning of the Fund.

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 Najeeb Khan  
Shariah Advisor



## **TRUSTEE REPORT TO THE UNIT HOLDERS PAKOMAN ISLAMIC ASSET ALLOCATION 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 Pak Oman Islamic Asset Allocation Fund (the Fund) are of the opinion that Pak Oman Asset Management Company Limited being the Management Company of the Fund has in all material respects managed the Fund during the period from July 1, 2011 to June 13, 2012 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: October 18, 2012



## **TRUSTEE REPORT TO THE UNIT HOLDERS PAKOMAN ISLAMIC ASSET ALLOCATION 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.**

Pak Oman Islamic Asset Allocation Fund, an open end scheme established under a Trust Deed dated May 27, 2008 executed between Pak Oman Asset Management Company Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

During the year, MCB Financial Services Limited was appointed as a new trustee in place of CDC under third supplemental Trust Deed dated 15 May 2012. Accordingly the Trust Deed was approved by SECP on 17 January 2012 under the Rules. However, the assets of the Fund were transferred on June 13, 2012.

1 Pak Oman Asset Management Company Limited, the Management Company of Pak Oman Islamic Asset Allocation Fund has, in all material respects, managed Pak Oman Islamic Asset Allocation Fund during the period from June 14, 2012 to 30<sup>th</sup> June 2012 in accordance with the provisions of the following:

- (i) the limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws
- (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;
- (iii) the creation and cancellation of units are carried out in accordance with the deed;
- (iv) and any regulatory requirement

October 08, 2012  
Karachi.

Khawaja Anwar Hussain  
Chief Executive Officer  
MCB Financial Services Limited



## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

This statement is being presented to comply with the Code of Corporate Governance ('the Code') contained in Listing Regulations of Karachi Stock Exchange where Pak Oman Islamic Asset Allocation Fund (the Fund) is listed. The purpose of the Code is to establish a framework of good governance, whereby a listed entity is managed in compliance with the best practices of corporate governance.

Pak Oman Asset Management Company Limited (the Management Company) which manages the affairs of the Fund has applied the principles contained in the Code 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 Humayun Murad Mr. Saif Said Salim Al Yazidi
Executive Directors	Ms. Hina Ghazanfar (Chief Executive Officer and Managing Director)
Non-Executive Directors	H.E. Yahya Bin Said Abdullah Al-Jabri Mr. Agha Ahmed Shah Mr. Sulaiman Hammad Al Harthy Mr. Ali Said Ali

The independent directors meet the criteria of independence under clause i (b) of the Code.

2. The directors of the Management Company 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 NBF1 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy had occurred on the Board of the Management Company during the year which the Management Company intends to fill shortly. At present there are seven directors on the Board of the Management Company.
5. The Management Company has prepared a "Code of Conduct", and has ensured that appropriate steps have taken place to disseminate it throughout the company along-with its supporting policies and procedures.
6. The Board of Management Company has developed a vision / mission statement, overall corporate strategy and significant policies of the 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 the appointment and determination of the remuneration and terms and conditions of the employment of the Chief Executive Officer and other executives and non-executive directors have been taken by the Board. However there has been no new appointment of the Chief Executive Officer.
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. The Board of the Management Company arranged a training program for its directors during the year.



10. During the year, there was no change of Head of Internal Audit. A new Company Secretary was appointed during the year, however the appointment of Chief Financial Officer (in place of earlier CFO who had resigned) is in process and the selection of the CFO is in final stages. The remuneration and terms and condition of employment of Company Secretary and Head of Internal Audit were approved by the Board of Management Company. Unit Head Finance has been appointed to oversee the finance department till the time a CFO has been appointed.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed
12. The financial statements of the Fund were duly endorsed by Chief Executive Officer and Unit Head Finance before the approval of the board.
13. The Directors, Chief Executive Officer and Executives do not hold any interest in the units of the Fund other than those disclosed in the Directors' Report.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code with respect to the Fund.
15. The Board of Management Company has formed an Audit Committee. It comprises of three members, two of them are non-executive directors and chairman of the committee is non independent director. Appointment of an independent director as the chairman of the committee is due at the time of next election.
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 code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board of the Management Company is in process of forming Human Resource and Remuneration Committee which will be confirmed and approved by the Board in their next meeting scheduled on 14 October 2012 (in which the financial statements of the Fund for the year ended 30 June 2012 shall also be presented for approval).
18. The Board of Management Company has set up an effective internal audit function and is conversant with the policies and procedures of the Management Company.
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 Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold 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 unit price of Fund's was determined and intimated to directors, employees and stock exchange.
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other applicable material principles enshrined in the Code have been complied with.

October 14, 2012  
Muscat, Oman.

Hina Ghazanfar  
MD & CEO



## **REVIEW REPORT TO THE UNITHOLDERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of the Management Company of **Pak Oman Islamic Asset Allocation Fund** (“the Fund”) to comply with the listing regulations of the Karachi Stock Exchange, 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 of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Fund personnel and review of various documents prepared by the Fund 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’ statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such controls, the Fund’s corporate governance procedures and risks.

Further sub-regulation (xiii-a) of Listing Regulations 35 notified by the Karachi Stock Exchange (Guarantee) Limited requires the Fund to place before the Board of Directors for their consideration and approval 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 recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before 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.

We draw attention to paragraphs 4 and 17 which more fully explains the progress being made to seek compliance with Code of Corporate Governance for the appointment of a director as a result of casual vacancy and the formation of Human Resource and Remuneration Committee before the next financial year end.

Based on our review, except for the following matters 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 2012.

October 14, 2012  
Karachi.

KPMG Taseer Hadi & Co.  
Chartered Accountants



## **INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS**

We have audited the accompanying financial statements of **Pak Oman Islamic Asset Allocation Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2012, and the income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in unit holders' fund for the year ended 30 June 2012 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 the requirements of the approved accounting standards as applicable in Pakistan, and for such internal control as the Management Company determines is necessary to enable the preparation of 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 2012, and of its financial performance, cash flows and transactions for the year ended 30 June 2012 in accordance with approved accounting standards as applicable in Pakistan.

### **Other matters**

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.

The comparative figures (for the year ended 30 June 2011) have been extracted from the audited financial statements of the Fund for the year then ended. Those financial statements were audited by another firm of Chartered Accountants who vide their report dated 29 September 2011 issued an unqualified report thereon.

October 14, 2012  
Karachi.

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Amyn Pirani





## **INDEPENDENT ASSURANCE PROVIDER'S REPORT ON SHARIAH COMPLIANCE TO THE UNITHOLDERS**

We have performed our independent assurance engagement of Pak Oman Islamic Asset Allocation Fund ("the Fund") to assess the Fund's compliance with the Shariah Guidelines prescribed by the Shariah Advisor of the Fund for the year ended 30 June 2012.

### **Management Company's responsibility**

Management Company of the Fund is responsible for the appointment of Shariah Advisor of the Fund and for compliance with the Shariah Guidelines prescribed by the Shariah Advisor, and for such internal control as the Management Company determines is necessary to ensure compliance with the Shariah Guidelines issued by the Shariah Advisor of the Fund.

### **Responsibility of independent assurance providers**

Our responsibility is to express our conclusion on the compliance based on our independent assurance engagement, performed in accordance with the International Standards on Assurance Engagements (ISAE 3000) 'Assurance Engagement other than Audits or Review of Historical Financial Information'. This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance whether the Fund has complied with the Shariah Guidelines issued by the Shariah Advisor.

The procedures selected depend on our judgement, including the assessment of the risks of material non-compliances with the Shariah Guidelines. In making those risk assessments, we have considered internal controls relevant to the entity's compliance with the Shariah Guidelines in order to design our procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence that the Fund was not materially non-compliant with the Shariah Guidelines. Our engagement was not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

### **Conclusion**

In our opinion, the Fund was in all material respects, in compliance with the Shariah Guidelines issued by the Shariah Advisor of the Fund for the year ended 30 June 2012.

September 14, 2012  
Karachi.

KPMG Taseer Hadi & Co.  
Chartered Accountants



**PAK OMAN ISLAMIC ASSET ALLOCATION FUND**

**STATEMENT OF ASSETS AND LIABILITIES**  
AS AT JUNE 30, 2012

	Note	30 June 2012	30 June 2011
		(Rupees in '000)	
<b>Assets</b>			
Bank balances	6	24,963	38,223
Investments	7	91,050	83,674
Dividend and profit receivables	8	3,407	4,543
Deposits and other receivables	9	7,015	6,130
Formation cost	10	290	580
<b>Total assets</b>		126,725	133,150
<b>Liabilities</b>			
Payable to the Management Company of the Fund	11	291	1,193
Remuneration payable to the Trustee of the Fund	12	31	57
Annual fee payable to the Securities and Exchange Commission of Pakistan	13	108	115
Accrued expenses and other payables	14	8,164	1,420
<b>Total liabilities</b>		8,594	2,785
<b>Net assets</b>		118,131	130,365
<b>Unit holders' fund</b>		118,131	130,365
		(Number of units)	
<b>Number of units in issue</b>	17	2,022,577	2,056,997
		(Rupees)	
<b>Net assets value per unit (face value per unit Rs. 50/-)</b>		58.41	63.38

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



INCOME STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2012

	Note	30 June 2012	30 June 2011
(Rupees in '000)			
<b>Income</b>			
Gain from disposal of marketable securities - net		15,735	26,398
Profit on bank deposit accounts		3,672	3,141
Profit on sukuk certificates (investments) - net of reversal of unrealised profit		3,184	4,896
Dividend income		2,147	4,471
Other income		135	-
		24,873	38,906
Unrealised (diminution) on remeasurement of investment at fair value through profit or loss - net	7.2 & 7.3	(133)	(9,797)
Reversal of provision on investment		-	5,000
Provision on investment		(1,539)	-
		(1,672)	(4,797)
<b>Total income</b>		23,201	34,109
<b>Expenses</b>			
Remuneration to the Management Company of the Fund		3,395	3,643
Remuneration to the Trustee of the Fund		673	700
Annual fee to the Securities and Exchange Commission of Pakistan		108	115
Auditors' remuneration	15	497	535
Provision for Workers' Welfare Fund	14.2	249	482
Amortisation of formation cost	10	290	290
Brokerage and other charges	16	4,660	3,000
		9,872	8,765
Element of (loss) and capital (losses) included in prices of units sold less those in units redeemed - net		(886)	(1,248)
<b>Net income for the year</b>		12,443	24,096

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



**STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED JUNE 30, 2012

	30 June 2012	30 June 2011
	(Rupees in '000)	
Net income for the year	12,443	24,096
Other comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	<u>12,443</u>	<u>24,096</u>

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED JUNE 30, 20112

	30 June 2012	30 June 2011
	(Rupees in '000)	
Undistributed income at beginning of the year:		
- Realized income	38,006	13,555
- Unrealized loss	(10,490)	(7,794)
	<u>27,516</u>	<u>5,761</u>
Final distribution at the rate of Rs 11.13 (2011: 1.1266) per unit		
- Cash distribution	(22,258)	(2,253)
- Issue of bonus units 12,140 (2011: 1,704)	(634)	(88)
Net / income for the year	<u>12,443</u>	<u>24,096</u>
Net (loss) / income for the year less distribution	(10,449)	21,755
Undistributed income at end of the year:	<u>17,067</u>	<u>27,516</u>
Represented by		
- Realized income	17,200	38,006
- Unrealized loss	(133)	(10,490)
	<u>17,067</u>	<u>27,516</u>

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



**PAK OMAN ISLAMIC ASSET ALLOCATION FUND**

**STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND**  
FOR THE YEAR ENDED JUNE 30, 2012

	30 June 2012	30 June 2011
	(Rupees in '000)	
Net assets at beginning of the year	130,365	109,665
Amount received on issue of 1,402,177 (2011: 441,364) units	76,459	25,114
Amount paid on redemption of 1,448,737 (2011: 464,169) units	(79,764)	(27,505)
	(3,305)	(2,391)
Element of loss and capital losses included in prices of units sold less those in units redeemed - net	886	1,248
Final distribution at the rate of Rs 11.13 (2011: 1.1266) per unit - Issue of bonus units 12,140 (2011:1704)	634	88
Net (loss) / income for the year less distribution	(10,449)	21,755
Net assets at end of the year	118,131	130,365
Net asset value per unit (face value per unit Rs. 50/-)	58.41	63.38

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2012

	30 June 2012	30 June 2011
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	31,452	31,773
<b>Adjustments for non-cash and other items:</b>		
Profit on bank deposit accounts	(9,520)	(15,721)
Profit on sukuk certificates (investments) - net of reversal of unrealised profit	-	(7,160)
Dividend income	(28,664)	(9,807)
Unrealised diminution on remeasurement of investment at fair value through profit or loss - upon initial recognition - net	(4,633)	(236)
Amortisation of formation cost	500	500
Element of loss and capital losses included in sold less those in units redeemed - net	2,394	(6,918)
	<u>(8,471)</u>	<u>(7,569)</u>
<b>Decrease / (increase) in assets</b>		
Investments	15,121	(259,368)
Receivable against sale of investments	-	140,000
Deposits, prepayments and other receivables	556	15,889
	<u>15,677</u>	<u>(103,479)</u>
<b>(Decrease) / increase in liabilities</b>		
Payable to the Management Company of the Fund	(3,248)	(363)
Remuneration payable to the Trustee of the Fund	(21)	2
Annual fee payable to the Securities and Exchange Commission of Pakistan	30	44
Accrued expenses and other payables	(38)	474
	<u>(3,277)</u>	<u>157</u>
Profit received on bank deposit accounts	10,749	15,203
Profit received (net) on term finance certificates	-	8,344
Dividend received	29,738	3,293
<b>Net cash generated from operating activities</b>	<u>44,416</u>	<u>(84,051)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Amount received on issue of 1,402,177 (2011: 441,364) units	324,224	557,745
Amount paid on redemption of 1,448,737 (2011: 464,169) units	(490,596)	(377,762)
Dividend paid	(22,813)	(17,796)
<b>Net cash used in financing activities</b>	<u>(189,185)</u>	<u>162,187</u>
<b>Net (decrease) / increase in cash and cash equivalents during the year</b>	<u>(144,769)</u>	<u>78,136</u>
Cash and cash equivalents at beginning of the year	166,212	88,076
<b>Cash and cash equivalents at end of the year</b>	<u>21,443</u>	<u>166,212</u>

The annexed notes from 1 to 24 form an integral part of these financial statements.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director



**NOTE TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**1 LEGAL STATUS AND NATURE OF BUSINESS**

- 1.1 Pak Oman Islamic Asset Allocation Fund (the Fund) was established as an open-end scheme under a trust deed (the Trust Deed) executed between Pak Oman Asset Management Company Limited (POAMCL) as the Management Company, a company incorporated under the companies ordinance 1984, and Central Depository Company of Pakistan Limited (CDC) as the trustee. The Trust Deed was executed on 27 May 2008 and was approved by the Securities and Exchange Commission of Pakistan (the SECP) on 2 June 2008 under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the Rules). During the year, MCB Financial Services Limited was appointed as a new trustee in place of CDC under third supplemental Trust Deed dated 15 May 2012. Accordingly the Trust Deed was approved by the SECP on 17 January 2012 under the rules. The Fund is registered as a notified entity under NBFC regulations, 2008.
- 1.2 The registered office of the Management Company is situated at First Floor, Tower A, Finance and Trade Centre, Sharah-e-Faisal, Karachi.
- 1.3 The Fund is a Shariah compliant open-end mutual Fund and is listed on the Karachi Stock Exchange. Its units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund at the option of unit holder. Title to the assets of Fund is held in the name of MCB Financial Services Limited as the Trustee of the Fund.
- 1.4 The Fund is categorised as an Islamic Asset Allocation Fund in accordance with the requirements of the SECP's circular No. 7 dated 6 March 2009 and accordingly its investments comprise of shariah compliant income securities, so as to ensure a riba-free return on investments. All investments of the Fund are as per the guidelines of the shariah principles provided by the Shariah Advisor of the Fund and comprise the investments permissible as 'Authorised Investments' under the Trust Deed.

**2 BASIS OF PREPARATION**

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with 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, provisions of and directives issued under the Companies Ordinance, 1984, requirements of Trust Deed, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC rules and regulations). In case, the requirements differ, the provisions or directives of the Companies Ordinance, 1984, the requirements of the Trust Deed and Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008 shall prevail.

- 2.2 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 Shariah Advisor (refer note 1.4 above). This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

**2.3 Basis of measurement**

These financial statements have been prepared under the historical cost convention, except that investments are stated at fair values.

**2.4 Functional and presentation currency**

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund. Figures have been rounded off to the nearest rupee in thousand.

**3 USE OF ESTIMATES AND JUDGMENTS**

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

During the year the Fund revised the calculation of element of income and capital gains included in the prices of units issued less those in the units redeemed ("element") in the Financial Statements. As per the revised calculation element is recognised in the Financial Statements to the extent that it is represented by income earned during the year. Previously, the element represented by income carried forward from previous years was also recognised in the Financial Statements.

The revised calculation, in the opinion of the management, would ensure that continuing unit holders' share of undistributed income remains unchanged on issue and redemption of units. Had the calculation not been changed, the net income for the year ended 30 June 2012 would have been lower by Rs. 0.859 million.





Judgments made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material judgment in the next year are as follows:

Classification and valuation of investments.

For details please refer note 5.1 and 20.6 to these financial statements.

Provision for taxation.

For details please refer note 5.7 to these financial statements.

Amortisation of formation cost.

For detail please refer note 5.8 and 10 to these financial statements.

Provision for Workers' welfare fund liability.

For detail please refer note 14.2 to these financial statements.

Other Asset.

For detail please refer note 5.15 to these financial statements.

Judgment is involved in assessing the realisability of other assets balances.

#### 4 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED 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 01 July 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 01 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Fund.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 01 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statements of the Fund.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 01 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments would result in increased disclosures in the financial statements of the Fund.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 01 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Fund.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 01 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion



of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Fund.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 01 January 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.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 01 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. This amendment is not likely to have any impact on Fund’s financial statements.
- Annual Improvements 2009–2011 (effective for annual periods beginning on or after 01 January 2013). The new cycle of improvements contains amendments to the following four standards, with consequential amendments to other standards and interpretations:
  - IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period - which is the preceding period - is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the ‘third statement of financial position’, when required, is only required if the effect of restatement is material to statement of financial position.
  - IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of ‘property, plant and equipment’ in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories.
  - IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.
  - IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.
- IFRIC 20 Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 01 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Fund.

## 5 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented.

### 5.1 Investment

5.1.1 All investments are initially recognized at cost, being the fair value of the consideration given including the transaction cost associated with the investment, except in case of held for trading investments, in which case the transaction costs are charged off to the income statement.

The Fund classifies its investments in the following categories:

5.1.2 Financial assets at fair value through profit or loss

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



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

After initial recognition, the investments in listed equity instruments are remeasured at fair value determined with reference to Stock Exchange quoted market prices at the close of period end.

Gains or losses on investments on remeasurement of these investments are recognised in income.

#### 5.1.3 Valuation of debt 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.

The fair value of other debt securities and derivatives are based on the value determined and announced by Mutual Funds Association of Pakistan (MUFAP) in accordance with the criteria laid down in circular No. 1/2009 dated 6 January 2009 (the Circular No. 1) and circular No. 3/2010 dated 20 January 2010 (the Circular No. 3) issued by the SECP.

Provision for non-performing debt securities is made on the basis of time based criteria as prescribed under the Circulars No.1 and 3 issued by the SECP. The Management Company may also make provision against non-performing debt securities over and above the minimum provision requirements prescribed in the aforesaid circular, in accordance with the provisioning policy approved by its board of directors.

#### 5.1.4 Trade date accounting

All regular way purchases and sales of investments are recognised on the trade date, i.e. the date on which commitment to purchase / sale is made by the Fund. Regular way purchases or sales of investment require delivery of securities within two days after transaction date as required by Stock Exchange regulations.

#### 5.2 Issue and redemption of units

Units are allocated at the offer price prevalent on the day on which applications for purchase of units are issued (however units are issued on realisation of cheques). The offer price represents the net asset value of units at the end of the day plus the allowable sales load, provision of duties and charges and provision for transaction costs, if applicable. The sales load, if any, is payable to the distributors and the management company as processing fee.

Units redeemed are recorded at the redemption price prevailing at the end of the day in which the units are redeemed. The redemption price represents the net assets value per unit less any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

#### 5.3 Element of income / loss and capital gains / losses in prices of units sold less those in units redeemed

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

#### 5.4 Payables and accruals

Payables and accruals are carried at cost which is the fair value of the consideration to be paid in the future for the services received, whether billed or not to the Fund.

#### 5.5 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 the obligation can be made. Provisions are regularly reviewed at each balance sheet date and adjusted to reflect the current best estimate.

#### 5.6 Net asset value per unit

The net asset value (NAV) per unit as disclosed in the statement of assets and liabilities of the Fund is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.



#### **5.7 Taxation**

The Fund is exempt from taxation under clause 99 of the Part I of the 2nd Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its income excluding realised and unrealised capital gains for the year is distributed amongst the unit holders.

#### **5.8 Formation cost**

Preliminary expenses and floatation cost represent expenditure incurred prior to the commencement of the operations of the Fund. These cost are being amortised at the rate of 20% on a straight line basis.

#### **5.9 Financial instruments**

Financial assets and financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Fund loses control of the contractual rights that comprises that financial assets. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

At the time of initial recognition, all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Transaction costs are included in the initial measurement of all financial assets and liabilities except for transaction costs incurred for the acquisition of held for trading investments. The particular recognition method adopted for measurement of financial assets and financial liabilities subsequent to the initial recognition is disclosed in the individual policy statement associated with each item.

#### **5.10 Offsetting of financial instruments**

Financial assets and liabilities are only offset and the net amount is reported in the statement of assets and liabilities when there is a legally enforceable right to offset the recognised amounts and the Fund intends either to settle on a net basis, or realize the assets and settle the liabilities simultaneously.

#### **5.11 Impairment**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. This objective evidence of impairment is determined in accordance with the provisioning criteria for non performing debt securities specified by the Securities and Exchange Commission of Pakistan (SECP) vide its Circulars and the provisioning criteria / policy for non performing exposures approved by the Board of Directors of the Management Company in accordance with the requirements of SECP vide its Circular no. 13 of 2009 dated 4 May 2009. Amount of impairment is the higher of the amount determined under the above provisioning criteria. The Fund's policy for provision against impaired debt securities essentially is the same as prescribed by the Securities and Exchange Commission of Pakistan (SECP) in its circular no. 1 of 2009.

Investments in equity securities are considered to be impaired when there is a significant or prolonged decline in the fair value of individual instruments below its costs. The determination of what is significant or prolonged requires judgement.

In respect of other financial assets, at each balance sheet date an assessment is carried out to determine whether there is any objective evidence of impairment. The Financial assets are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in the income statement.

#### **5.12 Dividend distributions and appropriations**

Dividend (including the bonus units) declared subsequent to the balance sheet date are recorded in the period in which they are approved.

#### **5.13 Revenue recognition**

- Gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.



## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

- Dividend income is recognised in the income statement when the right to receive the dividend is established.
- Income on debt securities and bank balances are recognised in the income statement at rate of return implicit in the instrument balance on a time proportionate basis.

### 5.14 Cash and cash equivalents

Cash and cash equivalents for cash flow purposes comprise of bank balances including term deposits with banks which have maturities of less than three months from the date of deposit.

### 5.15 Other assets

Other assets are stated at cost less impairment losses, if any.

		30 June 2012	30 June 2011
(Rupees in '000)			
<b>6 BANK BALANCES</b>			
In profit and loss sharing accounts	6.1	24,959	38,219
In current account		4	4
		<u>24,963</u>	<u>38,223</u>

6.1 These accounts carry mark-up ranging from 5% to 12.15% (2011: 5% to 12.15%) per annum.

		30 June 2012	30 June 2011
(Rupees in '000)			
<b>7 INVESTMENTS</b>			
<b>At fair value through profit or loss</b>			
<b>- upon initial recognition</b>			
Sukuk certificates	7.1 & 7.2	68,284	54,066
<b>- held for trading</b>			
Shares of listed companies	7.3	22,766	29,608
		<u>91,050</u>	<u>83,674</u>

### 7.1 Government of Pakistan securities - GoP Ijara Sukuk certificates

At fair value through profit or loss - upon initial recognition

Name of the investee company	Maturities	Mark-up rate	Holding as at 01 July 2011	Purchases during the year	Disposed / matured during the year	Holding as at 30 June 2012	Carrying value (before revaluation as of the year ended 30 June 2012)	Market value as of the year ended 30 June 2012 (revised carrying value)	Unrealised appreciation / (diminution)	Market value as % of total investments	Market value as % of net assets
-----Number of certificates-----											
GoP Ijara Sukuk Certificates - V	15 November 2013	Weighted average 6 months T-Bills		300	300	-	-	-	-	-	-
GoP Ijara Sukuk Certificates - VII	7 March 2014	Weighted average 6 months T-Bills	350	-	350	-	-	-	-	-	-
GoP Ijara Sukuk Certificates - X	2 March 2015	Weighted average 6 months T-Bills	-	200	-	200	35,042	35,042	-	38%	30%
GoP Ijara Sukuk Certificates - XI	30 April 2015	Weighted average 6 months T-Bills	-	350	-	350	20,000	20,000	-	22%	17%
<b>Total as at 30 June 2012</b>							<u>55,042</u>	<u>55,042</u>	<u>-</u>		
<b>Total as at 30 June 2011</b>							<u>35,085</u>	<u>35,086</u>	<u>1</u>		
<b>Cost of Investments</b>								<u>55,042</u>			

These have face value of Rs. 100,000 each.



7.2 Other Sukuk Certificates

At fair value through profit or loss - upon initial recognition

Name of the investee company	Maturities	Mark-up rate	Holding as at 01 July 2011	Purchases during the year	Disposed / matured during the year	Holding as at 30 June 2012	Carrying value (before revaluation as of the year ended 30 June 2012)	* Market value / ** carrying value as of the year ended 30 June 2012 (revised)	Unrealised appreciation / (diminution)	Credit rating	Market value / carrying value (a) as % of total investments	Market value / carrying value (a) as % of net assets
			-----Number of certificates -----			(Rupees in '000)				Non performing asset		
Maple Leaf Cement Factory Limited (7.2.1)	3 December 2018	3 months KIBOR + base rate of 1%	4,000	-	-	4,000	12,516	12,516	-		12%	9%
Maple Leaf Cement Factory Limited (7.2.2)	31 March 2013	3 months KIBOR + base rate of 1%	150	-	-	150	-	-	-	Not rated	-	-
Kohat Cement Company Limited (7.2.3)	20 September 2016	3 months KIBOR + base rate of	2,000	-	-	2,000	2,017	2,265	248	Not rated	2%	2%
<b>Total as at 30 June 2012</b>							<b>14,533</b>	<b>14,781</b>	<b>248</b>			
Provision held									(1,539)			
Carrying value as at 30 June 2012									<b>13,242</b>			
Total as at 30 June 2011									18,890	(9,636)		
Cost of Investments									<b>26,901</b>			

All sukuk certificates have face value of Rs. 5,000 each.

7.2.1 Profit receivable on the sukuk certificates aggregating Rs. 1.476 million was due as on 3 September 2011. It was not received by the Fund on the due date, therefore in accordance with SECP's guidelines, the sukuk certificates have been classified as a non performing asset and accordingly accrued mark-up has been reversed and further accrual of mark-up has been suspended. As against original cost of Rs. ---, amount of Rs. 7.444 million to be taken to the profit and loss account as unrealised loss on regulation of securities of Rs. 1.539 million has been provided against the above investment in accordance with the guidelines given by the SECP.

7.2.2 Maple Leaf Cement Factory Limited had issued additional sukuk certificate against the mark-up due of sukuk certificate during the year ended 30 June 2011. These additional sukuk certificates were transferred to the Fund's security account maintained with CDC. However, the same are being carried at nil value in the books of accounts of the Fund.

7.2.3 During the year sukuk certificates of Kohat Cement Company Limited (KCCL) were restructured on 14 September 2011. As per the new terms, profit for the first 4 quarters (commencing with the quarter ending 20 September 2011 and ending with the quarter ending 20 June 2012) will go into frozen account and would be paid from the 13th quarter ending 20 September 2014 to the 20th quarter ending 20 June 2016. Profit for the subsequent quarters ending 20 September 2012 till 20 February 2016 (from the 5th to the 21st quarter) will be charged and distributed on a quarterly basis.

As per new terms, principal outstanding will be paid in twenty one (21) quarterly instalments commencing with the quarter ending 20 September 2012 and ending with the quarter ending 20 September 2016.

Furthermore, KCCL has also given an option to its all sukuk certificates for the purchase of principal amount (up to 10% of total principal outstanding) as on 20 September 2011 and the Fund has exercised the said option and received Rs. 3.6 million during the current year.

7.2.4 At 30 June 2012, the Fund has invested in following securities which are below investment grade as prescribed by the Mutual Fund Association of Pakistan:

Name of below investment grade securities	Type of investment	Value of investment before provision	Provision held if any	Value of investment after provision	% of Net assets	% of Gross assets
----- (Rupees in '000) -----						
Maple Leaf Cement Factory Limited (7.2.1)	Sukuk Certificates	12,516	1,539	10,977	9.29	9
Maple Leaf Cement Factory Limited (7.2.2)	Sukuk Certificates	-	-	-	-	-
Kohat Cement Company Limited (7.2.3)	Sukuk Certificates	2,017	-	2,017	1.71	1.59



## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

### 7.3 Shares of listed company At fair value through profit or loss - held for trading (Ordinary shares have a face value of Rs 10 each unless stated otherwise)

Name of the investee	Holding as at 01 July 2011	Purchases during the year	Bonus / right shares received during the year	Disposed during the year	Holding as at 30 June 2012	Carrying value (before revaluation as of the year ended 30 June 2012)	Market value as of the year ended 30 June 2012 (revised carrying value)	Unrealised appreciation / (diminution)	Percentage of investment in relation to	
									Market value as % of total investments	Market value as % of net assets
	----- (Number of Share) -----					----- (Rupees in '000) -----				
<b>Banks</b>										
Bank Islami Pakistan LTD	-	650,000	-	650,000	-	-	-	-	-	-
Meezan Bank LTD	-	162,672	-	162,672	-	-	-	-	-	-
<b>Chemicals</b>										
Fauji Fertilizer Bin Qasim Company Limited	250,000	1,715,105	-	1,815,105	150,000	6,112	6,123	11	6.72	5.18
Fauji Fertilizer Company Limited	-	880,000	-	860,000	20,000	2,233	2,221	(12)	2.44	1.88
Fatima Fertilizer	-	5,000	-	5,000	-	-	-	-	-	-
Lotte Pakistan PTA Limited	-	3,625,000	-	3,375,000	250,000	2,062	1,757	(305)	1.93	1.49
					<u>420,000</u>	<u>10,407</u>	<u>10,101</u>	<u>(306)</u>		
<b>Construction and Materials</b>										
D.G.Khan Cement Company Limited	100,000	3,663,500	-	3,628,500	135,000	5,446	5,316	(130)	5.84	4.50
Lucky Cement Company Limited	-	1,058,749	-	1,058,749	-	-	-	-	-	-
					<u>135,000</u>	<u>5,446</u>	<u>5,316</u>	<u>(130)</u>		
<b>Electricity</b>										
Hub Power Company Limited	150,000	1,110,000	-	1,260,000	-	-	-	-	-	-
<b>Fixed Line Telecommunication</b>										
Pakistan Telecommunication Limited	-	1,559,240	-	1,509,240	50,000	702	684	(18)	0.75	0.58
<b>Food Products</b>										
Engro Foods Limited	-	95,000	-	95,000	-	-	-	-	-	-
<b>Gas, Water and Multi Utilities</b>										
Sui Northern Gas Company Limited	-	181,280	-	181,280	-	-	-	-	-	-
<b>Oil and Gas</b>										
Attock Refinery Limited	-	206,495	-	206,495	-	-	-	-	-	-
Mari Gas Company Limited	-	51,000	-	46,000	5,000	471	469	(2)	0.52	0.40
Oil and Gas Development Company Limited	5,000	680,879	-	685,879	-	-	-	-	-	-
Pakistan Oilfields Limited	-	352,458	-	352,458	-	-	-	-	-	-
Pakistan Petroleum Limited	15,000	363,860	1,000	379,860	-	-	-	-	-	-
Pakistan State Oil Company Limited	27,500	286,505	-	314,005	-	-	-	-	-	-
					<u>5,000</u>	<u>471</u>	<u>469</u>	<u>(2)</u>		
<b>Personal Goods</b>										
Nishar Mills Limited	-	697,805	-	697,805	-	-	-	-	-	-
<b>Automobile and Parts</b>										
Pak Suzuki Motor Company Limited	-	60,000	-	60,000	-	-	-	-	-	-
<b>General Industries</b>										
Tri Pack Films Limited	-	35,900	-	6,400	29,500	6,121	6,196	75	6.81	5.25
<b>Total as at 30 June 2012</b>						<u>23,147</u>	<u>22,766</u>	<u>(381)</u>		
Cost of Investments							<u>23,147</u>			
<b>Total as at 30 June 2011</b>						<u>30,463</u>	<u>29,608</u>	<u>(855)</u>		

This includes 30,000 shares having market value of Rs. 0.980 million pledged with National Clearing Company of Pakistan Limited.

8 DIVIDEND AND PROFIT RECEIVABLES		30 June	30 June
		2012	2011
		(Rupees in '000)	
Dividend receivables	8.1	95	175
Profit receivable on sukuk certificates	8.1	3,091	4,071
Profit receivable on bank deposit accounts	8.1	221	297
		<u>3,407</u>	<u>4,543</u>

8.1 Received subsequent to the year end.



## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

		30 June 2012	30 June 2011
		(Rupees in '000)	
<b>9 DEPOSITS AND OTHER RECEIVABLES</b>			
Security deposit with Trustee		100	100
National clearing company of Pakistan Limited		2,500	4,500
Receivable against sale of investments	9.1	4,266	1,530
Others		149	-
		<u>7,015</u>	<u>6,130</u>
9.1	Received subsequent to the year end.		
<b>10 FORMATION COST</b>			
Formation cost		580	870
Amortization for the year		(290)	(290)
		<u>290</u>	<u>580</u>
<b>11 PAYABLE TO THE MANAGEMENT COMPANY OF THE FUND</b>			
Remuneration	11.1	291	323
Formation cost		-	870
		<u>291</u>	<u>1,193</u>
11.1	Under regulation 61 of the NBFC Regulations 2008, the Asset Management Company is entitled to a remuneration, during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The management company has charged its remuneration at the rate of 3 percent for the current year (2011: 3 percent).		
<b>12 REMUNERATION PAYABLE TO THE TRUSTEE OF THE FUND</b>			
	During the year (on 15 May 2012), MCB Financial Services Limited was appointed as a new trustee in place of Central Depository Company of Pakistan Limited (CDC) under second supplemental Trust Deed. The remuneration of CDC as Trustee was being charged at higher of 0.6 million or 0.17 percent on average annual net assets of the Fund.		
	MCB Financial Services Limited as Trustee is entitled to monthly remuneration at the rate of 0.12 percent for services rendered to the Fund under the provision of second supplemental Trust Deed in accordance with the tariff specified therein.		
<b>13 ANNUAL FEE PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>			
	Under regulation 62 of the NBFC Regulations 2008, the Fund is required to pay annual fee to SECP, an amount equal to 0.095 percent of the average annual net assets of the Fund.		
<b>14 ACCRUED EXPENSES AND OTHER PAYABLES</b>			
		30 June 2012	30 June 2011
		(Rupees in '000)	
Auditors' remuneration		350	384
Payable against purchase of investments	14.1	5,869	110
Provision for workers' welfare fund	14.2	1,084	828
Others	14.3	861	98
		<u>8,164</u>	<u>1,420</u>
14.1	Paid subsequent to the year end.		





## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

14.2 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 I 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, a Constitutional Petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (SHC), challenging the applicability of WWF to the CISs, which is pending adjudication.

During the year ended 30 June 2011, 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. In December 2010 the ministry filed its responses against the Constitutional Petition requesting SHC to dismiss the same, whereafter, show cause notices were issued by the Federal Board of Revenue (FBR) to several mutual funds for the collection of WWF. In respect of such show cause notices, certain mutual funds have been granted stay by SHC on the basis of the pending Constitutional Petition as referred above.

During the current period the Honourable 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 has declared the said amendments as unlawful and unconstitutional. While, the Constitutional Petition filed in the SHC is still pending.

As the matter relating to levy of WWF is currently pending in SHC, the Management Company, as a matter of prudence, has decided to record the provision for WWF amounting to Rs. 1.084 million up to 30 June 2012 (30 June 2011: Rs. 0.828 million). If the above recognition had not been made, the net asset value per unit of the Scheme would be higher by 0.54 per unit / 0.92%.

14.3 During the current year, an amount of Rs. 0.544 million was charged on account of sales tax on Management fee levied through Sindh Sales Tax Services Act, 2011. As at the year end, sales tax of Rs. 0.047 million on Management Company remuneration was due, which was paid subsequent to the year end.

### 15 AUDITORS' REMUNERATION

30 June	30 June
2012	2011
(Rupees in '000)	

Statutory audit fee	200	200
Half-yearly review fee	100	100
Fee for review of code of corporate governance	75	125
Other certification	50	50
Out of pocket expenses	72	60
	<u>497</u>	<u>535</u>

### 16 BROKERAGE AND OTHER CHARGES

Brokerage expense		3,029	2,225
Sindh sales tax on management remunerartion	14.3	544	-
Central depository system charges		50	29
National clearing and settlement system charges		252	217
Charity expense		88	16
Fees and Subscription		130	130
Others		567	383
		<u>4,660</u>	<u>3,000</u>



## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

### 17 NUMBER OF UNITS IN ISSUE

(Number of Units)

Total outstanding at beginning of the year	2,056,997	2,078,098
Issuance during the year	1,402,177	441,364
Bonus units issued	12,140	1,704
Redemption during the year	(1,448,737)	(464,169)
Total units in issue at the end of the year	<u>2,022,577</u>	<u>2,056,997</u>

Face value of the unit is Rs. 50 each.

### 18 TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of 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. Since the management has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, accordingly no provision for taxation has been made in these financial statements. Refer note 23 for the details of distribution.

### 19 TRANSACTIONS WITH THE RELATED PARTIES / CONNECTED PERSONS

Connected persons include Pak Oman Asset Management Limited, being the asset management company of the Fund, MCB Financial Services Limited being the trustee, Pak Oman Investment Company Limited, being the holding company of the management company, other collective investment schemes managed by the management company, key management personnel of the Management Company and also includes entities holding 10% or more in the units of the Fund as at 30 June 2012.

Remuneration payable to the management company and trustee is determined in accordance with the provisions of the NBFC Regulations and Trust Deed respectively. Units are sold or repurchased at the net asset value per unit as applicable on the date of transaction. Other transactions are at agreed rates.

Transactions and balances with related parties other than those disclosed elsewhere are as follows:

19.1 Transactions during the year	30 June 2012	30 June 2011
	(Rupees in '000)	
<b>Pak Oman Asset Management Limited - Management Company of the Fund</b>		
Remuneration	<u>3,395</u>	<u>3,643</u>
Formation cost paid to the management company	<u>870</u>	<u>290</u>
Units issued - 36,691 (2011: 180,148)	<u>2,000</u>	<u>10,000</u>
Units redeemed - 37,891(2011: 179,158)	<u>2,017</u>	<u>10,900</u>
Bonus units issued - 210 (2011: nil)	<u>11</u>	<u>-</u>
<b>Pak Oman Investment Company Limited - Holding Company of Management Company of the Fund</b>		
Dividend paid	<u>22,258</u>	<u>2,253</u>
<b>Executives of the management company (Key management personnel)</b>		
Bonus units issued - 2,452 (2011: 246)	<u>128</u>	<u>13</u>
Units redeemed - 13,966 (2011: nil)	<u>821</u>	<u>-</u>
<b>Central Depository Company of Pakistan Limited - Former Trustee</b>		
Remuneration	<u>667</u>	<u>700</u>
<b>MCB Financial Services Limited - Trustee</b>		
Remuneration	<u>6</u>	<u>-</u>



## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

	30 June 2012	30 June 2011
	(Rupees in '000)	
<b>19.2 Balances outstanding at the year end</b>		
<b>Pak Oman Asset Management Limited</b>		
Remuneration payable	<u>291</u>	<u>1,193</u>
Formation cost	<u>-</u>	<u>870</u>
Units outstanding - nil (2011: 990)	<u>-</u>	<u>63</u>
<b>Payable to Central Depository Company of Pakistan Limited - Former Trustee</b>		
Remuneration	<u>25</u>	<u>57</u>
<b>MCB Financial Services Limited - Trustee</b>		
Remuneration	<u>6</u>	<u>-</u>
<b>Pak Oman Investment Company Limited</b>		
Units outstanding - 2,000,000 (2012: 2,000,000)	<u>116,820</u>	<u>126,760</u>
<b>Executives of the management company (Key management personnel)</b>		
Units outstanding - nil (2012: 11,514)	<u>-</u>	<u>730</u>

## 20 FINANCIAL RISK MANAGEMENT

### Introduction and overview

The Fund has exposure to following risks from its use of financial instruments:

- '- Credit Risk
- '- Liquidity Risk
- '- Market Risk
- '- Operational Risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

### Risk management framework

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up based on limits established by the management company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the management company supervises the overall risk management approach within the Fund.

The management of these risks is carried out by the Investment Committee (IC) under the policies and procedures approved by the Board. IC is constituted by the Board of Directors of the management company. IC is responsible to devise the investment strategy and manage the investment portfolio of the Fund in accordance with the limits prescribed and restrictions imposed in the Non-Banking Finance Companies and Notified Entities Regulations, 2008, Rules, and Constitutive Documents of the Fund in addition to the Fund's internal risk management policies.

The Fund invests primarily in a portfolio of shariah compliant income securities as per Shariah Advisor's approval. Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

### 20.1 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. At the year-end it arises principally from bank balances, profit / mark-up recoverable and dividend receivables etc.



## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

### Management of credit risk

The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee, its Trust Deed, the requirements of NBFC rules and regulations and guidelines given by SECP from time to time.

Credit risk is managed and controlled by the management company of the Fund in the following manner:

- Where the investment committee makes an investment decision, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.
- Analyzing credit ratings and obtaining adequate collaterals wherever appropriate / relevant.
- The risk of counterparty exposure due to failed trades causing a loss to the Fund is mitigated by a periodic review of the credit ratings and financial statements on a regular basis.
- Cash is held only with reputable banks with high quality external credit enhancements.

### Exposure to credit risk

In summary, compared to the maximum amount included in Statement of Assets and Liabilities, the maximum exposure to credit risk at 30 June was as follows:

	30 June 2012		30 June 2011	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
	(Rupees in '000)		(Rupees in '000)	
Bank balances including profit receivable	25,184	25,184	38,520	38,520
Investments including profit receivable	94,141	14,849	87,745	21,530
Deposits, dividend and other receivables	7,110	7,061	6,305	6,305
	<u>126,435</u>	<u>47,094</u>	<u>132,570</u>	<u>66,355</u>

Difference in the balance as per the Statement of Assets and Liabilities and maximum exposure in investments is due to the fact that investment in GoP ijara sukuk certificates including profit receivable and equity securities of Rs. 79.292 (2011: Rs. 66.215) million is not exposed to credit risk.

### Credit ratings and Collaterals

Details of the credit ratings of the balances with banks and profit due are as follows:

Ratings	Bank balances (including profit due)	
	30 June 2012	30 June 2011
	(% of balance)	
AA+	0.15	1.80
AA	78.25	79.47
A	21.60	18.73
<b>Total</b>	<u>100</u>	<u>100</u>

Above rates are on the basis of available ratings assigned by PACRA and JCR-VIS as of 30 June 2012



#### Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Details of Fund's concentration of credit risk of financial instruments by industrial distribution are as follows:

	30 June 2012		30 June 2011	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Bank Balances including profit receivable	25,184	53.42	38,520	58.05
Others	21,959	46.58	27,835	41.95
	<u>47,143</u>	<u>100.00</u>	<u>66,355</u>	<u>100.00</u>

#### Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed on sale.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

#### Past Due and Impairment

Investment at fair value through profit or loss - upon initial recognition of the Fund in sukuk certificates of Maple leaf was past due and impaired by an amount of Rs. 1.539 million at 30 June 2012 (30 June 2011: Rs. nil).

## 20.2 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

#### Management of liquidity risk

The Fund's policy is to manage this risk by investing majority of its assets in investments that are traded in an active market and can be readily disposed. The Fund invests primarily in marketable securities and other financial instruments, which under normal market conditions are readily convertible to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement. The present settlement system is a T+2 system, which means that proceeds from sales (to pay off redemptions) of holdings will be received on the second day after the sale, while redemptions have to be paid within a period of six days from the date of the redemption request.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of total assets at the time of borrowing with repayment within 90 days of such borrowings. No such borrowings were made during the year.

In order to manage the Fund's overall liquidity, the Fund also has the option to withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. However, during the year no such option was exercised or considered necessary.



## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

### Maturity analysis for financial liabilities

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to maturity date and represents the undiscounted cash flows. The amounts in the table are the gross nominal undiscounted cash flows.

30 June 2012	Carrying amount	Less than 1 month	1 to 3 months	Total
	------(Rupees)-----			
<i>Non-derivative liabilities</i>				
Payable to the Management Company	291	291	-	291
Remuneration payable to the Trustee	31	31	-	31
Annual fee payable to Securities and Exchange Commission of Pakistan	108	-	108	108
Accrued expenses and other liabilities (excluding WWF)	7,080	7,080	-	7,080
	<u>7,510</u>	<u>7,402</u>	<u>108</u>	<u>7,510</u>
Unit holders' fund	<u>118,131</u>	<u>118,131</u>	<u>-</u>	<u>118,131</u>
30 June 2011				
<i>Non-derivative liabilities</i>				
Payable to the Management Company	1,193	1,193	-	1,193
Remuneration payable to the Trustee	57	57	-	57
Annual fee payable to Securities and Exchange Commission of Pakistan	115	-	115	115
Accrued expenses and other liabilities (excluding WWF)	592	592	-	592
	<u>1,957</u>	<u>1,842</u>	<u>115</u>	<u>1,957</u>
Unit holders' fund	<u>130,365</u>	<u>130,365</u>	<u>-</u>	<u>130,365</u>

Above financial liabilities do not carry any mark-up.

### 20.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will effect the Fund's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### Management of market risks

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan. The maximum risk resulting from financial instruments equals their fair values.

#### 20.3.1 Interest rate risk



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

As the Fund has no significant interest-bearing assets, the Fund's income and operating cash flows are substantially independent of changes in market interest rates. The management company through investment committee monitors the Fund's overall interest

20.3.1.2 At 30 June 2012, details of the interest rate profile of the Fund's interest bearing financial assets were as follows:

	30 June 2012	30 June 2011
	(Rupees in '000)	
<b>Variable rate instruments</b>		
Bank balances - in profit and loss sharing accounts	24,963	38,223
Sukuk certificates - at fair value through profit or loss upon initial recognition	68,284	54,066
	<u>93,247</u>	<u>92,289</u>

20.3.1.3

(a) Cash flow Sensitivity analysis for variable rate instruments

As at 30 June 2012, the Fund holds sukuk certificates which are classified as fair value through profit or loss - upon initial recognition, exposing the Fund to cash flow interest rate risk. In case of 50 basis points increase / (decrease) in profit rates on 30 June 2012, with all other variables remain constant, the net assets would be lower by Rs. 0.075 (2011: 0.319) million.

(b) Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect net asset of the Fund and income statement.

20.3.1.3A summary of the Fund's interest rate gap position, categorised by the earlier of contractual re-pricing or maturity date is as follows:

	Mark-up/ profit rate	Upto one month	Three months to one year	One Year to three years	three years or above	Total
30 June 2012	(%)	(Rupees in '000)				
Assets						
Bank balances	5 to 12.15	24,963	-	-	-	24,963
Investments	11.81 to 15.05	-	-	55,042	13,242	69,823
<b>Total assets</b>		<u>24,963</u>	<u>-</u>	<u>55,042</u>	<u>13,242</u>	<u>94,786</u>
30 June 2011						
Assets						
Bank balances	5 to 12.15	38,223	-	-	-	38,223
Investments	11.30 to 13.68	-	-	35,086	18,980	54,066
<b>Total assets</b>		<u>38,223</u>	<u>-</u>	<u>35,086</u>	<u>18,980</u>	<u>92,289</u>

### 20.3.2 Equity 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 interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market.

The Fund also manages its exposure to price risk by analysing the investment portfolio by industrial sectors and benchmarking the sector weighting to that of the KSE 100 Index. The Fund's policy is to concentrate the investment portfolio in sectors where management believes that the Fund can maximise the returns derived for the level of risk to which the Fund is exposed. The table below is a summary of the significant sector concentrations within the equity portfolio.



In case of 50 basis point increase / decrease in market value on 30 June 2012, with all other variables remain constant, the net assets of the Fund would increase / decrease by Rs. 1.112 (2011: Rs. 0.141) million. This is based on the assumption that the fair value of the Fund's portfolio moves according to their historical beta relationship with Karachi Stock Exchange 100 Index.

The composition of the Fund's investment portfolio of shares and its beta relationship with Karachi Stock Exchange 100 Index are expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2012 is not necessarily indicative of the impact on the Fund's net assets of future movements in share prices.

#### **20.4 Operational risks**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Fund's activities.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation while achieving its investment objective of generating returns for investors. The primary responsibility for the development and implementation of controls over operational risk rests with the board of directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities.
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

#### **20.5 Unit holder's fund risk management**

Management's objective when managing unit holders' funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Fund manages its investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The capital structure depends on the issuance and redemption of units and the Fund is not subject to any externally imposed minimum Fund maintenance requirement.

#### **20.6 Fair value of financial instruments**

The Fund's accounting policy on fair value measurements is discussed in note 5.1

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: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using 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: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).





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30 June 2012	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<i>Financial assets at fair value through profit and loss</i>				
Equity Securities	22,766	-	-	22,766
Debt securities	-	2,265	66,019	68,284
	<u>22,766</u>	<u>2,265</u>	<u>66,019</u>	<u>91,050</u>
30 June 2011				
<i>Financial assets at fair value through profit and loss</i>				
Equity Securities	29,608	-	-	29,608
Debt securities	-	54,066	-	54,066
	<u>29,608</u>	<u>54,066</u>	<u>-</u>	<u>83,674</u>

The aforementioned table includes the Fund's investment amounting Rs. 12.527 and Rs. 35.086 million which has been transferred from level 2 to level 3.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

	30 June 2012	30 June 2011
	(Rupees in '000)	
Opening balance	-	-
Transferred from level 2 to level 3 during the year	47,613	-
Redemption during the year	(11)	-
Purchase during the year	85,419	-
Sale during the year	(65,463)	-
Provision made during the year	(1,539)	-
Closing balance	<u>66,019</u>	<u>-</u>

### 21 SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding unit holding pattern, top brokers, members of the Investment Committee, Fund manager, meetings of the Board of Directors of the management company and rating of the Fund and the management company are as follows:

21.1 List of top ten brokers in order of percentage of commission paid	30 June 2012	30 June 2011
Arif Habib Securities limited	11.76	4.14
Taurus Securities limited	11.10	26.67
Foundation Securities (Pvt) Ltd	10.40	1.64
DJM Securities Pvt Ltd	9.97	1.44
FDM Capital Securities (Pvt.) Ltd.	9.54	23.78
Pearl Securities (Pvt.) Ltd	8.95	-
Topline Securities (Pvt.) Ltd	8.94	10.30
Nael Capital Ltd.(Pvt.) Ltd	8.49	6.15
Rafi Securities (Pvt.) Ltd	6.22	7.48
Adam Securities (Pvt.) Ltd.	5.57	2.53



## PAK OMAN ISLAMIC ASSET ALLOCATION FUND

21.2 Performance table	2012	2011	2010
Total net assets value - Rupees in '000	118,131	130,365	109,665
Net assets value per unit - Rupees	58.41	63.38	52.77
Net (loss) / income for the year - Rupees in '000	12,443	24,096	2,341
Income distribution - Rupees in '000	11,812	22,892	2,341
Distribution per unit - Rupees	5.84	11.13	1.13
Selling price as at 30 June - Rupees	59.90	65.00	54.12
Repurchase price as at 30 June - Rupees	58.41	63.38	52.77
Highest selling price during the year - Rupees	60.69	65.49	56.63
Lowest repurchase price during the year - Rupees	52.10	50.61	49.39
	<b>Last three years</b>	<b>Last two years</b>	<b>Last one year</b>
<b>Average annual return of the Fund</b>	16.58%	18.71%	3.03%

The income distribution has been shown against the year to which they relate although these were declared and distributed subsequently to the year end.

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

The portfolio composition of the Fund has been disclosed in note 7 to the financial statements.

### 21.3 Unit holding pattern of the Fund

Category	No. of Unit Holders	Units held	Investment amount (Rupees in '000)	% of total
<b>30 June 2012</b>				
Individuals	38	22,577	1,319	1.12
Associated companies / director	1	2,000,000	116,813	98.88
	<u>39</u>	<u>2,022,577</u>	<u>118,131</u>	<u>100.00</u>
<b>30 June 2011</b>				
Individuals	32	3,490	221	0.17
Associated companies / director	3	2,012,635	127,554	97.84
Other	1	40,872	2,590	1.99
	<u>36</u>	<u>2,056,997</u>	<u>130,365</u>	<u>100.00</u>

### 21.4 Particulars of the Fund Manager and Investment Committee

Name of Fund Manager	Qualification	Other Funds managed
Mr. Ahmed Nabeel	MBA	Pak Oman Advantage Asset Allocation Fund Pak Oman Islamic Asset Allocation Fund

Following are the members of the investment committee of the Management Company:

Name of members	Designation	Qualification
Ms. Hina Ghazanfar	MD & CEO	MBA
Mr. Ahmed Nabeel	CIA	MBA
Mr. Malik Faiz Rasool	Equity Trader	B.Com



**21.5 Directors meeting attendance**

Name of Directors	Meeting Attended	30 June 2012				
		05 July 2011	23 August 2011	26 October 2011	1 February 2012	28 April 2012
H. E. Yahya Bin Said Bin Abdullah Al-Jabri	5	P	P	P	P	P
Agha Ahmed Shah, Esq.	5	P	P	P	P	P
Mr. Humayun Murad	4	P	r	P	P	P
Mr. Parveiz Usman *	-	r	r	r	r	r
Mr. Sulaiman Hammad Al Harty	4	r	P	P	P	P
Mr. Ali Said Ali	5	P	P	P	P	P
Mr. Saif Said Salim Al Yazidi	4	r	P	P	P	P
Ms. Hina Ghazanfar	5	P	P	P	P	P
		5	6	7	7	7

\* Resigned w.e.f. 28 April 2012.

**22 RATING OF THE FUND AND THE MANAGEMENT COMPANY**

In accordance with criteria specified by the rating agency, the ranking of the Fund is 5-Star, as assigned by PACRA.

JCR-VIS has assigned an AM3 rating to the Management Company which is defined as stable management quality.

**23 DISTRIBUTIONS BY THE FUND**

**Non-adjusting event after the reporting date.**

The Board of Directors of the management company has approved bonus units of Rs. 5.84 per unit (on 04 July 2012) for the year ended 30 June 2012 amounting to Rs. 11.812 (2011: 22.893) million in total. These financial statements do not include the effect of the above final distribution that will be accounted for subsequent to the year end.

**24 GENERAL**

These financial statements were authorised for issue on 14th October, 2012 by the Board of Directors of the Management Company.

For Pak Oman Asset Management Company Limited  
(Management Company)

MD & CEO

Director