

Maybank Financial Institutions Income Fund

Annual Report for the financial year ended
31 January 2014

MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

CONTENTS	PAGE
Manager's report	1 - 10
Trustee's report	11
Statement by manager	12
Independent auditors' report	13 - 14
Statement of comprehensive income	15
Statement of financial position	16
Statement of changes in equity	17
Statement of cash flows	18
Notes to the financial statements	19 - 42

MAYBANK FINANCIAL INSTITUTIONS INCOME FUND
Manager's Report - For the financial year ended 31 January 2014

1. Type of fund

Income

2. Category of fund

Wholesale Fixed Income Fund

3. Fund launching date / investment commencement date

17 December 2009 / 15 January 2010

4. Fund's investment objective and policy

The objective of the Maybank Financial Institutions Income Fund (Maybank FIIN or the Fund) is to achieve regular income stream which is deriving from the portfolio.

The Fund's portfolio consists of bonds issued by Financial Institutions and/or Bank Guaranteed Bonds and/or Money Market instruments issued by Financial Institutions.

- Up to 95% of the Fund's NAV in bonds issued by Financial Institutions and/or Bank Guaranteed Bonds Rated A3 and above by RAM or its equivalent.
- Up to 100% of the Fund's NAV may be invested in money market instruments issued by Financial Institutions and deposits.

The investment policies of MIMFIIN were carried out in accordance with the Deed.

5. Fund distribution policy

The Fund endeavours to pay income, if any, by way of distribution on a half- yearly basis.

6. Risk Factors

General Risks

An Investor should consider the following when investing in wholesale funds:-

i. Management Risk

Poor management of a Fund might jeopardize the investment of Unit Holders. This risk arises as performance of the Fund is dependent on investment decisions of the Manager that may adversely affect the Fund's performance. The quality of management is also dependent on the internal circumstances within the Manager and other factors that may be beyond the control of the Manager. This risk is reduced through the implementation of a structured operational process and internal controls.

ii. Market Risk

The value of an investment will decrease due to changes in market factors i.e. economic, political, or other events that impact large portions of the market. Market risk cannot be eliminated, hence the Manager will monitor the financial markets closely and act on any adverse news accordingly.

iii. Liquidity risk

The ability of a Fund to honor requests for redemption or to pay back Investors' investments is subject to the fund's holding of adequate liquid assets. This liquidity risk is mitigated by investing in a wide range of securities with satisfactory trading volumes and avoiding securities with poor liquidity.

iv. Inflation risk

Inflation is one of the long term risks as it creates uncertainty over the future value of the investments. In an inflationary environment, a return on investment which is lower than the inflation rate will lead to a loss of purchasing power per RM to the Unit Holder.

v. Loan financing risk

The price of Units in a Fund fluctuates with the value of the underlying portfolios. Investors are discouraged from financing the purchased Units via borrowings and should assess the inherent risk of investing with borrowed money as returns are not guaranteed. Investors may either be forced to provide additional collateral to top up on loan margin should price of Units falls beyond a certain level or Investors could be burdened with a higher cost of financing when interest rate increases.

vi. Non-compliance risk

It is the risk that the Manager might not follow the provisions set out in the Information Memorandum or the Deed or the law that governs the Funds or its own internal procedures, or will act fraudulently or dishonestly which may result in the Funds being mismanaged and may affect the Unit Holders' investments.

vii. Returns are not Guaranteed

Investors should be aware that by investing in a Fund, there is no guarantee of any income distribution, returns or capital appreciation. Unlike fixed deposits placed directly by the Investors into any financial institutions which carry a specific rate of return, a Fund does not provide a fixed rate of return.

Specific Risk

i. Market Risk

The value of an investment will decrease due to adverse changes in market factors i.e. economic, political, social environment changes or other adverse events that impact large portions of the market. Market risk cannot be eliminated but asset allocation and diversification may minimize against market risk.

ii. Interest Rate Risk

Fixed income securities are particularly sensitive to movements in interest rates. When interest rates rise, the value of fixed income securities falls and vice versa, thus affecting the NAV of the Fund.

The magnitude of the drop in price is normally greater for longer-tenure securities rather than shorter-tenure securities as they are more sensitive to interest rate changes.

iii. Credit/Default Risk

This is the risk that the issuer of the security may default and may not be able to make timely principal and interest payments on the security. The lower-rated corporate debt securities will normally have greater risk of defaults. This may cause the value of the Fund to be affected.

iv. Liquidity Risk

This refers to the ease with which a security can be sold at or near its fair value depending on the volume traded on the market. Should a security become illiquid, it may be sold at a discount to its fair value, thus lowering the value of the Fund's investments and subsequently the value for the Investors.

7. Profile of the Key Investment Team

The key investment team shall be referred to as the Portfolio Management Committee of the Manager. The team shall meet once a month or more frequently should the circumstances require, to discuss and decide on matters relating to the investment of the Fund, among others:-

- Provide advice on the tactical investment decisions with regards to the Fund;
- Control and monitor the investment of the Fund in accordance with its investment objective, strategies and permitted investments;
- Discuss and approve, reject or put on hold investment proposals with regards to the Fund;
- Review and approves, rejects or put on hold research undertaken by each analyst on
 - i. Companies in which investment have been made;
 - ii. Companies in which investment is recommended;
- Evaluates the performance of the Fund in comparison with the benchmark (if any); and
- Updates on investment compliance issues and breaches.

The profile of the key investment team is as follows:

Nor'Azamin bin Salleh

Nor' Azamin bin Salleh, a Malaysian, was appointed as non-executive director of Maybank AM on 1 October 2010.

He was previously the Managing Director/Chief Executive Officer of Maybank AM since 1 October 2010 until 3 January 2014. On 2 September 2013, he was also appointed as Chief Executive Officer of MAMG and remained as the Chief Executive Officer of MAMG subsequent to his resignation as Chief Executive Officer of Maybank AM. He brings with him over 20 years of experience in finance, operations, sales & marketing and management. He has worked in leading asset management companies such as Asian Islamic Investment Management Sdn Bhd ("AIIMAN") - a subsidiary of DBS Asset Management Pte Ltd, Commerce Asset Fund Managers and Avenue Invest Berhad. In the past several years, he was actively involved in the growth of Islamic Investment Management in Malaysia. Prior to joining Maybank AM, he was the Executive Director/Chief Executive Officer of AIIMAN.

Apart from Maybank AM, his other board memberships within Maybank Group include Maybank Asset Management Group Berhad (formerly known as Aseamlease Berhad), Maybank Asset Management Singapore Pte. Ltd. (formerly known as KE Capital Partners Pte. Ltd), PT GMT Aset Manajemen, Maybank Asset Management Thailand Co. Ltd. (formerly known as Kim Eng Asset Management (Thailand) Co. Ltd.), Maybank Private Equity Sdn Bhd (formerly known as Mayban Ventures Sdn Bhd) and Mayban GAIC Capital Management Sdn Bhd.

He holds a Bachelor of Commerce and Masters in Business Administration from Australia National University and OU Business School, United Kingdom respectively. In addition, he is a Chartered Accountant (Malaysia), Certified Practicing Accountant (Australia) and Certified Financial Planner. He is the holder of a capital markets services representative's licence under the CMSA.

Badrul Hisyam bin Abu Bakar

Badrul Hisyam bin Abu Bakar was appointed as non-independent executive director of Maybank AM on 7 November 2013. He was appointed as the Chief Executive Officer of Maybank AM on 3 January 2014.

Badrul Hisyam bin Abu Bakar joined Maybank AM on 1 December 2010. He graduated from New York University, United States of America with a Bachelor of Science, majoring in Finance and Economics in 1996. He brings with him a 15-years experience working in numerous asset management companies such as HLG Asset Management Sdn Bhd, Commerce Asset Fund Managers Sdn Bhd, Avenue Asset Management Sdn Bhd, Tune Money Capital Sdn Bhd and BIMB Investment Management Berhad. Prior to joining Maybank AM, he was the Chief Investment Officer of BIMB Investment Management Berhad. He is the holder of a CMSRL.

Fatimatul Zainulha bt Mohamed Isa

Fatimatul, Head of Compliance, joined Maybank AM in June 2013. As the Head of Compliance, Fatimatul is responsible for compliance matters, maintenance of high standards of business conduct and internal controls within Maybank AM. She is also responsible in the role of a liaison between regulators and Maybank AM.

Fatimatul brings with her over 15 years of extensive experience in the securities and asset management industries. She started her career as a dealer with Credit Agricole W.I Carr Indosuez Securities and forayed into asset management as an equity portfolio executive in the investment department of RHB Asset Management Berhad. She moved into the area of compliance as a manager at KAF Seagtoatt & Campbell. After which she moved to BIMB Investment as the compliance officer overseeing the Shariah-compliant unit trust funds.

She holds a degree in law (LLB Hons) from Manchester Metropolitan University, England. She is a registered compliance officer with the SC.

She has attended courses on Shariah namely on “Fundamental & Shariah” and “Shariah Compliance Audit in Islamic Bank Revised” with Islamic Banking & Finance Institute Malaysia (IBFIM) to equip herself on Shariah knowledge.

Christopher Geh Chong Beng

Christopher Geh was appointed the head of product strategy and development on 2 May 2012. In his capacity , he oversees all aspects of new products for Maybank AM. He graduated in 2001 from Seattle University, United States of America (USA) with a Bachelors of Business Administration majoring in Finance. Since graduation he has worked in the USA with numerous global companies such as Bank of America and Amazon.com in the areas of accounting and finance. Since his return to Malaysia in 2002, he has worked with SBB Mutual, HwangDBS, Prudential Fund Management, AmInvestment Services and RHB Investment Services, specializing in strategic initiatives, product development and distribution.

Wan Khatijah Wan Ahmad

Wan Khatijah Wan Ahmad has been appointed as Head of Operations and Fund Accounting, Maybank AM with effect from 20 March 2013.

Prior to joining Maybank AM, she was the Deputy Head, Investment Accounting Centre of Excellence at AIA Shared Services Sdn Bhd where she was posted to the head office in Hong Kong for a period of 2 years for integration of investment system for the AIA group.

In her fifteen years of experience in leading financial institutions such as AIA Shared Services Sdn Bhd, CIMB Trustee Berhad and Prudential Assurance Malaysia Berhad, Wan Khatijah has gained extensive experience in the areas of investments operations, fund valuation and investment system implementation and integration.

She started at Commerce Asset Fund Managers Sdn Bhd as a Fund Accountant and was promoted to Operations Manager where she was responsible for the Fund Accounting and Operations department. During her tenure as a Manager at CIMB Trustee Berhad, she was managing operational matters for 25 unit trust funds and 3 real estate investment trust funds.

She graduated from Hull University, England with a BSc in Accounting.

Azmi Bin Mohamed Ariffin

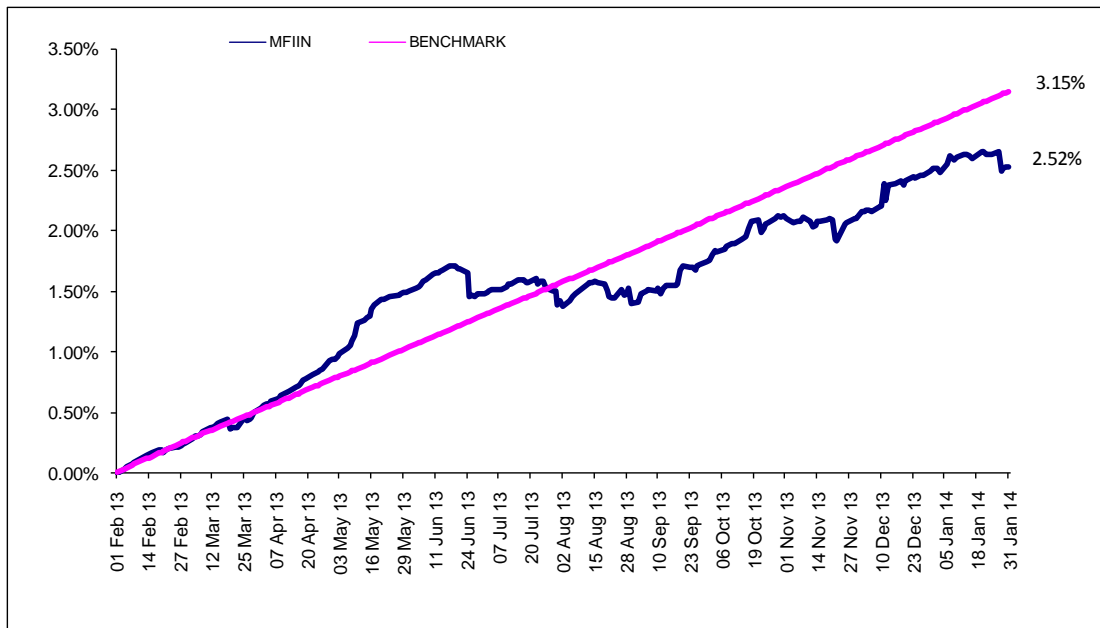
Azmi Bin Mohamed Ariffin, Head, Corporate & Institutions, joined Maybank AM in July 2004. He served SJ Securities Sdn Bhd as a Executive Institutional Sales in 1998 and PM Securities Sdn Bhd as Manager, Business Development in 2002. He holds a Bachelor of Science majoring in Finance from Boston University, Massachusetts, United States of America and received his Master in Business Administration from UiTM Shah Alam. He has had more than 10 years of experience in capital market industry and he is a holder of CMSRL.

8. Fund manager

Mohamad Azmi bin Abdul Majid, Head of Fixed Income, joined Maybank AM on 22 October 2012. He has 16 years of experience in financial market mainly dealing in Treasury related products. Prior to joining Maybank AM, he was a VP in RHB Investment Bank Berhad. He holds a degree majoring in Accounting and Finance from Lancaster University, UK and MBA in Finance from International Islamic University, Malaysia.

9. Performance review

Performance of Maybank Financial Institutions Income Fund for the period from 01 February 2013 to 31 January 2014



Benchmark: 1-year Maybank fixed deposit rate

Source: Normandy Perkasa

Maybank FIIN Fund generated a return of 2.52% for the period from 1 February 2013 to 31 January 2014, compared to the benchmark 1-year Maybank fixed deposit which registered a return of 3.15% over the same period.

The Fund underperformed the benchmark over the 12 month period ended 31 January 2014 mainly due to the continued market sell-off in Malaysian debt which resulted from the US Fed's plans to taper off its QE policy, thereby slowing the liquidity that has been flushing through the bond markets. Even strong credits, such as Malaysian financials, were not spared as yields continued to rise across the board. Aside from credit strength, the Fund's short duration of 3.76 (as at 31 January 2014) provided some immunity to the market drop.

Market expectations of yield have risen over the past year, and in anticipation of this, we have been actively raising cash since August 2013 by selling lower yielding names. We were then able to use the cash to take advantage of new issuances. The opportunity came about with the new bank subdebt issuances, which started about 4 months ago, with issuances including CIMB, Ambank, Public Bank, and Maybank, which came in at more attractive levels ranging from 4.77% to 5.20%. As a result, portfolio yield has improved to around 4.33%, which provides an indication of return before fees.

There were 336,590,172 units in circulation as at 31 January 2014.

10. Market review

Post-QE tapering announcement on 18/12, the MGS yield curve continued its steepening trend as players shortened duration on concerns that yields will surge. The 3-year benchmark MGS fell 9bps MoM to 3.26% as of end-Jan while the 10-year benchmark MGS yield rose 12bps to 4.23%. MGS trading volume, whilst doubling MoM from a low base to RM38.1 billion in Jan, remains well below the January average over the past three years of RM58.4 billion on cautious outlook by investors.

On the other hand, the US Treasury (UST) curve bull flattened in Jan, with the 10-year and 30-year benchmark yields falling by 34bps and 36bps MoM to 2.69% and 3.62% respectively as turmoil in emerging markets (EM) and weaker-than-expected US data raised concerns about growth prospects and increased demand for safe haven assets.

Meanwhile, the Ringgit continued to slide against the USD to 3.343 as of end-Jan, down 2.1% MoM as EM continued to experience capital outflow.

Foreign holdings of MGS was steady at RM137.1 billion in December, an RM1.1 billion increase MoM as foreigners continued to hold a substantial 44.9% of MGS outstanding (Nov: 45.1%). Overall foreign holding was also mildly higher at RM233.4 billion in Dec (Nov: RM232.1 billion).

PDS yields remained on an upward trend, rising by 5-12 bps in Jan, with the uptick unsurprisingly wider at the long end of the curve as investors preferred to keep duration short in a rising interest rate environment. Trading volumes rose 25.7% MoM to RM8.3 billion in Jan, although remains low relative to 'pre-tapering' monthly volume of RM14.6 billion in 1H FY2013. New issuances included TNB Western Energy Bhd, Bright Focus Bhd (concessionaire of Maju Expressway), Mudajaya Corp. Bhd, Port of Tanjung Pelepas Sdn Bhd and the debut of Maybank's Basel-3 compliant sub-debt.

Meanwhile, in Asian USD credit markets, the JP Morgan Credit Index (JACI) returned +0.67% MoM (Dec: -0.14%), benefitting from declining UST yield even as spreads widened by 22bps MoM (Dec: -24bps) on the back of China growth concerns and heavy supply during the month.

11. Strategy employed

Maybank FIIN employed a prudent bond selection strategy to create a strategic mix of financial institution securities that has potential for yield pick-up to outperform the benchmark.

12. Market outlook

The year started on a cautious tone on the back of weaker-than-expected economic data in the US and disappointing manufacturing number in China, while EM remained under pressure due to slowing growth, sharp currency depreciation (in Turkey, Argentina and Brazil), fears of a liquidity crisis (in China), high inflation (in Argentina, Brazil, India, Russia, South Africa) and well as political uncertainty (in Thailand, Indonesia, India and Turkey).

As investors reassess their outlook on global macro environment, markets have corrected with equity markets pulling back and bonds outperforming in Jan. We maintain our view that global growth remains on a gradual recovery trend, led by pickup in developed economies although the recovery will be somewhat uneven. Hence whilst volatility may persist in the near-term, particularly in EM we think that any correction is healthy and presents opportunities to selectively accumulate positions.

13. Investment strategy

We take a more constructive view of the market in light of an increase in opportunities given the new issuance pipeline at better yield levels. We are able to remain optimistic and seek to continue to raise cash where possible in order to take advantage of attractive new issuances.

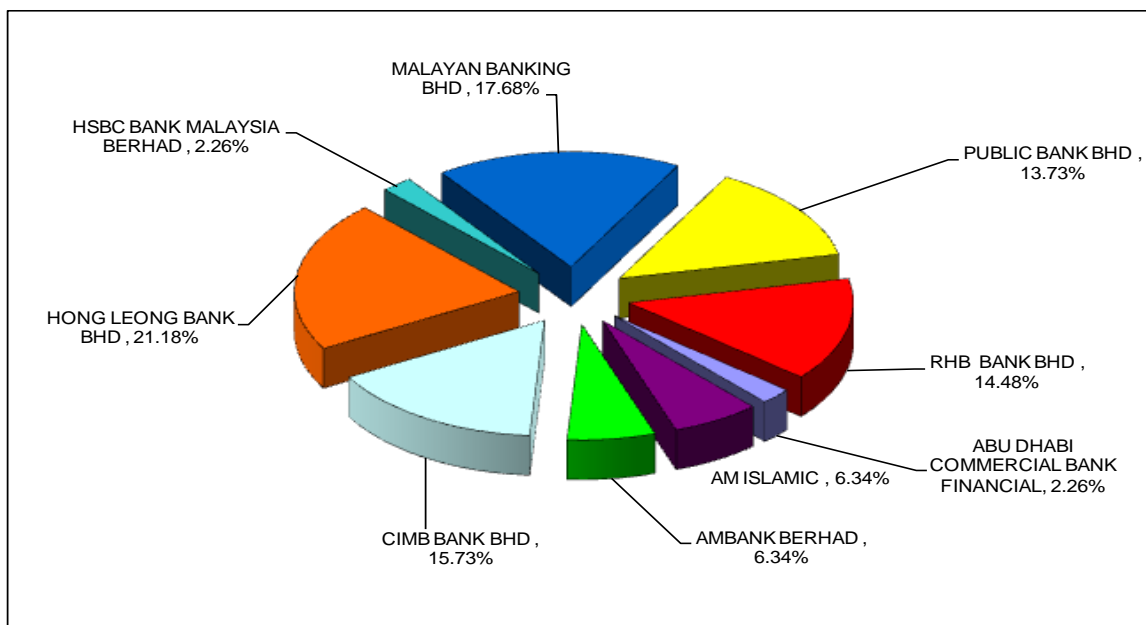
14. Asset allocation

As at 31 January 2014, 93.08% of the Fund was invested in bonds issued / guaranteed by financial institutions with the remaining 6.92% in cash / deposits with financial institutions.

Asset allocation as at 31 January 2014

ASSET ALLOCATION	RM	%
Bonds issued / guaranteed by financial institutions	315,933,472	93.08
Cash / Deposits with financial institutions	23,480,535	6.92
TOTAL	339,414,007	100.00

Bond allocation as at 31 January 2014



15. Illiquid holdings

There were no illiquid holdings in the fund as at 31 January 2014.

16. Net asset value

Net asset value (NAV) as at 31 January 2014

NAV (RM)	339,414,007
Units in circulation	336,590,172
NAV per unit (RM)	1.0084

17. Performance data

Return of Maybank FIIN as at 31 January 2014

Period	Maybank FIIN	Benchmark
01 February 2013 to 31 January 2014	2.52%	3.15%

Benchmark = 1-year Maybank fixed deposit rate

18. Policy on soft commission

The management company did not receive any soft commission from brokers and/or any related body corporates in relation to its investment of Maybank FIIN.

MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

TRUSTEE'S REPORT TO THE UNITHOLDERS OF MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

We have acted as Trustee of Maybank Financial Institutions Income Fund ("the Fund") for the financial year ended 31 January 2014. In our opinion, Maybank Asset Management Sdn. Bhd. ("the Manager" or "the Management Company"), has operated and managed the Fund in accordance with the following:-

- (a) limitations imposed on the investment powers of the Management Company and the Trustee under the Deed, the Securities Commission's Guidelines on Wholesale Funds, the Capital Markets and Services Act 2007, and other applicable laws;
- (b) valuation/pricing of units of the Fund has been carried out in accordance with the Deed and relevant regulatory requirements;
- (c) creation and cancellation of units have been carried out in accordance with the Deed and relevant regulatory requirements; and
- (d) the distribution of returns for the year are tied to and reflect the objectives of the Fund.

For and on behalf of
PB Trustee Services Berhad

Jothirani Krishnan
Chief Executive Officer

Kuala Lumpur, Malaysia
21 March 2014

MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

STATEMENT BY MANAGER

We, Datuk Mohaiyani binti Shamsudin and Badrul Hisyam Bin Abu Bakar, being two of the directors of Maybank Asset Management Sdn. Bhd., do hereby state that, in the opinion of the Manager, the accompanying financial statements set out on pages 15 to 42 are drawn up in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of Maybank Financial Institutions Income Fund as at 31 January 2014 and of its financial performance, changes in equity and cash flows for the year then ended.

On behalf of the Manager

Datuk Mohaiyani binti Shamsudin

Badrul Hisyam Bin Abu Bakar

Kuala Lumpur, Malaysia
21 March 2014

**Independent auditors' report to the Unitholders of
Maybank Financial Institutions Income Fund**

Report on the financial statements

We have audited the financial statements of Maybank Financial Institutions Income Fund, which comprise the statement of financial position as at 31 January 2014 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 15 to 42.

Manager's and Trustee's responsibility for the financial statements

The Manager of the Fund is responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Trustee is responsible for ensuring that the Manager maintains proper accounting and other records as are necessary to enable true and fair presentation of these financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. 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 our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation of financial statements that give a true and fair view 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 Fund's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Manager, 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.

**Independent auditors' report to the Unitholders of
Maybank Financial Institutions Income Fund (cont'd.)**

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Fund as at 31 January 2014 and of its financial performance, the changes in equity and the cash flows of the Fund for the year then ended.

Other matters

This report is made solely to the Unitholders of the Fund, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
21 March 2014

Brandon Bruce Sta Maria
No. 2937/09/15(J)
Chartered Accountant

MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2014**

	Notes	2014 RM	2013 RM
INVESTMENT INCOME			
Interest income		17,932,954	20,052,089
Net (loss)/gain from investments:			
- available-for-sale ("AFS") financial assets		(111,073)	1,751,726
Accretion of discount, net of amortisation of premium		(1,664,925)	(1,566,035)
Other income		108,665	-
		<u>16,265,621</u>	<u>20,237,780</u>
EXPENSES			
Manager's fee	3	2,552,680	2,409,095
Trustee's fee	4	212,723	200,758
Auditors' remuneration		7,500	7,498
Tax agent's fee		2,200	-
Administrative expenses		4,785	15,662
		<u>2,779,888</u>	<u>2,633,013</u>
Net income before tax		13,485,733	17,604,767
Income tax expenses	5	-	-
Net income after tax		<u>13,485,733</u>	<u>17,604,767</u>
Other comprehensive loss			
<u>Items that may be reclassified to income statement in subsequent periods:</u>			
Net changes in fair value of AFS financial assets		(4,397,911)	(1,791,414)
Total comprehensive income for the year		<u>9,087,822</u>	<u>15,813,353</u>
Net income after tax is made up of the following:			
Net realised income		<u>13,485,733</u>	<u>17,604,767</u>
		<u>13,485,733</u>	<u>17,604,767</u>
Dividends for the year:			
Net distributions	9	<u>14,109,110</u>	<u>16,886,659</u>
Net distributions per unit (sen)	9	<u>3.50</u>	<u>4.20</u>
Gross distributions per unit (sen)	9	<u>3.50</u>	<u>4.20</u>

The accompanying notes are an integral part of the financial statements.

MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

**STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2014**

	Notes	2014 RM	2013 RM
ASSETS			
Investments	6	315,933,472	373,705,117
Deposits with financial institutions	7	27,553,153	43,039,685
Interest receivable		3,258,272	5,912,605
Cash at bank		219,777	6,400,170
TOTAL ASSETS		346,964,674	429,057,577
LIABILITIES			
Due to Manager		1,179,591	8,279,412
Due to Trustee		14,966	18,127
Dividends payable		6,327,895	9,262,673
Other payables		28,215	18,515
TOTAL LIABILITIES		7,550,667	17,578,727
EQUITY			
Unitholders' capital		342,782,757	409,919,361
Retained earnings		1,502	531,830
AFS reserves		(3,370,252)	1,027,659
TOTAL EQUITY / NET ASSET VALUE ("NAV")	8	339,414,007	411,478,850
TOTAL EQUITY AND LIABILITIES		346,964,674	429,057,577
UNITS IN CIRCULATION			
NAV PER UNIT	8(a)	1.0084	1.0217

The accompanying notes are an integral part of the financial statements.

MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2014

	Unitholders' capital RM	Retained earnings RM	AFS reserves RM	Total equity RM
At 1 February 2012	353,661,167	90,958	2,819,073	356,571,198
Total comprehensive income for the year	-	17,604,767	(1,791,414)	15,813,353
Creation of units	381,176,848	-	-	381,176,848
Cancellation of units	(325,195,890)	-	-	(325,195,890)
Dividends (Note 9)	277,236	(17,163,895)	-	(16,886,659)
At 31 January 2013	409,919,361	531,830	1,027,659	411,478,850
At 1 February 2013	409,919,361	531,830	1,027,659	411,478,850
Total comprehensive income for the year	-	13,485,733	(4,397,911)	9,087,822
Creation of units	281,023,645	-	-	281,023,645
Cancellation of units	(348,067,200)	-	-	(348,067,200)
Dividends (Note 9)	(93,049)	(14,016,061)	-	(14,109,110)
At 31 January 2014	342,782,757	1,502	(3,370,252)	339,414,007

The accompanying notes are an integral part of the financial statements.

MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2014**

	2014 RM	2013 RM
CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES		
Proceeds from sale of investments	175,512,035	172,337,745
Purchase of investments	(123,914,300)	(221,441,128)
Interest received	20,587,287	18,021,569
Other income received	108,665	-
Manager's fee paid	(10,652,501)	(3,569,242)
Trustee's fee paid	(215,884)	(197,437)
Payment of other fees and expenses	(4,784)	(15,664)
Net cash generated from/(used in) operating and investing activities	<u>61,420,518</u>	<u>(34,864,157)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from units created	281,023,645	381,176,848
Cash paid on units cancelled	(347,067,200)	(317,133,999)
Dividends to Unitholders	(17,043,888)	(11,620,075)
Net cash (used in)/generated from financing activities	<u>(83,087,443)</u>	<u>52,422,774</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(21,666,925)	17,558,617
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>49,439,855</u>	<u>31,881,238</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>27,772,930</u>	<u>49,439,855</u>
Cash and cash equivalents comprise:		
Cash at bank	219,777	6,400,170
Deposits with financial institutions (Note 7)	27,553,153	43,039,685
	<u>27,772,930</u>	<u>49,439,855</u>

The accompanying notes are an integral part of the financial statements.

MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2014

1. THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

Maybank Financial Institutions Income Fund (“the Fund”) was constituted pursuant to the execution of a Deed dated 5 November 2009 between the Manager, Maybank Asset Management Sdn. Bhd. (“Maybank AM”) and the Trustee, PB Trustee Services Berhad.

The principal activity of the Fund is to invest in a diversified portfolio of bonds issued by financial institutions with a minimum rating of A3 by RAM or its equivalent and/or bank guaranteed bonds and/or money market instruments issued by financial institutions as defined in the Information Memorandum. The Fund was launched on 17 December 2009 and will continue its operations until terminated by the Trustee as provided under Part 12 of the Deed.

The Manager of the Fund is Maybank AM, a company incorporated in Malaysia. It is a holder of the Capital Markets Services License with fund management as its regulated activity under the Capital Markets and Services Act 2007. The principal place of business of Maybank AM is at level 12, Tower C Dataran Maybank, No. 1 Jalan Maarof, 59000 Kuala Lumpur. Maybank AM is a wholly-owned subsidiary of Maybank Asset Management Group Berhad (formerly known as Aseamlease Berhad), which in turn is a wholly-owned subsidiary of Malayan Banking Berhad (“MBB”).

The financial statements were authorised for issue by the Board of Directors of the Manager in accordance with a resolution of the directors on 21 March 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Fund have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below and are presented in Ringgit Malaysia (“RM”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Standards issued but not yet effective

As at the date of authorisation of these financial statements, the following Standards, Amendments to Standards and Issues Committee ("IC") Interpretations have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective and have not been adopted by the Fund.

Effective for financial periods beginning on or after 1 January 2014

Amendments to MFRS 10, MFRS 12 and MFRS 127	<i>Investment Entities</i>
Amendments to MFRS 132	<i>Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities</i>
Amendments to MFRS 136	<i>Impairment of Assets-Recoverable amount Disclosures for Non-Financial Assets</i>
Amendments to MFRS 139	<i>Novation of Derivatives & continuation of Hedge Accounting</i>

Effective for financial periods beginning on or after 1 July 2014

Amendments to MFRS 119	<i>Employee Benefits: Defined Benefit Plans- Employee Contributions</i>
Amendments to MFRS 2	<i>Shared Based Payment (Annual Improvements 2010 - 2012 Cycle)</i>
Amendments to MFRS 3	<i>Business Combinations (Annual Improvements 2010 - 2012 Cycle)</i>
Amendments to MFRS 3	<i>Business Combinations (Annual Improvements 2011 - 2013 Cycle)</i>
Amendments to MFRS 8	<i>Operating Segments (Annual Improvements 2010 - 2012 Cycle)</i>
Amendments to MFRS 13	<i>Fair Value Measurement (Annual Improvements 2011 - 2013 Cycle)</i>
Amendments to MFRS 116	<i>Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)</i>
Amendments to MFRS 124	<i>Related Party Disclosures (Annual Improvements 2010 - 2012 Cycle)</i>
Amendments to MFRS 138	<i>Intangible Assets (Annual Improvements 2010 2012 Cycle)</i>
Amendments to MFRS 140	<i>Investment Property (Annual Improvements 2011- 2013 Cycle)</i>

Effective date to be determined by Malaysian Accounting Standards Board ("MASB")

MFRS 9	<i>Financial Instruments</i>
Amendments to MFRS 7	<i>Financial Instruments: Disclosures - Mandatory Date of MFRS 9 and Transition Disclosures</i>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Standards issued but not yet effective (cont'd)

The Fund will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any significant impact to the financial statements of the Fund upon their initial application except as described below:

(a) MFRS 9 - *Financial Instruments*

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 Financial Instruments: Recognition and Measurement and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139") and replaces the guidance in MFRS 139.

The Standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Fund's financial assets, but will not have an impact on classification and measurements of the Fund's financial liabilities. The Fund will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

2.3 Summary of significant accounting policies

(a) Financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss ("FVTPL"), directly attributable transaction costs.

The Fund determines the classification of its financial assets at initial recognition, and the categories applicable to the Fund are available-for-sale ("AFS") financial assets and loans and receivables.

(i) AFS financial assets

AFS are financial assets that are designated as available for sale or are not classified as financial assets at FVTPL or loans and receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(a) Financial assets (cont'd)

(i) AFS financial assets (cont'd)

After initial recognition, AFS financial assets are measured at fair value. Changes in fair value of the AFS financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments, dividend income and interest calculated using the effective interest method are recognised in profit or loss.

The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an AFS equity instrument are recognised in profit or loss when the Fund's right to receive payment is established.

AFS financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

(ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. The Fund includes deposits with financial institutions and short term receivables in this classification.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

A financial asset is derecognised when the asset is disposed and the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Fund commits to purchase or sell the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(b) Impairment of financial assets

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

(i) AFS financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as AFS financial assets are impaired.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on AFS equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For AFS debt investments, impairment losses are subsequently reversed in profit or loss, up to the amount previously recognised as impairment loss, if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

(ii) Loans and receivables

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Fund considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Summary of significant accounting policies (cont'd)

(c) Fair value measurement

The Fund measures its financial instruments at fair value, at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (i) In the principal market for the asset or liability, or
- (ii) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- (i) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- (ii) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- (iii) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(d) Classification of realised and unrealised gains and losses

Unrealised gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of prior year's unrealised gains and losses for financial instruments which were realised (i.e. sold, redeemed or matured) during the reporting period.

Realised gains and losses on disposals of financial instruments classified as part of 'at fair value through profit or loss' are calculated using the weighted average method. They represent the difference between an instrument's initial carrying amount and disposal amount.

(e) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as other financial liabilities.

The Fund's financial liabilities which include trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is extinguished. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

(f) Functional and presentation currency

The financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia (RM), which is also the Fund's functional currency.

(g) Unitholders' capital

The Unitholders' contributions is classified as equity instruments.

Distribution equalisation represents the average distributable amount included in the creation and cancellation prices of units. This amount is either refunded to Unitholders by way of distribution and/or adjusted accordingly when units are cancelled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(h) Dividend distribution

Dividend distributions are at the discretion of the Manager. A dividend distribution to the Fund's Unitholders is accounted for as a deduction from retained earnings except where dividend is sourced out of distribution equalisation which is accounted for as a deduction from Unitholders' capital. A proposed dividend is recognised as a liability in the period in which it is approved.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and deposits with financial institutions which have an insignificant risk of changes in value.

(j) Income

Income is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. Income is measured at the fair value of consideration received or receivable. Interest income is recognised using the effective interest method.

(k) Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

No deferred tax is recognised as no material temporary differences have been identified.

(l) Segment reporting

For management purposes, the Fund is managed by two main portfolios, namely (1) debt instruments and (2) deposits. Each segment engages in separate business activities and the operating results are regularly reviewed by the Manager and the Investment Committee. The Investment Committee assumes the role of chief operating decision maker, for performance assessment purposes and to make decisions about resources allocated to each investment segment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Summary of significant accounting policies (cont'd)

(m) Significant accounting estimates and judgements

The preparation of the Fund's financial statements requires the Manager to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in the future.

No major judgements have been made by the Manager in applying the Fund's accounting policies. There are no key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year.

3. MANAGER'S FEE

The manager's fee is computed on a daily basis at 0.60% per annum of the NAV of the Fund before deducting the Manager's fee and Trustee's fees for that particular day.

4. TRUSTEE'S FEE

The Trustee's fee is computed on a daily basis at 0.05% per annum of the NAV of the Fund before deducting the Manager's fee and Trustee's fees for that particular day, subject to a minimum fee of RM18,000 per annum.

5. INCOME TAX EXPENSE

Income tax is calculated at the Malaysian statutory tax rate of 25% of the estimated assessable income for the financial year.

The tax charge for the financial year is in relation to the taxable income earned by the Fund after deducting tax allowable expenses. In accordance with Schedule 6 of the Income Tax Act 1967, interest income earned by the Fund is exempted from tax.

5. INCOME TAX EXPENSE (CONT'D.)

A reconciliation of income tax expense applicable to net income before tax at the statutory income tax rate to income tax expense at the effective income tax rate is as follows:

	2014 RM	2013 RM
Net income before tax	13,485,733	17,604,767
Tax at Malaysian statutory rate of 25%	3,371,433	4,401,192
Effects of interest on deposits and other income not subject to tax	(4,066,405)	(5,059,445)
Effect of expenses not deductible for tax purposes	694,972	658,253
Tax expense for the year	-	-

6. INVESTMENTS

	2014 RM	2013 RM
AFS financial assets	315,933,472	373,705,117

AFS financial assets as at 31 January 2014 are as detailed below:

	Quantity/ Nominal amount RM	Amortised Value RM	Fair value RM	% of NAV
Unquoted debt securities				
Abu Dhabi Commercial Bank -5.20%/02.09.2015	7,000,000	7,069,927	7,126,700	2.10
Ambank Berhad -4.45%/16.10.2017	18,500,000	18,586,595	18,524,050	5.46
Ambank Berhad -5.20%/31.12.2018	1,500,000	1,499,081	1,501,200	0.44
Amlslamic Bank Berhad -4.45%/26.12.2017	10,000,000	10,045,443	10,017,000	2.95

6. INVESTMENTS (CONT'D)

	Quantity/ Nominal amount RM	Amortised Value RM	Fair value RM	% of NAV
Unquoted debt securities				
Amlslamic Bank Berhad -4.35%/31.01.2017	10,000,000	10,014,268	10,028,000	2.95
CIMB Group Holdings Berhad -6.35%/03.04.2020	15,000,000	16,396,091	16,144,500	4.76
CIMB Bank Berhad -4.80%/23.12.2020	18,900,000	19,286,341	18,659,970	5.50
CIMB Bank Berhad -4.15%/30.11.2017	10,000,000	10,000,000	9,878,000	2.91
CIMB Bank Berhad -4.30%/23.12.2015	5,000,000	5,000,000	5,014,000	1.48
Hong Leong Bank Berhad -4.50%/24.06.2019	42,200,000	42,370,089	41,642,960	12.27
Hong Leong Bank Berhad -5.05%/05.05.2016	25,000,000	25,300,201	25,272,500	7.45
HSBC Bank Malaysia Berhad -5.05%/02.11.2022	6,985,000	7,349,309	7,137,972	2.10
Malayan Banking Berhad -4.25%/10.05.2019	45,000,000	45,101,699	44,559,000	13.13
Malayan Banking Berhad -6.30%/25.09.2018	4,500,000	4,869,351	4,815,900	1.42
Malayan Banking Berhad -4.90%/29.01.2019	4,600,000	4,600,000	4,600,000	1.36
Malayan Banking Berhad -4.12%/28.12.2018	1,900,000	1,907,488	1,874,350	0.55
PBFIN Berhad -7.50%/07.06.2019	24,700,000	28,112,674	27,901,120	8.22
Public Bank Berhad -4.77%/29.10.2018	5,500,000	5,500,000	5,506,600	1.62

6. INVESTMENTS (CONT'D)

	Quantity/ Nominal amount RM	Amortised Value RM	Fair value RM	% of NAV
Unquoted debt securities				
Public Bank Berhad -4.28%/03.08.2017	10,000,000	10,036,322	9,971,000	2.94
RHB Bank Berhad -5.50%/30.11.2017	19,750,000	20,646,032	20,449,150	6.02
RHB Bank Berhad -4.30%/05.05.2017	2,500,000	2,500,000	2,495,250	0.74
RHB Bank Berhad -5.60%/29.04.2020	14,500,000	15,365,122	15,069,850	4.44
RHB Bank Berhad -5.00%/29.04.2015	2,000,000	2,001,388	2,025,400	0.60
RHB Bank Berhad -8.00%/29.03.2019	5,000,000	5,746,303	5,719,000	1.68
Total AFS financial assets	310,035,000	319,303,724	315,933,472	93.08
Shortfall in fair value versus amortised value			(3,370,252)	

7. DEPOSITS WITH FINANCIAL INSTITUTIONS

	2014 RM	2013 RM
These are short-term placements with:		
Licensed Islamic bank	15,000,000	-
Licensed Investment banks	12,553,153	43,039,685
	27,553,153	43,039,685

7. DEPOSITS WITH FINANCIAL INSTITUTIONS (CONT'D.)

The weighted average effective profit/interest rates ("WAEPR"/"WAEIR") per annum and average maturity of deposits with financial institutions as at the reporting date were as follows:

	2014		2013	
	WAEPR/ WAEIR % p.a.	Average Maturity Days	WAEIR % p.a.	Average Maturity Days
Fixed deposits				
Licensed Islamic bank	3.17	7	-	-
Licensed Investment banks	3.00	5	2.99	4

8. TOTAL EQUITY / NAV

	Note	2014 RM	2013 RM
Unitholders' capital	(a)	342,782,757	409,919,361
Retained earnings		1,502	531,830
AFS reserves		(3,370,252)	1,027,659
		<u>339,414,007</u>	<u>411,478,850</u>

(a) Unitholders' capital

	2014		2013	
	No. of units	RM	No. of units	RM
As at beginning of the year	402,724,927	409,919,361	347,486,041	353,661,167
Creation of units	273,995,623	281,023,645	369,314,064	381,176,848
Cancellation of units	(340,130,378)	(348,067,200)	(314,075,178)	(325,195,890)
	<u>336,590,172</u>	<u>342,875,806</u>	<u>402,724,927</u>	<u>409,642,125</u>
Dividends (Note 9)	-	(93,049)	-	277,236
As at end of the year	<u>336,590,172</u>	<u>342,782,757</u>	<u>402,724,927</u>	<u>409,919,361</u>

9. DIVIDENDS

Details of dividends declared to Unitholders are as follows:

2014

	RM
Investment income	16,947,484
Less: Expenses	<u>(2,931,423)</u>
Distribution out of retained earnings	14,016,061
Distribution out of distribution equalisation (Note 8(a))	<u>93,049</u>
Distributions for the year	<u><u>14,109,110</u></u>

The gross and net dividends declared on the following dates are as follows:

Distribution dates	Gross dividends per unit (sen)	Net dividends per unit (sen)
31.07.2013	1.62	1.62
31.01.2014	1.88	1.88
	<u>3.50</u>	<u>3.50</u>

2013

	RM
Investment income	19,711,412
Less: Expenses	<u>(2,547,517)</u>
Distribution out of retained earnings	17,163,895
Distribution out of distribution equalisation (Note 8(a))	<u>(277,236)</u>
Distributions for the year	<u><u>16,886,659</u></u>

The gross and net dividends declared on the following dates are as follows:

Distribution dates	Gross dividends per unit (sen)	Net dividends per unit (sen)
31.07.2012	2.20	2.20
31.01.2013	2.00	2.00
	<u>4.20</u>	<u>4.20</u>

10. TRANSACTIONS WITH RELATED PARTIES AND OTHER FINANCIAL INSTITUTIONS

Details of transactions with related parties and other financial institutions for the financial year ended 31 January 2014 are as follows:

	Value of Trade RM	% of Total Trade
Deposits with financial institutions		
Bank Islam Malaysia Berhad	237,961,335	2.68%
CIMB Investment Bank Berhad	22,437,000	0.25%
Hong Leong Bank Berhad	82,757,561	0.93%
Hong Leong Islamic Bank Berhad	10,000,000	0.11%
KAF Investment Bank Berhad	1,444,111,478	16.27%
Malayan Banking Berhad (MBB) *	2,258,000	0.03%
Maybank Islamic Berhad (MIB) **	11,384,000	0.13%
National Bank of Abu Dhabi Malaysia Berhad	22,124,000	0.25%
Public Bank Berhad	613,330,000	6.91%
Public Investment Bank Berhad	6,299,755,998	70.96%
Public Islamic Bank Berhad	17,250,000	0.19%
RHB Islamic Bank Berhad	31,351,000	0.35%
United Overseas Bank Malaysia Berhad	83,562,000	0.94%
	<u>8,878,282,372</u>	<u>100.00%</u>

* MBB is the ultimate holding company of the Manager.

** MIB is a wholly-owned subsidiary of MBB, the ultimate holding company of the Manager.

The directors of the Manager are of the opinion that the transactions with the related parties have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties. These dealings with the related parties have been transacted at arm's length basis.

11. MANAGEMENT EXPENSE RATIO ("MER")

The MER of the Fund is the ratio of the sum of fees and expenses incurred by the Fund to the average NAV of the Fund calculated on a daily basis. The fees and expenses include Manager's fee, Trustee's fee, auditors' remuneration, tax agent's fee and other administrative expenses. For the financial year ended 31 January 2014, the MER of the Fund stood at 0.65% (2013: 0.66%).

12. PORTFOLIO TURNOVER RATIO ("PTR")

The PTR of the Fund is the ratio of average acquisitions and disposals of the Fund for the financial year to the average NAV of the Fund calculated on a daily basis. For the financial year ended 31 January 2014, the PTR of the Fund stood at 0.35 times (2013: 0.49 times).

13. SEGMENT INFORMATION

The Manager is responsible for allocating resources available to the Fund in accordance with the overall investment strategies as set out in the Investment Guidelines of the Fund. The Fund is managed by two segments:

- (i) A portfolio of fixed income instruments, including debt securities
- (ii) A portfolio of deposits with financial institutions

The investment objective of each segment is to achieve consistent returns from the investments in each segment while safeguarding capital by investing in diversified portfolios. There have been no changes in reportable segments in the current financial year. The segment information provided is presented to the Manager.

	Fixed income instruments RM	Deposits with financial institutions portfolio RM	Total RM
2014			
Interest Income	16,237,162	1,695,792	17,932,954
Net gain from investments:			
- AFS financial assets	(111,073)	-	(111,073)
Accretion of discount, net of amortisation of premium	(1,664,925)	-	(1,664,925)
Total segment operating income for the year	<u>14,461,164</u>	<u>1,695,792</u>	<u>16,156,956</u>
AFS financial assets	315,933,472	-	315,933,472
Deposits with financial institutions	-	27,555,153	27,555,153
Other assets	3,253,603	4,669	3,258,272
Total segment assets	<u>333,648,239</u>	<u>29,255,614</u>	<u>362,903,853</u>
2013			
Interest Income	18,439,971	1,612,118	20,052,089
Net gain from investments:			
- AFS financial assets	1,751,726	-	1,751,726
Accretion of discount, net of amortisation of premium	(1,566,035)	-	(1,566,035)
Total segment operating income for the year	<u>18,625,662</u>	<u>1,612,118</u>	<u>20,237,780</u>
AFS financial assets	373,705,117	-	373,705,117
Deposits with financial institutions	-	43,039,685	43,039,685
Other assets	5,909,082	3,523	5,912,605
Total segment assets	<u>379,614,199</u>	<u>43,043,208</u>	<u>422,657,407</u>

Expenses of the Fund are not considered part of the performance of any operating segment. In addition, liabilities of the Fund are not considered to be part of the liabilities of an individual segment.

14. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

The Fund's financial assets and financial liabilities are measured on an ongoing basis at either fair value or at amortised cost based on their respective classification. The significant accounting policies in Note 2.3 describe how the classes of financial instruments are measured, and how income and expenses are recognised. The following table analyses the financial assets and liabilities of the Fund in the statement of financial position as at the reporting date by the class of financial instrument to which they are assigned, and therefore by the measurement basis.

2014	AFS financial assets RM	Loans and receivables RM	Financial liabilities at amortised cost RM	Total RM
Assets				
Investments	315,933,472	-	-	315,933,472
Deposits with financial institutions	-	27,553,153	-	27,553,153
Interest receivable	-	3,258,272	-	3,258,272
Cash at bank	-	219,777	-	219,777
Total financial assets	315,933,472	31,031,202	-	346,964,674
Liabilities				
Due to Manager	-	-	1,179,591	1,179,591
Due to Trustee	-	-	14,966	14,966
Dividends payable	-	-	6,327,895	6,327,895
Other payables	-	-	28,215	28,215
Total financial liabilities	-	-	7,550,667	7,550,667
2013				
Assets				
Investments	373,705,117	-	-	373,705,117
Deposits with financial institutions	-	43,039,685	-	43,039,685
Interest receivable	-	5,912,605	-	5,912,605
Cash at bank	-	6,400,170	-	6,400,170
Total financial assets	373,705,117	55,352,460	-	429,057,577
Liabilities				
Due to Manager	-	-	8,279,412	8,279,412
Due to Trustee	-	-	18,127	18,127
Dividends payable	-	-	9,262,673	9,262,673
Other payables	-	-	18,515	18,515
Total financial liabilities	-	-	17,578,727	17,578,727

14. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial instruments that are carried at fair value

The Fund's AFS financial assets are carried at fair value.

The Fund uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

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

The Fund's AFS investments are classified as Level 2 financial assets. The Fund does not have any financial instrument classified as Level 1 or Level 3.

The fair value of unquoted debt securities are determined using prices provided by Bond Pricing Agency Malaysia Sdn. Bhd.

(c) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value

The carrying amounts of the Fund's financial instruments that are not carried at fair value are reasonable approximations of fair value due to their short term maturity.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Introduction

The Fund's objective in managing risk is the creation and protection of Unitholders' value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring of risks. Financial risk management is also carried out through sound internal control systems and adherence to the investment restrictions as stipulated in the Deed, the Securities Commission's Guidelines on Wholesale Funds and the Capital Markets and Services Act, 2007.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and security prices. However the Fund is not exposed to currency risk as it does not hold any equity investments nor investments denominated in currencies other than Ringgit Malaysia.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) Market risk (cont'd)

(i) Interest rate risk

Fixed income securities are particularly sensitive to movements in market interest rates. When interest rates rise, the value of fixed income securities will fall and vice versa, thus affecting the NAV of the Fund. The sensitivity to market interest rate changes are normally greater for longer tenured securities when compared to shorter tenured securities. The yield and duration structure of the fixed income portion shall be monitored to manage interest rate risk.

The Fund's investments in debt securities carry fixed interest rates and mature within ten years. The maturity period of the debt securities are disclosed in Note 6.

The table below summarises the sensitivity of the Fund's net asset value to movements in prices of debt securities held by the Fund as a result of movements in market interest rate. The analysis is based on the assumptions that the interest rate increased and decreased by 1% (100 basis point) with all other variables held constant.

	2014		2013	
	Change in interest rate	Effects on NAV	Change in interest rate	Effects on NAV
	%	RM	%	RM
AFS financial assets	+1	(12,634,368)	+1	(16,198,785)
	-1	13,346,264	-1	17,193,544

The Fund's exposure to profit/interest rate risk associated with deposits with licensed financial institutions is not material as carrying value of the deposits are reasonable estimates of fair value as the deposits are held on a short term basis.

(ii) Price risk

Management's best estimate of the effect on the income for the year due to a reasonably possible change in price, with all other variables held constant is indicated in the table below:

	2014		2013	
	Change in price of investments	Effects on NAV	Change in price of investments	Effects on NAV
	%	RM	%	RM
AFS financial assets	+5	15,796,674	+5	18,685,256
	-5	(15,796,674)	-5	(18,685,256)

In practice, the actual trading results may differ from the sensitivity analysis above and the difference could be material.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(c) Credit risk

Credit risk is the risk that the issuer/counterparty to a financial instrument will cause a financial loss for the Fund by failing to discharge an obligation. The Fund is exposed to the risk of credit-related losses that can occur as a result of an issuer/counterparty's inability or unwillingness to honour its contractual obligations to make timely repayments of interest, principal and proceeds from realisation of investments. These credit exposures exist within financing relationships and other transactions.

The Manager manages the Fund's credit risk by undertaking credit evaluation and close monitoring of any changes to the issuer/counterparty's credit profile to minimise such risk. It is the Fund's policy to enter into financial instruments with reputable counterparties. The Manager also closely monitors the creditworthiness of the Fund's counterparties (e.g., brokers, custodian, banks, etc.) by reviewing their credit ratings and credit profile on a regular basis.

(i) Credit risk exposure

At the reporting date, the Fund's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position. None of the Fund's financial assets were past due or impaired as at the reporting date.

(ii) Credit quality of financial assets

The Fund invests only in debt securities with at least single A credit rating by a credit rating agency and only makes deposit placements in financial institutions with a minimum single A rating by RAM, MARC or equivalent rating by other recognized rating agencies. In the event that such a rating is not available, the Manager shall depend on the rating given by RAM or MARC to the holding company of the respective financial institutions.

(iii) Credit risk concentration

The following table analyses the Fund's portfolio of AFS financial assets, deposits with financial institutions, interest receivable and cash at bank by rating categories.

	2014		2013	
	RM	As a % of NAV	RM	As a % of NAV
AFS financial assets and interest receivable				
AAA	7,277,286	2.14	12,653,458	3.08
AA1	74,458,831	21.94	107,110,012	26.03
AA2	74,962,655	22.09	91,966,646	22.35
AA3	84,024,313	24.76	75,019,713	18.23
AA+	33,747,718	9.94	53,941,202	13.11
A1	44,716,272	13.17	38,923,168	9.46
	319,187,075	94.04	379,614,199	92.26

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(c) Credit risk (cont'd)

(iii) Credit risk concentration (cont'd.)

Deposits with financial institutions and interest receivable

	2014		2013	
	RM	As a % of NAV	RM	NAV
AAA	12,555,217	3.70	31,824,514	7.73
AA-	15,002,605	4.42	11,218,694	2.73
	27,557,822	8.12	43,043,208	7.73
Cash at bank				
AAA	219,777	0.06	6,400,170	1.56
	219,777	0.06	6,400,170	1.56

(d) Liquidity risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities or redeem its units earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units sold to Unitholders by the Manager are redeemable at the Unitholder's option based on the Fund's NAV per unit at the time of redemption calculated in accordance with the Fund's Trust Deed.

It is the Fund's policy that the Manager monitors the Fund's liquidity position on a daily basis. The Fund also manages its obligation to redeem units when required to do so.

The Manager's policy is to always maintain a prudent and sufficient level of liquid assets so as to meet normal operating requirements and expected redemption requests by Unitholders. Liquid assets comprise cash, deposits with financial institutions and other instruments which are capable of being converted into cash within 7 days.

The following table summarises the maturity profile of the Fund's financial assets, liabilities and Unitholders' capital to provide a complete view of the Fund's contractual commitments and liquidity. Balances due within six months equal their carrying amounts, as the impact of discounting is insignificant.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(d) Liquidity risk (cont'd)

2014	Less than 1 month RM	1 month - 1 year RM	1 year - 5 years RM	More than 5 year RM	Total RM
Financial assets					
AFS financial assets	-	-	139,099,100	176,834,372	315,933,472
Deposits with financial institutions	27,553,153	-	-	-	27,553,153
Other assets	3,478,049	-	-	-	3,478,049
Total undiscounted financial assets	31,031,202	-	139,099,100	176,834,372	346,964,674
Financial liabilities					
Other liabilities, representing total financial liabilities	7,550,667	-	-	-	7,550,667
Unitholders' capital	339,414,007	-	-	-	339,414,007
Liquidity (gap)/ surplus	(315,933,472)	-	139,099,100	176,834,372	-
2013					
Financial assets					
AFS financial assets	-	-	5,017,000	368,688,117	373,705,117
Deposits with financial institutions	43,039,685	-	-	-	43,039,685
Other assets	12,312,775	-	-	-	12,312,775
Total undiscounted financial assets	55,352,460	-	5,017,000	368,688,117	429,057,577

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(d) Liquidity risk (cont'd)

2013 (cont'd)

	Less than 1 month RM	1 month - 1 year RM	1 year - 5 years RM	More than 5 year RM	Total RM
Financial liabilities					
Other liabilities, representing total financial liabilities	17,578,727	-	-	-	17,578,727
Unitholders' capital	411,478,850	-	-	-	411,478,850
Liquidity (gap)/ surplus	(373,705,117)	-	5,017,000	368,688,117	-

Notes:

(i) Financial assets

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date on which the assets will be realised/maturity dates of debt securities.

(ii) Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Fund can be required to pay.

(iii) Unitholders' capital

As Unitholders can request for redemption on their units by giving the Manager a 5-day notice period, they have been categorised as having a maturity of "less than 1 month".

As a result, it appears that the Fund has a liquidity gap within "less than 1 month". However, the Fund believes that it would be able to liquidate its investments should the need arise to satisfy all the redemption requirements.

16 CAPITAL MANAGEMENT

The capital of the Fund can vary depending on the demand for redemptions and subscriptions to the Fund.

The Fund's objectives for managing capital are:

- (a) To invest in investments meeting the description, risk exposure and expected returns indicated in its prospectus;
- (b) To achieve consistent returns while safeguarding capital by using various investment strategies;
- (c) To maintain sufficient liquidity to meet the expenses of the Fund, and to meet redemption requests as they arise; and
- (d) To maintain sufficient fund size to make the operations of the Fund cost-efficient.

No changes were made to the capital management objectives, policies or processes during the current and previous financial years.