

managed by



THE FUND SEES TO GENERATE REASONABLE RETURNS CONSISTENT WITH LOW RISK FROM A PORTFOLIO CONSTITUTED OF HIGH QUALITY SHORT TERM INSTRUMENTS INCLUDING CASH DEPOSITS AND GOVERNMENT SECURITIES

THE FUND WILL MAINTAIN A HIGH DEGREE OF LIQUIDITY WITH WEIGHTED AVERAGE TIME TO MATURITY OF NET ASSETS NOT EXCEEDING 90 DAYS.

KASB CASH FUND



ANNUAL REPORT
June 30, 2014

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FUND INFORMATION

Management Company

KASB Funds Limited

Registered Office:

9th Floor, Trade Centre, I.I. Chundrigar Road, Karachi-74200, Pakistan

Principal Office

5th Floor, Trade Centre, I.I. Chundrigar Road, Karachi-74200, Pakistan

UAN: (92-21) 111 535 535

Fax: (92-21) 3263 9188

URL: www.kasbfunds.com

Audit Committee

Mr. Qaiser P. Mufti (Chairman)

Mr. Robert John Richard Owen

Mr. Muzaffar Ali Shah Bukhari

Board of Directors of KASB Funds Limited

Mr. Robert John Richard Owen - Chairman

Mr. Khuldoon Bin Latif - Chief Executive

Mr. Qaiser P. Mufti

Mr. Muzaffar Ali Shah Bukhari

Chief Financial Officer / Company Secretary

Syed Adnan Abdali

Human Resources and Remuneration Committee

Mr. Muzaffar Ali Shah Bukhari (Chairman)

Mr. Qaiser P. Mufti

Mr. Robert John Richard Owen

Trustee

MCB Financial Services Limited

3rd Floor, Adamjee House,

I.I. Chundrigar Road, Karachi.

Fund Rating

AA+(f)

Bankers to the Fund

Bank Alfalah Limited

Allied Bank Limited

KASB Bank Limited

Faysal Bank Limited

Auditors

KPMG Taseer Hadi & Co. - Chartered Accountants, First Floor, Shiekh Sultan Trust

Building No. 2, Beaumont Road,

P.O. Box 8517, Karachi.

Legal Advisor

Bawaney & Partners

Room No. 404, 4th Floor, Beaumont Plaza,

6-cl-10, Beaumont Road, Civil Lines,

Karachi-75530

Registrar

KASB Funds Limited

5th Floor, Trade Centre, I.I. Chundrigar

Road, Karachi-74200, Pakistan

Distributors

KASB Funds Limited

KASB Bank Limited

KASB Securities Limited

IGI Investment Bank Limited

Standard Chartered Bank (Pakistan) Limited

Management Company Rating

Rated AM3

MISSION STATEMENT

The Fund aims to generate reasonable returns consistent with low risk from a portfolio constituted of high quality short term instruments including cash deposits and government securities.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2014

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Cash Fund (KCF, the Fund), is pleased to present the Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2014.

Financial Highlights

	FY 2014	FY 2013	Increase / (Decrease) (%)
Net Income (Rs. in million)	97.794	122.653	(24.86)
Net Assets as at June 30 (Rs. in million)	1064.278	1,109.578	(25.30)
NAV per Unit as on June 30 (Rs.)**	101.8278*	102.7792*	(0.95)
Return (%)	8.51	9.17	(0.66)

* Ex-NAV after final distribution.

** Par value of each unit is Rs. 100.

Economic Environment

On macroeconomic view, Pakistan's inflation remained on a higher side with Consumer Price Index (CPI) stood at 8.62% for the FY 2014 against 7.36% for FY 2013. The rise in inflation attributed to additional tax levies and sharp increase in food prices. During the period under review the current account deficit increased to more than USD 2.1Bn as compared USD 1.2Bn in FY 2013. Pakistan's overall Balance of Payment recorded a surplus of USD 3.843Bn on the back of USD 2Bn received through Eurobonds auction, USD1.5Bn through international aid and partial payment received from 3G/4G auction. Real GDP growth picked up to 4.14% in FY2014 as compared to 3.7% during FY2013. Pakistan's Large Scale Manufacturing (LSM) sector recorded a growth of 3.95% over its preceding year.

With increase in energy shortage, the industrial sector productivity moved downwards, hampering exports and increasing imports.

The forex reserves showed a handsome increase of 37.45% from USD 10.286Bn to USD 14.139Bn during the period ending FY 2014.

Money Market Review

With topline inflation stood at 8.62% for the year ending 2014 the State Bank of Pakistan (SBP) decided to raise the discount rate by 100bps from 9% to 10%. During the period under review, the Government of Pakistan (GOP) borrowed PKR 6.46Tn through Tbill auctions with last cut off yield standing at 9.9564%, 9.9685%, 9.99% for 3 Months, 6 Months and 12 Months respectively. Furthermore GOP also borrowed a total of PKR 1.91Tn through PIB auctions with last cut off yield standing at 12.0970%, 12.5505%, 12.9980% and 13.007% for 3 Year, 5 Year, 10 Year and 20 Year respectively.

Capital Markets

The equity market ended the year with an impressive 41% return mainly due to better political environment, economic recovery and improved corporate results. During the period under review foreign investors were net buyers amounting to USD 262mn. With corporate earnings showing a growth of 16% YoY the stock market looked attractive for year ending FY 2014.

Investment Strategy

KCF seeks to generate long term capital appreciation and income, from portfolio that is substantially constituted of equity and equity related securities. The fund aims to maximize total returns and outperform the benchmark.

The Fund strives to invest in fundamentally undervalued stocks that have business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management.

Fund Performance

For the year ended June 30, 2014 the Fund earned a return of 8.51% as against the benchmark return of 7.04% and the Net Asset Value per unit of the fund at the close of the period stood at Rs. 101.8278. The net income for the year ended June 30, 2014 is Rs 97.794 million.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2014

Income Distribution

The Board of Directors of KASB Funds Limited approved the dividend distribution of Rs. 92,572 million to the unit holders of the Fund for the year ended June 30, 2014.

As the Fund has distributed among the unit holders not less than ninety per cent of its accounting income for the period ended June 30, 2014, as reduced by capital gains whether realized or unrealized, therefore, its income will not be subject to income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

Sale and redemption of units

The fund size of KCF was Rs. 1,109,578 million on June 30, 2013. During the year, units worth Rs. 1,314,636 million were issued and units with a value of Rs. 1,415,604 million were redeemed. As on June 30, 2014, the total number of outstanding units was 10,648,156 with a value of Rs. 1,084,278 million.

Code of Corporate Governance

The Board of Directors states that:

- a) The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund.
- b) Proper books of accounts of the Fund have been maintained.
- c) Appropriate accounting policies have been adopted for preparation of financial statements of the Fund and accounting estimates are based on reasonable and prudent judgments.
- d) Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed in the preparation of the financial statements of the Fund. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Regulations 2008 and the said directives shall prevail.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts about the Fund's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- i) Key operating and financial data is enclosed.
- j) The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company.
- k) The detailed pattern of unit holding, as required by the code of corporate governance is enclosed.

Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2014 is disclosed in note 21.3 of the financial statements.

During the year, no trades were carried out in the units of the Fund by the Directors, CEO, Company Secretary & CFO, and their spouses and minor children, of the Management Company.

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2014, individuals held 23.11% out of the total units; associated companies held 26.25% units; Retirement Funds held 1.71% units and 48.93% units held by other entities. Detailed pattern is also annexed.

Future Outlook

Lowered subsidies, appreciated Pak Rupee, and stable CPI outlook are expected to lead the country towards positive direction. The outlook of external account for FY 2015 seems stable as inflows will add to the foreign reserves. However, almost \$ 2Bn is scheduled to be repaid to IMF in FY 2014-15. Therefore a close watch on the foreign reserves will be important.

Going forward the Government of Pakistan in view of the fiscal side should plan and implement a strategy which will enable them to fulfill their tax targets.

The equity market returns is expected to remain in double digits as corporate earnings growth is likely to maintain its ongoing momentum due to structural reforms on macro level. However political and natural risks will be key elements to keep an eye on.

KASB CASH FUND

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2014

Auditors

The Board of Directors, on recommendation of Board Audit Committee approved re-appointment of M/s KPMG Taseer Hadi & Co. - Chartered Accountants as auditors of KASB Income Opportunity Fund for the financial year ending June 30, 2015.

Acknowledgement

The Board of Directors of the Management Company thanks the Fund's valued investors, the Securities and Exchange Commission of Pakistan, The State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee) for their confidence, continued cooperation and support. The Directors also appreciate the efforts put in by the management team.

For and on behalf of the Board

**August 13, 2014
Karachi**

**Khaldoon Bin Latif
Chief Executive**



PERFORMANCE TABLE

	FY 2013	FY 2012	FY 2011	FY 2010
Net Asset as of June 30	1,084,279,433	1,109,578,366	1,122,460,816	591,811,366
net asset value per share or certificate as of June 30	101.8279	101.7792	104.4926	103.3587
Selling price for units as of June 30	102.8565	103.8174	105.5481	104.4027
Repurchase price for units as of June 30	101.8279	102.7792	104.4926	103.3587
highest selling price	104.5543	105.21	108.13	104.4
highest repurchase price	103.5087	105.1527	107.0524	103.36
lowest selling price	102.7469	103.4	101.12	101.25
lowest repurchase price	101.6524	101.919	100.2822	100.24
Distributions:				
<i>Interim</i>				
1st	0.38	2.8	4.00	2.50
2nd	0.62	0.7	3.00	2.00
3rd	0.59	0.72	NIL	2
4th	0.6	0.65	NIL	1.5
5th	0.61	0.6	NIL	NIL
6th	0.63	0.67	NIL	NIL
7th	0.65	0.61	NIL	NIL
8th	0.6	0.65	NIL	NIL
9th	0.5	0.76	NIL	NIL
10th	0.6	NIL	NIL	NIL
11th	0.59	NIL	NIL	NIL
12th	1.8	NIL	NIL	NIL
Final	NIL	1.15	2.6	3.25
Average annual return of the Collective Investment Scheme:				
For the period of one year	8.51%	9.17%	11.58%	11.74%
For the period of two years	15.52%	21.86%	24.72%	21.62%
For the period of three years	28.07%	36.17%	35.75%	21.62%
Since inception (date of launch)	60.82%	48.21%	35.75%	21.62%
Weighted average portfolio duration (in case of income and money market funds)				
	58 days	29 days	18 days	75 days
total return of the Collective Investment Scheme, breakdown into:				
Capital growth	0.19%	0.85%	4.24%	3.19%
Income distributions	8.32%	8.33%	7.35%	8.55%

Disclaimer:

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

ANNUAL FUND MANAGERS' REPORT

1. Type & Category of Fund

Open-End Money Market

2. Inception Date

August 12, 2009

3. Investment objective

The Fund seeks to generate reasonable returns consistent with low risk from a portfolio constituted of high quality short term instruments including cash deposits and government securities.

4. Accomplishment of objective

The Fund is achieving its objective of generating regular income by investing in low duration cash deposits and government securities within the guidelines provided under NBFC rules.

5. Benchmark

20% Avg. Daily Saving A/C Rates + 80% Avg. Of 3 Months Deposit Rate of AA & Above Rated Scheduled Bank.

6. Performance Return

	KCF Return	Benchmark return
Since inception	12.45%	7.21%
1 Year	8.51%	7.04%
Last 6 months	8.55%	7.34%
Last 3 months	8.50%	7.44%
For the month	8.47%	7.55%

7. Strategies and policies employed during the period

The government borrowed PKR 6.46Tn through Tbill auctions and PKR 1.91Tn through PID auctions during FY 14. The government papers remained quite volatile during the year where financial institutions showed greater interest in PIBs compared to preceding year. SBP raised the discount rate by 100Bps during FY14 from 9% to 10%. During FY14 the fund primarily focused on placing funds at attractive yields and record gains where ever possible through Tbill trading, to provide consistent returns to its investors.

8. Weighted Asset allocation

Asset Allocation	June 30, 2014	June 30, 2013
T-bills	48.96%	17.59%
Placements	41.28%	79.72%
Cash & cash equivalents	9.43%	1.31%

9. Significant changes in asset allocation during the period

In the first half of FY14 the fund mainly consisted of placements in order to provide consistent returns. Later part of FY 14 the portfolio maintained a balance between Tbills and Placements to keep consistently inline with changes in the secondary market yields and policy rate expectations.

10. Fund Performance

While the benchmark (20% daily saving account rate + 80% 3-Month deposit rate) of the Fund posted an annualized return of 7.21%, the Fund recorded an annualized return of 12.45% since inception thereby outperforming its benchmark by 5.24% while the three months return for the benchmark and the Fund was recorded at 7.44% and 8.50% respectively.

The AUM of the Fund were PKR 1.11 billion (NAV per unit: Rs 102.7792) on June 30, 2013 and at the end of the period the AUM of the Fund stood at PKR 1.08 billion (NAV per unit: Rs 101.8279).

ANNUAL FUND MANAGERS' REPORT

11. Review of the market(s) invested in during the period

On macroeconomic view, Pakistan's inflation remained on a higher side with Consumer Price Index (CPI) stood at 8.62% for the FY 2014 against 7.36% for FY 2013. During the period under review the current account deficit increased to more than USD 2.1Bn as compared USD 1.2Bn in FY 2013. Pakistan's overall Balance of Payment recorded a surplus of USD 3.843Bn on the back of USD 2Bn received through Eurobonds auction, USD 4.5Bn through international aid and partial payment received from 3G/4G auction.

Real GDP growth picked up to 4.14% in FY2014 as compared to 3.7% during FY2013. Pakistan's Large Scale Manufacturing (LSM) sector recorded a growth of 3.95% over its preceding year.

With increase in energy shortage, the industrial sector productivity moved downwards consequently hampering exports and increasing imports.

The forex reserves showed a handsome increase of 37.45% from USD 10.286Bn to USD 14.139Bn for the period ending FY 2014.

12. Fund performance by market(s) and by instruments

For details, please refer to the full yearly accounts.

13. Distribution

The Fund distributed Rs 8.17 during FY14, as per the following details:

Date of Distribution	Amount of Distribution (PKR)
22-Jul-13	0.38
22-Aug-13	0.62
22-Sep-13	0.59
23-Oct-13	0.6
21-Nov-13	0.61
24-Dec-13	0.63
24-Jan-14	0.65
24-Feb-14	0.6
24-Mar-14	0.5
24-Apr-14	0.6
25-May-14	0.59
26-Jun-14	1.8

14. Significant changes in the state of affairs

No significant change in affairs were witnessed.

15. Breakdown of unit holdings by size

Breakdown of unit holdings by size is same as in the director's report.

16. Unit Splits

There were no unit splits during the period.

17. Circumstances materially affecting the interests of the unit holders

No material impact on unit holder's interest

18. Soft Commission

The management company received soft commission from the brokers in the form of research reports which were sent in both soft and hard copies.

KASB CASH FUND

TRUSTEE REPORT TO THE UNIT HOLDERS OF KASB CASH FUND

Report of the Trustee Pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulation, 2008

KASB Cash Fund, an open-end scheme established under a Trust Deed dated June 08, 2009 executed between KASB Funds Limited, as the Management Company and MCB Financial Services Limited, as the Trustee. The Scheme was authorized by Securities and Exchange Commission of Pakistan (Commission) on June 03, 2009.

1. KASB Funds Limited, the Management Company of KASB Cash Fund, has in all material respects, managed KASB Cash Fund during the year ended June 30, 2014 in accordance with the provisions of the following:
 - (i) Investment 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 my regulatory requirement;
 - (iii) the creation and cancellation of units are carried out in accordance with the deed;
 - (iv) and any regulatory requirement.

Karachi: September 8, 2014

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, 2014

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Regulation No 35 of the Listing Regulations of the Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance. The Board of Directors (the Board) of KASB Funds Limited (the Management Company), an unlisted public company, manages the affairs of KASB Cash Fund (the Fund). The Fund being a unit trust open end scheme does not have its own Board of Directors. The Management Company has applied the principles contained in the Code to the Fund, whose units are listed as a security on the Exchange, in the following manner:

- The Management Company encourages representation of independent non-executive directors. At present, the Board includes:

Category	Names
Independent Directors	Mr. Qaisar P. Mufti Mr. Robert C. Richard Owen
Non-Executive Directors	Mr. Muzaffar Ali Shah Bukhari
Executive Directors	Mr. Khaldoon Bin Latif

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

- The directors have confirmed that none of them are serving as a director in more than seven listed companies, including KASB Funds Limited (excluding the listed subsidiaries of listed holding companies where applicable).
- All the resident directors of the Management Company are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, have been declared as a defaulter by that stock exchange.
- During the year Mr. Amer Maqbool resigned as Chief Executive Officer of the Company and appointment of Mr. Khaldoon Bin Latif as Chief Executive Officer in compliance of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, and Non-Banking Finance Companies and Notified Entities Regulations, 2008.
- The Management Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
- The Board has developed a vision / mission statement, an overall corporate strategy and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.
- All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive and non-executive directors have been taken by the Board.
- The meetings of the Board were presided over by the Chairman 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.
- The Management Company has conducted an orientation course for its directors to apprise them of their duties and responsibilities.
- During the year, there was no change of the Company Secretary and Chief Financial Officer (CFO).
- During the year, there was no change of Internal Auditors of the Company which is outsourced to firm of Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
- The Directors' report relating to the Fund for the year ended June 30, 2014 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The financial statements of the Fund were duly endorsed by the CEO and CFO of the Management Company before approval of the Board.
- The Directors, CEO, and executives do not hold any interest in the units of the Fund other than those disclose in pattern of unit holders of the Fund.
- The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
- The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee who is an independent director.
- The meetings of the Audit Committee were held at least once in every quarter and prior to the approval of interim and final results of the Fund as required by the Code. The terms of reference have been approved in the meeting of the Board and the Committee has been advised to ensure compliance with those terms of reference.
- The Board has formed a Human Resource and Remuneration committee. It comprises of three members including the Chairman of the Committee who is a non-executive director.
- The board has set up an effective internal audit function which comprises of personnel who are considered suitably qualified and experienced for the purpose and are conversant with policies and procedures of the company.
- 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 the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
- 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.
- The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
- Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
- We confirm that all other material principles enshrined in the the Code have been complied with.

For and on behalf of Board of Directors

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

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

Management Company's responsibility for the financial statements

The 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 management 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 about 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 statement of financial position as at 30 June 2014, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2006.

Date: 13 August 2014

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

REVIEW REPORT TO THE UNIT HOLDERS OF KASB CASH FUND "THE FUND" ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

Review report to the Unit holders of KASB Cash Fund "The Fund" 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 ("Statement of Compliance") prepared by the Board of Directors of KASB Funds Limited ("the Management Company") of the Fund to comply with the Listing Regulations no.35 (the listing regulations) of Karachi Stock Exchange Limited, where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code. As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks. The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not. Management Company has not place related party transactions before Audit Committee.

Following instances of non-compliance with the requirements of the Code were observed which are not stated in the Statement of Compliance:

- i. Regulation 35 (v) (a) requires the board of directors of a listed company shall ensure that professional standards and corporate values are put in place that promote integrity for the board, senior management and other employees in the form of a Code of Conduct, defining therein acceptable and unacceptable behaviours. The board shall take appropriate steps to disseminate Code of Conduct throughout the company along with supporting policies and procedures and these shall be put on the company's website. However, the Management Company has not placed Code of Conduct on its website.
- ii. Regulation 35 (v) (e) requires board of directors to put in place a mechanism for an annual evaluation of the board's own performance. However, the Board of Directors has not put in place mechanism for its annual performance evaluation.
- iii. Regulation 35 (v) (g) requires the board of directors to define the level of materiality, keeping in view the specific circumstances of the company and the recommendations of any technical or executive subcommittee of the board that may be set up for the purpose. However, the Board of Directors has not defined materiality level.
- iv. Regulation 35 (xxvi) requires the names of members of the committees of the board shall be disclosed in annual report. However, we noted that name of members of Human Resource and Remuneration Committee is not disclosed in annual report.

Based on our review, except for the above instances of non-compliance, 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 for the year ended 30 June 2014.

Date: August 13, 2014

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

KASB CASH FUND

STATEMENT OF ASSETS AND LIABILITIES

For the year ended June 30, 2014

	Note	2014	2013
----- (Rupees in '000)-----			
Assets			
Balances with banks	4	102,789	514,601
Income receivable	5	2,982	14,051
Placements	6	450,000	390,000
Investments	7	533,786	196,400
Prepayments and other receivables	8	694	699
Preliminary expenses and floatation costs	9	66	766
Total assets		1,090,317	1,116,517
Liabilities			
Payable to Management Company of the Fund	10	2,605	1,610
Payable to MCB Financial Services Limited - Trustee	11	156	154
Payable to the Securities and Exchange Commission of Pakistan - Annual fee	12	898	1,029
Accrued expenses and other liabilities	13	2,380	4,146
Total liabilities		6,039	6,939
Net assets		1,084,278	1,109,578
Unit holders' funds		1,084,278	1,109,578
(Number of units)			
Number of units in issue		10,648,156	10,795,753
(Rupees)			
Net assets value per unit		101.8278	102.7792

The annexed notes 1 to 22 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

INCOME STATEMENT

For the year ended June 30, 2014

	Note	2014	2013
----- (Rupees in '000) -----			
Income			
Income from government securities		45,332	76,227
Income from placements		39,240	21,475
Income from term deposit receipts		24,583	29,651
Profit on bank deposits		6,830	9,265
Capital (loss) / gain on sale of investments - net		(103)	1,044
Net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' - held for trading	7.3	(202)	59
Total income		115,690	137,721
Expenses			
Remuneration of Management Company of the Fund - including taxes and duties thereon	10	12,644	12,607
Remuneration of Trustee of the Fund	11	1,956	2,123
Annual fee - Securities and Exchange Commission of Pakistan	12	898	1,029
Transaction costs on securities		209	145
Settlement and bank charges		69	71
Professional charges		-	40
Fees and subscription		241	242
Auditors' remuneration	14	336	317
Amortization of preliminary expenses and floatation costs		700	702
Provision for Worker's Welfare Fund	13.1	606	121
Printing and other expenses		97	-
Total expenses		17,756	17,397
		97,934	120,324
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(140)	2,329
Net income for the year before taxation		97,794	122,653
Taxation	15	-	-
Net income for the year after taxation		97,794	122,653
Earnings per unit	16		

The annexed notes 1 to 22 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

DISTRIBUTION STATEMENT

For the year ended June 30, 2014

Note	2014	2013
	----- (Rupees in '000) -----	
Undistributed income - brought forward		
- Realised gains	13,699	29,087
- Unrealised gains / (losses)	59	(33)
	13,758	29,054
Net income for the year after taxation	97,794	122,653
Distributions to unit holders of the Fund		
Final distribution at the rate of Rs. 1.15 per unit for the year ended June 30, 2013 (2012: Rs. 2.6 per unit) <i>(Date of Distribution: July 4, 2013)</i>		
- Issue of 88,855 bonus units (2012: 216,439 units)	(9,030)	(22,047)
- Cash distribution	(3,385)	(5,882)
Interim distributions during the year	20.1	
- Issue of 721,840 bonus units (2013: 851,088 units)	(73,690)	(87,191)
- Cash distribution	(18,882)	(22,829)
	(104,987)	(137,949)
Undistributed income - carried forward	6,565	13,758
Undistributed income - carried forward		
- Realised gains	6,767	13,699
- Unrealised (losses) / gains	(202)	59
	6,565	13,758

The annexed notes 1 to 22 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the year ended June 30, 2014

	2014	2013
	----- (Rupees in '000) -----	
Net assets at the beginning of the year	1,109,578	1,122,461
Issue of 12,860,630 units (2013: 16,035,260 units)	1,314,636	1,648,492
Issue of 810,633 bonus units (2013: 1,067,526 bonus units)	82,721	109,238
Redemption of 13,818,860 units (2013: 17,049,047 units)	(1,415,604)	(1,752,988)
	(18,247)	-4,742
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	140	(2,329)
Net income for the year (excluding net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital (loss) / gain on sale of investments)	98,099	121,550
Net unrealised (diminution) / appreciation in fair value of investments classified as at 'fair value through profit or loss'	(202)	59
Capital (loss) / gain on sale of investments - net	(103)	1,044
	97,794	122,653
Distributions to the unit holders of the Fund		
Final distribution at the rate of Rs. 1.15 per unit for the year ended June 30, 2013 (2012: Rs. 2.6 per unit) <i>[Date of Distribution: July 4, 2013]</i>		
- Issue of 88,855 bonus units (2012: 216,439 units)	(9,030)	(22,047)
- Cash distribution	(3,385)	(5,882)
Interim distributions during the year		
- Issue of 721,840 bonus units (2013: 851,088 units)	(73,690)	(87,191)
- Cash distribution	(18,882)	(22,829)
	(104,967)	(137,949)
Net assets at the end of the year	<u>1,084,278</u>	<u>1,109,578</u>
	(Rupees)	
Net asset value per unit as at beginning of the year	<u>102.7792</u>	104.4926
Net asset value per unit as at end of the year	<u>101.8278</u>	102.7792

The annexed notes 1 to 22 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

KASB CASH FUND

CASH FLOW STATEMENT

For the year ended June 30, 2014

	2014	2013
	----- (Rupees in '000)-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year after taxation	97,794	122,653
<i>Adjustments for non cash and other items:</i>		
Net unrealised diminution / (appreciation) in fair value of investments classified as 'at fair value through profit or loss' - held for trading	202	(59)
Net realised element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	140	(2,329)
Amortisation of preliminary expenses and floatation costs	700	702
	<u>98,836</u>	<u>120,967</u>
(Increase) / decrease in assets		
Income receivable	11,069	(12,351)
Placements	(60,000)	(390,000)
Investments	(337,587)	615,743
Prepayments and other receivables	5	(38)
	<u>(386,513)</u>	<u>213,354</u>
(Decrease) / increase in liabilities		
Payable to Management Company of the Fund	995	243
Payable to MCB Financial Services Limited - Trustee	2	5
Payable to the Securities and Exchange Commission of Pakistan - Annual fee	(131)	489
Accrued expenses and other liabilities	(1,766)	2,123
	<u>(900)</u>	<u>2,860</u>
Net cash (used in) / generated from operating activities	<u>(288,577)</u>	<u>337,181</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash distribution	(22,267)	(28,711)
Receipts from issuance of units	1,314,636	1,648,492
Payments on redemption of units	(1,415,604)	(1,752,988)
Net cash used in financing activities	<u>(123,235)</u>	<u>(133,207)</u>
Net (decrease) / increase in cash and cash equivalents during the year	<u>(411,812)</u>	<u>203,974</u>
Cash and cash equivalents at beginning of the year	514,601	310,627
Cash and cash equivalents at end of the year	<u>102,789</u>	<u>514,601</u>

The annexed notes 1 to 22 form an integral part of these financial statements.

For KASB Funds Limited
(Management Company)

Chief Executive

Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Cash Fund ("the Fund") was established under a Trust Deed executed on June 8, 2009 between KASB Funds Limited as Management Company and MCB Financial Services Limited as Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on June 3, 2009 in accordance with the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008. In conformity with Circular 7 of 2009 dated March 6, 2009 issued by the SECP, the Fund has been assigned "Money Market" category.

The Management Company of the Fund has been licensed to undertake asset management and investment advisory services as non-banking finance company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) issued by the SECP. The registered office of the Management Company is situated at 9th Floor, Trade Centre, I. I. Chundrigar Road, Karachi, Pakistan. JCR-VIS has assigned management quality rating of AM3 to the Management Company and has downgraded the Fund Stability Rating (FSR) of the Fund at AA(P). During the year license issued by the SECP to management company to undertake asset management services expired for which management has applied for its renewal. The renewal is pending for approval by SECP. Management considers that irrespective of renewal of license, the Fund's net assets value remain unaffected.

The SECP vide letter no. SCD/PR&DD/AMCW/CAML&KFL/333/2010 dated July 15, 2011 has sanctioned the Scheme of Arrangement of acquisition and simultaneous merger of Crosby Asset Management (Pakistan) Limited ("CAMPL") with and into KASB Funds Limited ("KFL") in terms of Section 262L of the Companies Ordinance, 1984 and the rights to manage Crosby Dragon Fund, Crosby Phoenix Fund and AMZ Plus Income Fund have been transferred to KFL with effect from July 20, 2011.

The Fund is an open-end money market fund and is listed on the Karachi Stock Exchange Limited. 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 the unit holder.

The Fund seeks to generate reasonable returns consistent with low risk from a portfolio constituted of high quality short term investments including cash deposits and government securities.

Title of the assets of the Fund are held in the name of MCB Financial Services Limited as trustee of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 New Standards, amendments to standards or interpretations which became effective during the year

During the year certain amendments to Standards or new Interpretations became effective. However, the amendments or interpretations did not have any material effect on the financial statements of the Fund except increase in disclosures, if any.

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

A number of new Standards, amendments to Standards and interpretations are effective for annual periods beginning on or after July 1, 2014. None of these are expected to have a significant effect on the financial statements of the Fund except the following set out below:

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 1, 2014).
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after January 1, 2014).

2.3 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that certain financial assets are measured at fair value.

2.4 Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

2.5 Critical accounting 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 reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods. In particular, information about assumption and estimation uncertainties that have a significant risk of resulting in material adjustment within the next financial year as well as critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

Investments stated at fair value

The Management Company has determined fair value of certain investments by using quotations from active market valuation done by Financial Markets Association of Pakistan. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgments (e.g. valuation, interest rates, etc.) and therefore can not be determined with precision.

Other assets

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

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently in the preparation of these financial statements. At present, the Fund has no item to be reported in other comprehensive income. Hence no such statement is prepared and net income for the current and comparative year is equal to total comprehensive income.

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) 'At fair value through profit or loss'

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

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

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

b) 'Available-for-sale'

'Available for sale' financial assets are non-derivative that are either designated in this category or not classified in any other category.

c) Loans and receivables

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

d) Financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not as 'at fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instruments. Transaction costs on financial instruments as 'at fair value through profit or loss' are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as 'at fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising from changes in the fair value of the financial assets as 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Unit Holders' Funds until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Funds are included in the Income Statement. The financial instruments classified as loans and receivables are subsequently measured at amortized cost less provision for impairment, if any.

Fair value measurement principles

The fair value of the investments in government securities is determined by reference to the quotations obtained from the PKRV sheet on the Reuters page.

Securities under repurchase/ resale agreements

Transactions of purchase under resale (reverse-repo) of marketable and government securities are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the Statement of Assets and Liabilities. Amounts paid under these agreements are recognised as receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the agreement. All reverse repo transactions are accounted for on the settlement date.

Impairment

Financial assets not carried as 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment.

A financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of assets and that loss events had an impact on the future cash flows of that assets and that can be estimated reliably. An impairment loss in respect of financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Any subsequent decrease in impairment loss on debt securities classified as 'available-for-sale' is recognised in Income Statement.

The Board of Directors of the Management Company has formulated a comprehensive policy for marking provision against non performing investments in compliance with Circular issued by the SECP.

Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial assets expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retain substantially all the risks and rewards of ownership and does not retain control of the financial assets.

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

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.2 Unit holders' funds

Unit holders' funds representing the units issued by the Fund, is carried at the net assets value representing the investors' right to a residual interest in the Fund assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

3.3 Issue and redemption of units

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

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

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

An equalisation account called the "element of income / (loss) 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.

The element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognized in income statement and the remaining portion of element of income / (loss) and capital gains / (losses) held in separate reserve account at the end of an accounting period (whether gain or loss) is included in amount available for distribution to the unit holders.

3.5 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, 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 and adjusted to reflect the current best estimate.

3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortized over a period of five years commencing from the last day of the IPO period as per the Trust Deed of the Fund.

3.7 Net asset value per unit

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

3.8 Taxation*Current*

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than ninety percent of its accounting income of the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the Fund's unit holders.

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

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

3.9 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 as 'at fair value through profit or loss' are included in the Income Statement in the period in which they arise.
- Income on government securities and debt securities is recognised on time proportion basis using the effective interest rate method.
- Profit on bank deposit is recognised on time proportion basis using effective interest rate method.

3.10 Expenses

All expenses including Management fee, Trustee fee and SECP annual fee are recognized in the Income Statement on an accrual basis.

3.11 Cash and cash equivalents

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

3.12 Other assets

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

3.13 Dividend distributions and appropriations

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

4 BALANCES WITH BANKS

		2014	2013
		----- (Rupees in '000)-----	
In saving accounts	4.1	102,789	14,601
In term deposit receipts		-	500,000
		<u>102,789</u>	<u>514,601</u>

4.1 These saving accounts carry mark up ranging from 7% to 9.75% per annum (2013: 6% to 8.35% per annum).

5. INCOME RECEIVABLE

		2014	2013
		----- (Rupees in '000)-----	
Income accrued on bank deposits		284	109
Income accrued on term deposit receipts and placements		2,698	13,942
		<u>2,982</u>	<u>14,051</u>

6. PLACEMENTS

This represents placements with Pak Brunel Investment Company Limited and Pair Investment Company Limited (2013: Saudi Pak Industrial and Agricultural Investment Company Limited) and carries profit at the rate of 13.40% and 13.45% (June 30, 2013: 13.42%) and having maturity of 70 and 46 days (June 30, 2013: 20 days) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

6. PLACEMENTS

This represents placements with Pak Brunei Investment Company Limited and Pair Investment Company Limited (2013: Saudi Pak Industrial and Agricultural Investment Company Limited) and carries profit at the rate of 13.40% and 13.45% (June 30, 2013: 13.42%) and having maturity of 70 and 46 days (June 30, 2013: 20 days) respectively.

7. INVESTMENTS

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

'At fair value through profit or loss'

- Fixed income securities

7.2

533,786

196,400

7.1 The cost of the above investments as at June 30, 2014 amounted to Rs. 533.988 million (2013: 196.341 million).

7.2 Fixed income securities - 'at fair value through profit or loss' - held for trading

7.2.1 Government securities - treasury bills

Issue date	As at July 1, 2013	Purchases during the year	Sales during the year	Maturities during the year	As at June 30, 2014	Carrying value as at June 30, 2014	Market value as at June 30, 2014	Appreciation/ (diminution)	Market value as a percentage of total investments
	----- (Face value)-----					----- (Rupees in '000)-----			
June 30, 2014									
1 Year (Tenor)									
July 26, 2012	177,500	-	65,000	112,500	-	-	-	-	-
August 9, 2012	-	282,000	282,000	-	-	-	-	-	-
September 6, 2012	-	335,000	-	335,000	-	-	-	-	-
September 20, 2012	-	370,000	370,000	-	-	-	-	-	-
November 1, 2012	-	420,000	420,000	-	-	-	-	-	-
6 Months (Tenor)									
January 27, 2013	-	670,000	480,000	210,000	-	-	-	-	-
May 5, 2013	-	100,000	100,000	-	-	-	-	-	-
June 2, 2013	-	125,000	125,000	-	-	-	-	-	-
March 23, 2014	-	400,000	-	-	400,000	391,779	391,576	(203)	73.36
						391,779	391,576	(203)	
3 Months (Tenor)									
April 18, 2013	20,000	-	-	20,000	-	-	-	-	-
July 6, 2013	-	500,000	500,000	-	-	-	-	-	-
September 14, 2013	-	1,285,000	750,000	535,000	-	-	-	-	-
September 28, 2013	-	300,000	150,000	150,000	-	-	-	-	-
October 12, 2013	-	35,000	-	35,000	-	-	-	-	-
October 12, 2013	-	45,000	-	45,000	-	-	-	-	-
November 23, 2013	-	160,000	85,000	75,000	-	-	-	-	-
November 23, 2013	-	135,000	-	135,000	-	-	-	-	-
December 7, 2013	-	465,000	40,000	425,000	-	-	-	-	-
December 7, 2013	-	50,000	-	50,000	-	-	-	-	-
December 21, 2013	-	100,000	-	100,000	-	-	-	-	-
January 18, 2014	-	575,000	370,000	205,000	-	-	-	-	-
February 5, 2014	-	570,000	280,000	290,000	-	-	-	-	-
March 1, 2014	-	100,000	-	100,000	-	-	-	-	-
April 12, 2014	-	400,000	400,000	-	-	-	-	-	-
April 26, 2014	-	250,000	130,000	-	120,000	119,261	119,260	(1)	22.34
April 11, 2014	-	23,000	-	-	23,000	22,948	22,950	2	4.30
						142,209	142,210	1	
						533,988	533,786	(202)	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

Issue date	As at July 1, 2012	Purchases during the year	Sales during the year	Maturities during the year	As at June 30, 2013	Carrying value as at June 30, 2013	Market value as at June 30, 2013	Appreciation/ (Diminution)	Market value as a percentage of total investments
	----- (Face value) -----					----- (Rupees in '000) -----			
June 30, 2013									
1 Year (Tenor)									
August 11, 2011	-	260,000	-	260,000	-	-	-	-	-
August 25, 2011	-	225,000	200,000	25,000	-	-	-	-	-
September 8, 2011	-	250,000	-	250,000	-	-	-	-	-
October 6, 2011	-	238,000	-	238,000	-	-	-	-	-
October 20, 2011	-	597,000	-	597,000	-	-	-	-	-
November 3, 2011	-	540,000	-	540,000	-	-	-	-	-
February 9, 2012	-	40,000	-	40,000	-	-	-	-	-
August 9, 2012	-	500,000	500,000	-	-	-	-	-	-
July 26, 2012	-	230,000	52,500	-	177,500	176,392	176,449	57	89.84
						176,392	176,449	57	
6 Months (Tenor)									
January 26, 2012	-	410,000	20,000	390,000	-	-	-	-	-
April 5, 2012	-	20,000	-	20,000	-	-	-	-	-
May 3, 2012	-	43,000	-	43,000	-	-	-	-	-
May 17, 2012	-	110,000	-	110,000	-	-	-	-	-
May 31, 2012	-	20,000	20,000	-	-	-	-	-	-
July 12, 2012	-	175,000	175,000	-	-	-	-	-	-
July 26, 2012	-	930,000	740,000	190,000	-	-	-	-	-
August 9, 2012	-	700,000	250,000	450,000	-	-	-	-	-
September 6, 2012	-	1,135,000	785,000	350,000	-	-	-	-	-
October 4, 2012	-	300,000	300,000	-	-	-	-	-	-
October 18, 2012	-	200,000	200,000	-	-	-	-	-	-
November 1, 2012	-	692,000	602,000	90,000	-	-	-	-	-
November 15, 2012	-	470,000	470,000	-	-	-	-	-	-
January 24, 2013	-	190,000	190,000	-	-	-	-	-	-
August 23, 2012	-	760,000	460,000	300,000	-	-	-	-	-
September 20, 2012	-	370,000	370,000	-	-	-	-	-	-
3 Months (Tenor)									
April 18, 2012	815,000	-	-	815,000	-	-	-	-	-
May 3, 2012	-	265,000	-	265,000	-	-	-	-	-
May 17, 2012	-	530,000	-	530,000	-	-	-	-	-
May 31, 2012	-	240,000	50,000	190,000	-	-	-	-	-
June 14, 2012	-	1,015,000	20,000	995,000	-	-	-	-	-
June 28, 2012	-	890,000	200,000	690,000	-	-	-	-	-
July 26, 2012	-	70,000	-	70,000	-	-	-	-	-
August 9, 2012	-	121,500	-	121,500	-	-	-	-	-
August 23, 2012	-	35,000	-	35,000	-	-	-	-	-
September 20, 2012	-	250,000	75,000	175,000	-	-	-	-	-
October 18, 2012	-	325,000	195,000	130,000	-	-	-	-	-
November 15, 2012	-	100,000	60,000	40,000	-	-	-	-	-
December 13, 2012	-	20,000	-	20,000	-	-	-	-	-
January 24, 2013	-	10,000	10,000	-	-	-	-	-	-
February 7, 2013	-	25,000	25,000	-	-	-	-	-	-
February 21, 2013	-	305,000	305,000	-	-	-	-	-	-
March 21, 2013	-	300,000	70,000	230,000	-	-	-	-	-
April 18, 2013	-	20,000	-	-	20,000	19,949	19,951	2	10.16
						19,949	19,951	2	
						196,341	196,400	59	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

7.2.2 The yield on above investment ranging from 9.6% to 9.9% per annum (2013: 9.4% to 9.6% per annum).

7.3 Net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' - held for trading	2014	2013
	----- (Rupees in '000) -----	
Market value of investments	533,786	196,400
Less: cost of investments	<u>(533,988)</u>	<u>(196,341)</u>
	<u>(202)</u>	<u>59</u>

8. PREPAYMENTS AND OTHER RECEIVABLES

	2014	2013
	----- (Rupees in '000) -----	
Prepaid brokerage	33	38
Others	<u>661</u>	<u>661</u>
	<u>694</u>	<u>699</u>

9. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs	766	1,468
Less: Amortisation during the year	<u>(700)</u>	<u>(702)</u>
	<u>66</u>	<u>766</u>

10. PAYABLE TO MANAGEMENT COMPANY OF THE FUND

Management fee payable	10.1	2,602	942
Sales load payable		<u>3</u>	<u>668</u>
		<u>2,605</u>	<u>1,610</u>

10.1 Under the provisions of Non Banking Finance Companies and Notified Entities Regulations, 2006, the Management Company of the Fund 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. During the year the Management Company has charged its remuneration at the rate of 2 percent per annum of the average annual net assets of the Fund and also includes Sindh Sales Tax and Federal Excise Duty levied at the rate of 16% on management fees.

The Finance Act, 2013 introduced an amendment to Federal Excise Act, 2005 where by Federal Excise Duty (FED) has been imposed at the rate of 16% on the services rendered by assets management companies. In this regard, a Constitutional Petition has been filed by certain Collective Investment Schemes (CISs) through their trustees in the Honourable Sindh High Court (SHC), challenging the levy of Federal Excise Duty on Asset Management Company services after the passage of eighteenth amendment. The SHC in its short order dated September 4, 2013 directed the Federal Board of Revenue (FBR) not to take any coercive action against the petitioners pursuant to impugned notices till next date of hearing. In view of uncertainty regarding the applicability of FED on asset management services, the management, as a matter of abundant caution, has decided to retain and continue with the provision of FED in these financial statements. In case, the suit is decided against the Fund it would be paid to management company, who will be responsible for submitting the same to taxation authorities.

11. PAYABLE TO MCB FINANCIAL SERVICES LIMITED - TRUSTEE

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed. The following tariff structure is applicable based on net assets of the fund.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

Net Assets of the Fund (Average NAV)

From Rs. 1 million to Rs 500 million

From Rs. 501 million to Rs 1,000 million

On an amount exceeding Rs 1,000 million

Tariff per annum

Rs. 0.7 million or 0.20% per annum of NAV, whichever is higher

Rs 1.0 million plus 0.15% per annum of NAV exceeding Rs 500 million

Rs 1.75 million plus 0.1% per annum of NAV exceeding Rs 1,000 million

12. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE

Under the provisions of the NBFC Regulations, 2008, 'money market scheme' is required to pay an amount equal to 0.075% of the average annual net assets of the Fund, as annual fee to the SECP.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2014	2013
	----- (Rupees in '000)-----	
Auditors' remuneration payable	286	260
Credit rating fee payable	213	212
Brokerage payable	71	3
Provision for Worker's Welfare Fund	13.7 1,760	1,154
Dividend payable	-	2,237
Others	50	280
	<u>2,380</u>	<u>4,146</u>

- 13.1 The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for an adjudication. The Board of Directors of the management company in their meeting held on March 12, 2014 have decided that the cumulative unrecognized portion of WWF charge till February 28, 2014 will be borne by the management company subject to court decision. The aggregate unrecognized amount as at February 28, 2014 amounted to Rs. 6.17 million (2013:Rs. 4.80 million). Further from March 1, 2014 and onwards the Fund has recognised the WWF charged amounting to Rs. 0.61 million in its books of accounts.

14. AUDITORS' REMUNERATION

	2014	2013
	----- (Rupees in '000)-----	
Audit fee	200	200
Half yearly review	50	50
Other certifications and services	50	50
Out of pocket expense	36	17
	<u>336</u>	<u>317</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

15. 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 realized or unrealized is distributed amongst the unit holders. Furthermore, as per regulation 63 of the NBFC Regulations, 2008 and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains to the unit holders. The Fund is also exempt from the provision of Section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. The management distributes at least 90% of the income earned by the Fund to the unit holders in the manner explained above. Consequently, no provision for taxation has been made in these financial statements.

16. EARNINGS PER UNIT

Due to the specific nature of open ended collective investment schemes in respect of daily issuance and redemptions of units, determination of weighted average number of units for calculation of earnings per unit is not practical.

17. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Related parties / connected persons include KASB Funds Limited being the Management Company, its related entities, Central Depository Company of Pakistan Limited being the Trustee of the Fund, other Funds managed by the Management Company and directors, key management personnel, officers of the Management Company, other associate companies and unit holders having more than 10% holding in the Fund.

The transactions with related parties / connected persons are in the normal course of business and are carried out at contracted rates and agreed terms.

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

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

17.1 Transactions with related parties / connected persons:

		2014	2013
----- (Rupees in '000) -----			
KASB Funds Limited			
Remuneration including taxes & duties thereon	10	9,400	10,798
Sales load		12,135	668
Investment in the Fund: 224,220 units (2013: Nil units)		23,000	-
Redemption from the Fund: 203,311 units (2013: 95,046 units)		20,874	9,712
Bonus units: 3,617 units (2013: 4,288 units)		369	441
Conversion in the Fund: Nil units (2013: 118,446)		-	12,150
Transfer out from the Fund: Nil units (2013: 168,082 units)		-	17,240
KASB Bank Limited			
Cash distribution		10,182	11,755
Profit received on bank deposits	17.4	233	-
Bank charges		4	2
KASB Bank Limited Employees' Provident Fund			
Redemption from the Fund: Nil units (2013: 105,904 units)		-	19,981
Bonus units: Nil units (2013: 6,814 units)		-	701
KASB Securities Limited - Brokerage House			
Brokerage expense	17.3	143	204
Redemption from the Fund: 727,498 units (2013: 97,437 units)		75,000	10,000
Bonus units: 120,291 units (2013: 74,977 units)		12,285	7,729
Investment in the Fund: 1,461,570 units (2013: Nil units)		150,000	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

	2014	2013
	----- (Rupees in '000) -----	
KASB Securities Limited Employees' Provident Fund		
Investment in the Fund: Nil units (2013: 108,695 units)	-	11,180
Redemption from the Fund: Nil units (2013: 103,521 units)	-	10,600
Bonus units: 10,616 units (2013: 9,120 units)	<u>1,083</u>	<u>938</u>
MCB Financial Services Limited - Trustee		
Remuneration	11 <u>1,956</u>	<u>2,123</u>
My Solutions Corporation Limited		
Investment in the Fund: 97,307 units (2013: Nil units)	<u>10,000</u>	-
Redemption from the Fund: 48,482 units (2013: Nil units)	<u>5,000</u>	-
Bonus units: 3,094 units (2013: Nil units)	<u>317</u>	-
KASB Corporation Limited (Formerly Sigma Corporation Limited)		
Investment in the Fund: 1,373,026 units (2013: 1,701,692 units)	<u>140,000</u>	174,929
Conversion out of the Fund: Nil units (2013: 1,286,357 units)	-	132,185
Redemption from the Fund: 1,798,306 units (2013: 192,630 units)	<u>183,873</u>	19,981
Bonus units: 39,344 units (2013: 73,252 units)	<u>4,012</u>	7,533
Gul Ahmed Energy Limited		
Investment in the Fund: 2,097,179 units (2013: Nil units)	<u>213,887</u>	-
Bonus units: 66,028 units (2013: Nil units)	<u>6,746</u>	-
Pakistan Telecommunication Company Limited		
Bonus units: 95,397 units (2013: Nil units)	<u>9,733</u>	-
Allied Bank Limited*		
Investment in the Fund: Nil units (2013: 682,385 units)	<u>70,000</u>	70,000
Redemption from the Fund: 976,141 units (2013: Nil units)	<u>100,000</u>	-
Cash distribution	<u>-</u>	15,841
Directors and Officers of the Management Company		
Investment in the Fund: 8,743 units (2013: 42,935 units)	<u>892</u>	4,410
Redemption from the Fund: 12,028 units (2013: 36,064 units)	<u>1,231</u>	3,727
Bonus units: 302 units (2013: 1,565 units)	<u>31</u>	870
Conversion in the Fund: Nil units (2013: 33,294 units)	-	705
Conversion out of the Fund: Nil units (2013: 39,368 units)	<u>-</u>	2,554

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

17.2 Balances with related parties / connected persons at year end:

KASB Funds Limited

Receivable from the Management Company
Payable to Management Company of the Fund
Units held: 55,984 units (2013: Nil units)

8	661	661
10	2,605	1,610
	<u>5,701</u>	<u>-</u>

KASB Bank Limited

Bank balance

	<u>1,020</u>	<u>1,751</u>
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Profit receivable on bank deposits
Units held: 1,092,502 units (2013: 1,092,502 units)

17.4	82	-
	<u>111,247</u>	<u>112,286</u>
	2014	2013

(Rupees in '000)

My Solutions Corporation Limited

Units held: 51,919 units (2013: Nil units)

	<u>5,287</u>	<u>-</u>
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KASB Securities Limited

Brokerage payable
Units held: 1,586,808 units (2013: 732,445 units)

17.3	71	3
	<u>161,581</u>	<u>75,280</u>

KASB Securities Limited Employees' Provident Fund

Units Held: 122,102 (2013: 111,486 units)

	<u>12,433</u>	<u>11,458</u>
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KASB Corporation Limited (Formerly Sigma Corporation Limited)

Units Held: 6,619 units (2013: 392,555 units)

	<u>674</u>	<u>40,346</u>
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Pakistan Telecommunication Company Limited

Units Held: 1,097,246 units (2013: Nil)

	<u>111,730</u>	<u>-</u>
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Allied Bank Limited *

June 30, 2013: 1,751,545 units

	<u>-</u>	<u>180,022</u>
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MCB Financial Services Limited - Trustee

Payable to Trustee of the Fund

17	<u>156</u>	<u>154</u>
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Directors and Officers of the Management Company

Units held: 89 units (2013: 7,143 units)

	<u>9</u>	<u>734</u>
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

- * Owing to redemption during the year, the holding of the unit holder was less than 10% of total outstanding unit in issue.
- 17.3 The amount disclosed represents the amount of brokerage paid to connected person and not the purchase or sale values of securities transacted through them. The purchase or sale values have not been treated as transactions with connected persons as ultimate counter parties are not connected persons.
- 17.4 The mark up on this deposit ranges from 7% to 8.5% per annum (2013: 6% to 8.4% per annum).

18. RISK MANAGEMENT

The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies. The management of these risks is carried out by investment committee under policies approved by the Board of Directors.

The Fund primarily invests in money market instrument and government securities with an objective of optimizing the return to unit holders.

The Fund has exposure to the following risks from financial instruments:

- Market risk
- Credit risk and
- Liquidity risk

18.1 Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market prices, such as interest rates, equity prices and foreign exchange rate. The objective of market risk management is to manage market risk exposure within acceptable parameters, while optimising the return.

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines and regulations laid down by the Securities and Exchange Commission of Pakistan (SECP).

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds fixed rate debt securities that expose the Fund to fair value rate risk due to fluctuations in prevailing levels of market interest rates.

As at June 30, 2014 the Fund is not exposed to any interest rate risk as it does not hold any floating rate instruments. The Fund also does not hold fixed rate instrument which exposes Fund to fair value interest rate risk.

Sensitivity analysis for fixed rate instruments

In case of 100 basis points increase / decrease in rates announced by Financial Markets Association of Pakistan on June 30, 2014, with all other variables held constant, the net income for the year and net assets would be lower / higher by Rs. 3.176 million (2013: Rs. 0.83 million). The fluctuation in interest of 100 basis points is reasonably possible in current economic environment.

The composition of the Fund's investment portfolio and rates announced by Financial Markets Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2014 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of change in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. As at June 30, 2014 the Fund does not hold any investment exposed to price risk, accordingly there shall be no impact on the net assets of the Fund. Further, the Fund is expecting minimal price fluctuation on its investment in government securities for change in factors other than those arising from interest rate or currency risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

18.2 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. It principally arises from balances with banks, placements, investments, income receivables and other receivables.

Credit risk management

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. However, for testing an investment for impairment the management does not consider the value of collaterals or other credit enhancements and follow the guidelines provided by the SECP via Circulars and other clarification circulars issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

Exposure to credit risk

The Fund's maximum credit exposure, without taking into account collateral and other credit enhancement, at the balance sheet date is represented by the respective carrying amount of relevant financial asset i.e. balances with banks, placements, investments, income receivable and other receivables reported in Statement of Assets and Liabilities.

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 counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

Balances with banks

As at June 30, 2014, the Fund kept surplus liquidity with banks having credit rating ranging from AA to BBB. The rating to respective banks are assigned by reputable credit rating agencies. During 2012, the rating of KASB Bank Limited was downgraded to BBB. The management company has obtained relaxation from SECP with respect of keeping surplus funds with banks not meeting criteria laid down by circular 7 of 2009. The SECP vide letter SCD/AMCW/MUFAP/451/ 2011 dated November 11, 2011 has granted exemption sought in this regard subject to keeping 0.25% of net assets with said bank. The respective limits were complied with at reporting date. The rating of the banks is monitored by the Fund Manager and Investment Committee.

Investment in fixed income securities

Investment in treasury bills do not expose the Fund to credit risk as the counterparty to the investment is the Government of Pakistan and management does not expect to incur any credit loss on such investments.

Investment in debt securities

Credit risk on debt investments is mitigated by making placements with financial institutions having sound credit rating. JCR-VIS Credit Rating Company Limited (JCR-VIS) has allotted 'AA+' as the medium to long-term entity rating and 'A-1+' as short term rating to Pak Brunei Investment Company Limited and Pakistan credit rating agency (PACRA) has allotted 'AA' as the medium to long-term entity rating and 'A1+' as short term rating to Pair Investment Company Limited. Since rating of the investee company is stable therefore, management does not expect to incur any credit loss on such investment.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. As at June 30, 2014 the Fund has investment in Letter of Placements (LoPs) with Pair Investment Company Limited and Pak Brunei Investment Company Limited, the investment constitute 41% of total assets and 42% of net assets, apart from LoPs, the Fund has an investment in government securities to which the management believes it has no material credit exposure.

Past due and impaired assets

No financial asset carried at amortised cost or cost were past due or impaired either as at June 30, 2014 or June 30, 2013. The management has not quantified the value of collaterals held against debt securities as management does not incorporate collaterals or other credit enhancements into its Credit risk management nor it considers the value of collateral while testing investments for impairment and follows the circulars issued by SECP for the purpose of making provision and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

18.3 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Fund. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. 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 applicable redemption price calculated in accordance with the Fund's constitutive documents and guidelines laid down by the SECP. Hence, unit holders' fund appearing in Statement of Assets and Liabilities represent the continuous obligation of the Fund for redemption by its holders.

Management of liquidity risk

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation. 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 10% of net assets at the time of borrowing with a condition of repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

The Board of Directors of the Management Company is empowered to impose a redemption gate, should redemption level exceed 10% of the net assets value of the Fund in any redemption period. The liquidity position of the Fund is monitored by the Fund Manager and Risk and Compliance Department on daily basis. The aim of the review is to ascertain the amount available for investment and also ensure sufficient liquidity is maintained to meet redemption requests by analysing the historical redemption requests received by the Management Company.

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

	June 30, 2014			Total
	Up to three months	More than three months and up to one year	More than one year	
	----- (Rupees in '000) -----			
Payable to Management Company of the Fund	2,605	-	-	2,605
Payable to MCB Financial Services Limited - Trustee	156	-	-	156
Accrued expenses and other liabilities	620	-	-	620
	3,381	-	-	3,381

	June 30, 2013			Total
	Up to three months	More than three months and up to one year	More than one year	
	----- (Rupees in '000) -----			
Payable to Management Company of the Fund	1,610	-	-	1,610
Payable to MCB Financial Services Limited - Trustee	154	-	-	154
Accrued expenses and other liabilities	2,992	-	-	2,992
	4,756	-	-	4,756

18.4 Financial instruments by category

As at June 30, 2014, all the financial assets are carried on the Statement of Assets and Liabilities are categorised either as 'loans and receivables' or financial assets 'at fair value through profit or loss'. All the financial liabilities carried on the Statement of Assets and Liabilities are categorised as other financial liabilities i.e. liabilities other than 'at fair value through profit or loss'.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

18.5 Unit Holders' Funds risk management

The Fund's capital is represented by redeemable units. The Fund is required by the NBFC Regulations, 2008, to maintain minimum fund size to Rs. 100 million at all time during the life of the Fund. The units issued by the Fund provides an investor with the right to require redemption for cash at a value proportionate to the unit holder's share in the Fund's net assets at the redemption date.

The Fund's objective in managing the unit holder's funds are to ensure a stable base to maximise returns to all investors and to manage liquidity risk arising from redemption. In accordance with the risk management policies, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investments.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant unobservable inputs.

Investment in government securities as disclosed in note 7 to these financial statements is determined by reference to the quotations obtained from the PKRV sheet on the Reuters page. Therefore the fair value of debt securities are included within Level 2 of the fair value hierarchy as mentioned above.

20. DISTRIBUTIONS TO THE UNIT HOLDER OF THE FUND

20.1 Interim distributions during the year

Date of distributions	For the year ended June 30, 2014				
	Distribution per unit	No. of bonus units issued	Bonus	Cash (Rupees in 000')	Total
July 22, 2013	0.38	33,961	3,454	1,118	4,572
August 22, 2013	0.62	53,138	5,410	1,825	7,235
September 22, 2013	0.59	52,919	5,391	1,737	7,128
October 23, 2013	0.60	51,132	5,213	1,554	6,767
November 22, 2013	0.61	58,659	5,983	1,586	7,569
December 24, 2013	0.63	67,130	6,855	1,484	8,339
January 24, 2014	0.65	64,793	6,815	1,532	8,147
February 24, 2014	0.60	56,803	5,814	1,180	6,994
March 24, 2014	0.50	45,502	4,664	884	5,648
April 24, 2014	0.60	54,372	5,580	1,180	6,760
May 24, 2014	0.58	51,323	5,274	1,161	6,435
June 26, 2014	1.80	132,108	13,437	3,541	16,978
		721,840	73,690	18,882	92,572

Date of distributions	For the year ended June 30, 2013				
	Distribution per unit	No. of bonus units issued	Bonus	Cash (Rupees in 000')	Total
October 22, 2012	2.80	304,095	31,130	7,463	38,593
November 22, 2012	0.70	82,395	8,537	1,857	10,394
December 24, 2012	0.72	81,432	8,339	1,910	10,249
January 23, 2013	0.65	75,680	7,753	1,914	9,667
February 22, 2013	0.60	68,197	7,083	1,767	8,850
March 25, 2013	0.67	67,472	6,918	1,973	8,891
April 22, 2013	0.61	56,413	5,786	1,795	7,581
May 22, 2013	0.65	54,798	5,622	1,913	7,535
June 24, 2013	0.76	58,606	6,013	2,237	8,250
		851,088	87,191	22,829	110,020

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

21. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding pattern of unit holding, list of top ten brokers / dealers by percentage of commission paid, attendance at meetings of the Board of Directors of the Management Company and particulars of members of Investment Committee are as follows:

21.1 Pattern of unit holding

Unit holding pattern of the Fund as at June 30 is as follows:

Category	Number of unit holders		Investment amount		Percentage of total investment	
	2014 (Numbers)	2013	2014 (Rupees in '000)	2013	2014 (%)	2013
Individuals	301	396	250,542	399,853	23.11	36.04
Associated companies and directors	6	5	284,599	239,466	26.25	21.58
Retirement funds	5	8	18,516	31,692	1.71	2.86
Insurance Companies	1	1	20,019	3,765	1.85	0.34
Banks and DFIs	2	2	88,913	190,067	8.20	17.13
Others	12	13	421,688	244,735	38.88	22.06
Total	327	415	1,084,278	1,109,578	100.00	100

21.2 List of top ten brokers / dealers by percentage of commission paid

Broker Name	2014 (Percentage)
KASB Securities Limited	68.25
Invest One Markets Limited	14.55
JG Global Capital Limited	9.91
Amir Habib Limited	6.84
Invest Capital Investment Bank Limited	0.15
Global Securities Pakistan Limited	0.15
Vector Capital	0.15
Broker Name	2013 (Percentage)
KASB Securities Limited	72.46
First Capital Securities Corporation Limited	7.06
Invest Capital Investment Bank Limited	7.04
Global Securities Pakistan Limited	6.75
Vector Capital	5.36
Invest One Markets Limited	0.75
BMA Capital Management Limited	0.12
Summit Capital (Private) Limited	0.23
Elixir Securities Pakistan (Private) Limited	0.12
Pearl Securities Limited	0.12

21.3 Attendance at meetings of Board of Directors:

Name of the person	Designation	Meetings		
		Total	Attended	Leave granted
Mr. Robert John Richard Owen	Chairman	7	7	-
Mr. Muzaffar Ali Shah Bukhari	Director	7	4	3
Mr. Qaisar P. Mufli	Director	7	7	-
Mr. Amer Maqbool	Chief Executive and Director*	7	3	4
Adnan Abdali	Chief Financial Officer and Company Secretary	7	7	-
Russain Jaffer Ali Khoja	Acting Chief Executive Officer*	7	4	3

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2014

- * During the year, CEO has resigned from his office and Board of Directors in their meeting held on October 14, 2013 have promoted Hussein Jaffer Ali Khoja as acting CEO. On June 6, 2014 the acting CEO was replaced by appointment of Mr. Khaldoon Bin Latif as CEO by Board of Directors of Management Company through resolution by circulation. However SECP approval for appointment of CEO is still pending. Subsequent to appointment of new CEO no Board of Directors meeting has been held.

The 68th, 69th, 70th, 71st, 72nd, 73rd and 74th Board meetings were held on July 4, 2013, August , 2013, August 27, 2013, October 14, 2013, March 12, 2014, April 3, 2014 and April 28, 2014 respectively.

21.4 Details of members of investment committee

Name	Designation	Qualification	Experience (years)
Khaldoon Bin Latif	Chief Executive Officer	B.Sc (Hons.)	10
Hussain Jaffer Ali Khoja	Chief Investment Officer	ACCA	11
Irfan Nepal	Fund Manager	B.Com	20
Saqib Shah	Fund Manager	MBA	11
Mohsin Raza Wasaya	Compliance Manager	B.Com	7
Syed Adnan Abdali	Chief Financial Officer and Company Secretary	ACMA	10

21.5 Other funds managed by the Fund Manager:

Mr. Saqib Shah is the Manager of the Fund. He is also the Manager of KASB Islamic Income Opportunity Fund and KASB Income Opportunity Fund.

22. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 13, 2014.

For KASB Funds Limited
(Management Company)

Chief Executive

Director