NATIONAL ASSET MANAGEMENT COMPANY LIMITED

ANNUAL REPORT 2011

NAMCO

NAMCO BALANCED FUND

CONTENTS

VISION

To be preferred choice
of investors seeking
long-term safety,
growth and
consistent returns

MISSION

To serve our valued clients in
realizing their investment
objectives through offering
efficient, transparent and
reliable range of investment
management alternatives and
to maximize their satisfaction
by combining pragmatic
application of risk
management techniques,
state of the art technology
and dedicated team of
professionals committed to
achieve excellence.

ORGANIZATION

Management Company
National Asset Management Company Limited
19-C, Sunset Lane-6, South Park Avenue,
Phase-II Extension, D.H.A., Karachi
PABX : 0092-2135312416-19
Fax : 0092-2135889743, 35395924
Website : www.namco.com.pk

Board of Directors

Lt. General (Retd.) M. Hamid Khan	Chairman
Mr. Mubarik Ali	Director / Chief Executive
Mr. Shafiq A. Khan	Director
Justice (Retd.) M. Javed Buttar	Director
Mr. Aseer Ahmed Khan	Director

CFO & Company Secretary
Mr. Muhammad Faraz

Audit Committee

Mr. Shafiq A. Khan	Chairman
Justice (Retd.) M. Javed Buttar	Member
Lt. General (Retd.) M. Hamid Khan	Member

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

Legal Advisors
KMS Law Associates
207, Beaumont Plaza, Karachi.

Bankers
NIB Bank Limited
Bank of Punjab
Bank Al Falah Limited
Faysal Bank Limited

Registrar
Technology Trade (Pvt.) Ltd.
241-C, Block-2, P.E.C.H.S.,
Off. Main Shahrah-e-Quaideen

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

The Board of Directors of National Asset Management Company Limited, the management company of NAMCO Balanced Fund, is pleased to present the accounts of NAMCO Balanced Fund (NBF) for the year ended June 30, 2011.

ECONOMIC REVIEW

During FY11, the domestic economy was badly affected by floods and related fiscal slippages, which slowed down the pace of economic recovery and stability gained in FY10. The GDP growth of the country slowed down to 2.4% in FY11 compared to 3.8% during FY10. However, on the positive side, higher commodity prices drove agriculture incomes, which aided rural demand and helped the domestic economy. The head line CPI Inflation hovered above 15% level in 1HFY11, but moderated in the latter part of the year, to average out at 13.9%. SBP kept the tight monetary policy stance during FY11 as the benchmark discount rate was increased by 150bps to 14% during the year; however the lower inflation number during the 4QFY11 allowed SBP to reduce the discount rate by 50 basis points in July-2011.

The Govt.'s budgetary borrowing from the State Bank showed significant decline to Rs. -7.92 billion (showing the repayment) compared to the borrowing of Rs. 44 billion during same period last year. Although reduced government borrowing is a positive sign, but the reality is that, the government was not able to do this as a result of an increase in revenues or a decline in non-productive expenditures, but it is just a shift from the SBP to scheduled banks where the borrowings from Schedule banks stood at Rs. 598.15 billion during FY11 compared to Rs. 286.4 billion in FY10. Regrettably this has kept the fiscal situation aggravated as private sector borrowing remains on the decline.

Tax collections for the fiscal period remained slow throughout the year and despite cuts from the original budgeted amount; the tax collection remained below the initial target of Rs. 1,667 billion and stood at Rs. 1,550 billion at the end of FY11. This amount was also aided by austerity tax measures (i.e. flood surcharge) taken by the government in the month of March; supported by administrative steps to improve tax compliance.

The foreign exchange reserves of the country touched an all time peak of USD 18.24 billion by the end of FY11 which was supported by record growth in exports of 28% to USD 25.5 billion and growth in home remittances of 25% to USD 11.2 billion. The exports were primarily on the higher side due to the increase in international commodity prices especially cotton prices which boded very well for the textile sector. These numbers could have been relatively better; however, due to infrastructural weaknesses especially the non-availability of electricity and gas, hurt capacity utilizations as exporters remained cautious when booking export orders. Remittances during last four months witnessed an inflow over a billion dollars each month with June being the highest touching $1.1bn.

Despite all time low interest rates and various stimulus packages launched around the world, the global economy remained fragile. Major global economies especially the US still struggled to avert a debt crisis which could trigger another major recession. There are hard times in Europe as well, as major economies still fall short of independently sorting out their debt issues and are looking for the European Union which is facing problems of their own for a solution. Additionally the turmoil in the Middle East and North Africa (MENA) region and the damage to the Japanese economy in the wake of an historic earthquake and tsunami has aggravated the situation further. With this current situation of the global economy, prices of commodities are expected to remain volatile; however, global crude oil prices may not sustain current levels as economic growth expectations subside. Considering approximately a third of Pakistan's total imports is represented by oil and oil products a decrease in prices of crude oil is expected to be a major positive. The Government in the recent past has shown its seriousness towards improving the health of the economy while solving the issues like circular debt.

EQUITY MARKET REVIEW

In the Fiscal Year 2011, the KSE-100 Index rose by 28.53% from 9,721 points to 12,496 points levels as compared to increase of 35.74% during FY10. Market capitalization during FY11 rose by 20.51% from Rs.2.73 trillion to Rs. 3.29 trillion, as compared to an increase of 28.85% during FY10.

During the year under review the KSE-100 Index reached a High level of 12,682 points and a Low level of 9,516 points with relative stability versus the volatility witnessed in the previous fiscal year. Average daily volume stood at 78 million shares during FY11 compared to 161 million shares in FY10. Foreign flows into the market remained low amounting USD 280 million during FY11 compared to USD 561 million during FY10. At the closing level of 12,496 points, the KSE-100 trades at forward Price to Earnings ratio of 7x, which is at discount of 42% to the region (compared to historical average discount of 35%).

Top 6 gainers during the year were Nestle (225%), RMPL (130%), NRL (91%), SPL (89%), LOTPTA (72%) and POL (66%). The Top 6 losers during the period were DAWH (-63%), AHL (-56%), ANL (-51%), NIB (-50%), JSCL (-49%) and BOP (-42%).

Although overall market gains are impressive, only four sectors (Food Producers, Metals & Mining, Beverages and Chemicals) outperformed the KSE-100 Index in FY11, indicating that the index rally was very narrow in nature. The key index heavy weights sectors such as Oil & Gas and Banks underperformed the KSE-100 Index by 11% and 22% respectively. Similarly, performance of cyclical sector such as Construction & Material (Cement) and Automobiles & Parts remained below par.

FUND PERFORMANCE

For the year ended June 30, 2011, the gross income without unrealized loss and impairment of the Fund amounted to Rs. 177.07 million, consisting of realized capital gains Rs. 114.16 million, dividend income Rs. 24.13 million and profits on investments & bank deposits Rs. 38.78 million. The market decline led to a diminution of Rs. 47.05 million in Held for Trading (HFT) investment and impairment loss on financial assets classified as available for sale, thereby paving way for gross income of Rs. 130.01 million.

Expenses for the period amounted to Rs. 44.05 million. Thus, the net income for the year ended June 30, 2011 was Rs. 85.97 million resulting due to unrealized diminution in held for trading and available for sale portfolio in the last quarter of the financial year. The Net Asset Value per certificate on June 30, 2011 was Rs. 7.66.

For the most part for the year under review, we remained focused on the stocks that offer value. Going forward, we shall concentrate on high yield stocks and shall remain focused on fertilizer and energy sector on the back of growth potential and good payout history.

FUTURE OUTLOOK

Going forward, the triggers for market performance are likely to be successful outcomes from upcoming Pakistan-IMF talks, resolving circular debt crisis, further reduction in discount rates and potential monetary easing. Any relief on capital gain tax could provide further impetus to the market. We remain invested in fundamentally strong sector and stocks and have constructed the portfolio to benefit from the above expected events.

The resolution of US debt ceiling is a positive development for the near-term. However, the crisis in euro zone will continue to keep international investors cautious on emerging markets and equity as an asset class. We believe, Pakistan with its strong domestic demand story will continue to be on the radar screen for international investors, and improvements on the global and domestic macro environment should bode well for the domestic equity markets. We believe that FY12 would be a good year for the domestic equity market.

On the equity front, although the implementation of capital gain tax has negatively impacted volumes, however, we believe that the introduction of the leverage and derivative products in the market may improve the liquidity position and attract investors back to the equity market. On the basis of earnings multiples and dividend yields, Pakistan remains one of the cheapest markets. Pakistan stock market is trading at a P/E multiple of 7.2x, which is almost at a 38% discount to other frontier markets. This makes KSE an attractive option for foreign investors.

Given the above risk, the Investment Committee will closely monitor the macroeconomic environment in order to make any significant portfolio changes if and when deemed necessary. We believe the capital markets would remain volatile during FY12 which would provide opportunities for the fund.

Managing Company Ratings

JCR-VIS Credit Rating Company Limited has maintained the management quality rating of AM3 minus for National Asset Management Company Limited (NAMCO), the investment advisor of NBF. A 'Positive' outlook has been assigned to the MQ rating in view of developments as regards strengthening of the management team to establish in-house business development and business management capabilities. The AM3 minus rating is categorized as "Good Quality Management", which reflects NAMCO's capability to meet high quality objectives in its management functions. We are also pleased to inform our investors that JCR-VIS Credit Rating Company has assigned MFR 3-Star ranking to NAMCO Balanced Fund which denotes average performance.

Compliance with the Code of Corporate Governance

In compliance with the Code of Corporate Governance, the Board of Directors declares that:

* The financial statements present fairly the state of the affairs of the Fund, the result of its operations cash flow and change in equity.

* The Fund has maintained proper books of accounts

* Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

* International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.

* The system of internal control is sound in design and has been effectively implemented and monitored.

* There are no significant doubts upon the Funds ability to continue as going concern.

* There has been no material departure from the best practices of the corporate governance, as detailed in Karachi Stock Exchange listing regulations.

* The statement showing trades in the certificates of the Fund carried out by he directors, CEO, CFO & Company secretary of the Asset Management Company and their spouses and minors children has been annexed on page no. 7 (Annexure-A).

* The statement showing the certificates held by directors, CEO and Company Secretary of National Asset Management Company Limited (The management company) and their spouses and minor children for the year ended June 30, 2011 has been annexed on page No. 7 (Annexure-B).
* The detailed pattern of certificate holdings as required by Code of Corporate Governance has been annexed on page no. 43 (Annexure-C).

Board Meetings

During the year, five board meetings of the company were held. Mr. Mubarik Ali has been appointed as Director / CEO in place of Mr. Etrat H. Rizvi on 26th Board meeting held on 21 February 2011 and approval of SECP has been obtained on 3 May 2011. Aseer Ahmed Khan appointed as a director, subject to approval of SECP, and replaced Dr. Syed Salman Ali Shah, who had resigned on June 28, 2011 as a director / Chairman of the NAMCO. Lt. General (Retd.) M. Hamid Khan was elected as a new Chairman of the Board of NAMCO on July 5, 2011. The details of the attendance by each director in the board meetings are as given below: -

Name	Designation	Total	MeetingsAttended
Lt. General (Retd.) M. Hamid Khan	Chairman	5	5
Mr. Mubarik Ali	Director / CEO	5	2
Mr. Etrat H. Rizvi	Director/ CEO (Former)	5	3
Mr. Shafiq A. Khan	Director	5	5
Dr. Syed Salman Ali Shah	Chairman (Former)	5	2
Justice (Retd.) M. Javed Buttar	Director	5	5

Auditors

The present auditors, M/s KPMG Taseer Hadi & Co. Chartered Accountants, retire and being eligible, offer themselves for reappointment. The Audit Committee of the Investment Advisor in its meeting held on October, 3, 2011 recommended their reappointment as auditors of the Fund for the year to be ended June 30, 2012.

Acknowledgements

The Board wishes to express its appreciation for the continued cooperation, support and guidance of Securities and Exchange Commission of Pakistan, Karachi Stock Exchange, National Clearing Company Limited, Trustee of the Fund as well as the brokers of the company and the bankers of the Fund.

The Board also appreciates the management team and staff members for their commitment and dedicated efforts, in achieving optimum results despite the difficult conditions obtaining in the economy and the market.

October 3, 2011
Lahore

Mubarik Ali
Chief Executive

Annexure A

Statement showing trade in the certificates of the Fund carried out by the directors, CEO, CFO and Company Secretary of the Asset Management Company and their spouses and minor children.

S. No.	Name	Designation	Purchase	Sale	Bonus
			(Number of certificates)		
1.	Lt. General (Retd.) M. Hamid Khan	Chairman	-	-	-
2	Mr. Mubarik Ali	Director/CEO	-	-	-
3.	Mr. Etrat Hussain Rizvi	Director/CEO (former)	558,500	-	-
4.	Mr. Shafiq A. Khan	Director	-	-	-
5.	Dr. Syed Salman Ali Shah	Chairman (former)	-	-	-
6.	Justice (Retd.) M. Javed Buttar	Director	-	-	-
7.	Mr. Muhammad Faraz	CFO & Company Secretary	-	-	-

Mr. Mubarik Ali has been appointed as Director / CEO in place of Mr. Etrat H. Rizvi on 26th Board meeting held on 21 February 2011 and approval of SECP has been obtained on 3 May 2011. Aseer Ahmed Khan appointed as a director, subject to approval of SECP, and replaced Dr. Syed Salman Ali Shah, who had resigned on June 28, 2011 as a director/ Chairman of the NAMCO. Lt. General (Retd.) M. Hamid Khan was elected as a new Chairman of the Board of NAMCO on July 5, 2011.

Annexure B

Statement showing certificates held by directors, CEO and company secretary of National Asset Management Company Limited (The Management Company) and their spouses and minor children for the year ended June 30, 2011.

S. No.	Name	Designation	Shares held
1.	Lt. General (Retd.) M. Hamid Khan	Chairman	-
2.	Mr. Mubarik Ali	Director/CEO	-
3.	Mr. Etrat Hussain Rizvi	Director/CEO (former)	587,000
4.	Mr. Shafiq A. Khan	Director	-
5.	Dr. Syed Salman Ali Shah	Chairman (former)	-
6.	Justice (Retd.) M. Javed Buttar	Director	-
7.	Mr. Muhammad Faraz	CFO & Company Secretary	500

Mr. Mubarik Ali has been appointed as Director / CEO in place of Mr. Etrat H. Rizvi on 26th Board meeting held on 21 February 2011 and approval of SECP has been obtained on 3 May 2011. Aseer Ahmed Khan appointed as a director, subject to approval of SECP, and replaced Dr. Syed Salman Ali Shah, who had resigned on June 28, 2011 as a director / Chairman of the NAMCO. Lt. General (Retd.) M. Hamid Khan was elected as a new Chairman of the Board of NAMCO on July 5, 2011.

FUND MANAGER REPORT

NAMCO Balanced Fund (NBF) is a closed end balanced fund. The objective of NBF is to generate long term capital appreciation as well as current income by creating a balanced portfolio that is invested in both diversified portfolio of securities representing equity and money market avenues such as TFCs, Sukuk, CODs, Govt. securities etc. The fund also has a focus of long term preservation of capital. The fund aims to maximize total returns varying fund's allocations to fixed income and equity exposures in accordance with the economic condition and market scenario.

Key Information

Fund Type	Closed end
Category	Balanced Fund
Net Assets Value	Rs. 766.207 million
NAV per Certificate	Rs. 7.66
Management Fee	3%
Trustee	MCB Financial Services
Auditor	KPMG Taseer Hadi & Co
Listing	KSE
Benchmark	70% KSE-100 Index + 30% 1M Kibor Ask

Market Review

In FY11, the domestic macroeconomic landscape was affected by floods and related fiscal slippages, which slowed down the pace of economic recovery and stability gained in FY10. However, on the positive side, higher commodity prices drove agriculture incomes, which aided rural demand and helped the domestic economy. External sector performance was also impressive during the year, buoyed by price-led export growth of 28% and remittance growth of 25%. As a result, a Balance of Payments (BoP) surplus FY11 lent support to the currency position. The reduction in discount rate bodes well for the equity markets, which has been suffering from high yield on debt instruments. On the global economic front, the resolution of US debt ceiling is a positive development for the near-term. However, the crisis in euro zone will continue to keep international investors cautious on emerging markets and equity as an asset class. We believe, Pakistan with its strong domestic demand story will continue to be on the radar screen for international investors, and improvements on the global and domestic macro environment should bode well for the domestic equity markets. We believe that FY12 would be a good year for the domestic equity market.

Distribution

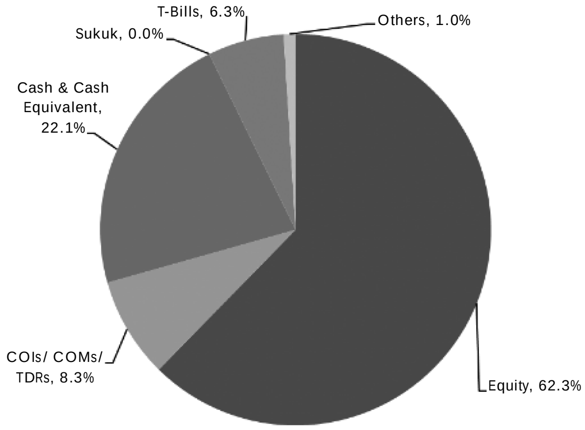
NBF distributed 8% bonus dividend during the year.

Other Disclosures

The Management Company and / or any other of its delegates have not received any soft commission from its brokers / dealers by virtue of transactions conducted by the Fund.

Asset Allocation

	FY11	FY10
Equity	62.3%	69.5%
COIs / COMs / TDRs	8.3%	11.3%
Cash & Cash Equivalent	22.1%	13.5%
Sukuk	0.0%	1.5%
T-Bills	6.3%	0.0%
Others	1.0%	4.2%



Equity Segment Break Down

Electricity	19.1%
Chemicals	13.3%
Banks	10.7%
Oil and Gas	7.7%
Personal Goods	3.8%
Construction & Material	3.1%
Others	4.7%
Total	62.3%

Split of Shares

The Fund has not carried out any share split during the year.

Investment Committee Members

Mr. Mubarik Ali - CEO

Mr. Muhammad Faraz - CFO & Company Secretary

Mr. Faisal Merchant - CIO

Mr. Muhammad Arshad - Fund Manager

Performance Comparison with Benchmark

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
NBF Return	6.97%	-6.12%	1.47%	5.36%	4.69%	4.35%	1.72%	-5.64%	4.18%	-0.13%	-0.55%	-3.01%
Bench-mark	5.86%	-3.61%	2.36%	4.00%	5.04%	4.95%	-2.42%	-6.21%	3.16%	1.34%	0.53%	1.97%

PERFORMANCE TABLE / KEY FINANCIAL DATA

	For the year-ended 30-Jun-11	For the year-ended 30-Jun-10
Net Asset		
Net Asset Value (Million Rs.)	766.21	678.16
NAV per unit (Rs.)	7.66	6.78
Highest NAV (Rs.)	8.32	9.20
Lowest NAV (Rs.)	6.64	5.59
Distribution (Rs/Unit)		
First Interim	-	0.50
Second Interim	-	0.60
Third Interim	-	0.40
Final	-	-
Total	-	1.50
Bonus (%)	8.00	-
Average Return for the Year (%)	**12.97**	**18.60**

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF "CODE OF CORPORATE GOVERNANCE"

FOR THE YEAR ENDED 30 JUNE 2011

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Regulation No. 35 Chapter XI of Listing Regulations of Karachi 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 National Asset Management Company Limited, (the management company), which is an unlisted public company, manages the affairs of NAMCO Balanced Fund (the "Fund"). The Fund being a unit trust 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 Karachi Stock Exchange, in the following manner:

1. The management company encourages representation of non-executive directors. All the directors, except the Chief Executive Officer are non-executive directors.

2. The existing directors have confirmed that none of them are serving as a director in more than ten listed companies, including the management company.

3. 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.

4. A casual vacancy of Chief Executive Officer was occurred on 14 January 2011 and was filled up by the directors on 21 February 2011.

5. The management company has prepared a 'Code of Conduct' describing ethics and business practices for the Fund, which has been approved by the Board and duly signed by all the employees of the Management Company.

6. The management company has prepared a vision/ mission statement, corporate strategy and significant policies for the Fund which has been approved by the Board. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and terms and conditions of employment of the CEO and CFO / Company Secretary have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met atleast once in every quarter as required by the Code of Corporate Governance. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. An orientation course is yet to be arranged for the directors of the management company to apprise them of their duties and responsibilities. The directors are however conversant with the requirements of the Code and other regulations.

10. During the year, an internal auditor was appointed. However his appointment, the terms and conditions of employment and remuneration was not approved by the Board. The terms and conditions of employment and remuneration of CFO / Company Secretary were not approved by the Board.

11. The directors' report relating to the Fund for the year ended 30 June 2011 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Fund were duly endorsed by the CEO and CFO / Company Secretary of the management company before approval of the Board.

13. The related party transactions with details of pricing methods have been placed before the Audit Committee and approved by the Board of Directors.

14. The directors, CEO, and executives do not hold any interest in the units of the fund and shares of the management company other than disclosed in the Directors Report.

15. The management company has complied with all the applicable corporate and financial reporting requirements of the Code.

16. 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.

17. The meetings of the audit committee were held and prior to the approval of final results of the Fund as required by the Code of Corporate Governance.

18. The Directors have approved the term of reference of Audit Committee in the light of Code of Corporate Governance.

19. The management company has internal audit function lead by experienced personnel who has recently left the management company.

20. 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, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the management company or 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 Institute of Chartered Accountants of Pakistan.

21. 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.

22. We confirm that all other material principles contained in the Code have been complied with.

October 3, 2011

Mubarik Ali
Chief Executive

REPORT OF THE TRUSTEE TO THE CERTIFICATE HOLDERS

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

NAMCO Balanced Fund, a close-end Scheme established under a Trust Deed dated April 17, 2006 executed between National Asset Management Company, as the Management Company and First Dawood Investment Bank Limited, as the Trustee. The Scheme was authorized by Securities and Exchange Commission of Pakistan (Commission) on May 03, 2006.

As per the Deed of change of Trustee and amendment of Trust Deed executed dated November 04, 2010 First Dawood Investment Bank Limited retired as the Trustee and MCB Financial Services Limited was appointed as the Trustee of NAMCO Balanced Fund

1. National Asset Management Company, the Management Company of NAMCO Balanced Fund, has in all material respects managed NAMCO Balanced Fund, during the period from 4th November 2010 to 30th June 2011 in accordance with the provisions of the following:

   (i) the limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;

   (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;

   (iii) and any regulatory requirement

Khawaja Anwar Hussain
Chief Executive Officer
MCB Financial Services Limited

Karachi: October 3, 2011

REPORT OF THE TRUSTEE TO THE CERTIFICATE HOLDERS

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

Namco balance Fund, a closed end scheme established under a Trust Deed dated April 17, 2006 executed between National Asset Management Company Limited, as the Management Company and First Dawood Investment Bank Limited, as the Trustee. The Scheme was authorized by Securities and Exchange Commission of Pakistan (Commission) on May 03, 2006

Namco Balance Fund, the Management Company of AMC has, in all material respects, managed Namco Balance Fund during the period from July 01, 2010 to November 03, 2010 in accordance with the provisions of the following:

(iv) the limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;

(v) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;

(vi) the creation and cancellation of units are carried out in accordance with the deed;

(iv) and any regulatory requirement

Abdus Samad Khan
Chief Executive Officer
First Dawood Investment Bank Limited

Karachi: October 3, 2011

REVIEW REPORT TO THE CERTIFICATE HOLDERS OF NAMCO BALANCED 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 prepared by the Board of Directors of National Asset Management Company Limited, "the Management Company" of the Fund to comply with the Listing Regulation of Karachi Stock Exchange, where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further sub-regulation (xiii-a) of Listing Regulations 35 notified by the Karachi Stock Exchange (Guarantee) Limited requires the Management Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

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

KPMG Taseer Hadi & Co.

Date: October 3, 2011

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi

INDEPENDENT AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the accompanying financial statements of **NAMCO Balanced Fund** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2011 and the income statement, statement of comprehensive income, cash flow statement, distribution statement, statement of movement in equity and reserves per certificate and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management'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 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 whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2011, and of its financial performance and cash flows for the year ended 30 June 2011 in accordance with approved accounting standards as applicable in Pakistan.

Emphasis of Matter

We draw attention to note 12 to the financial statements which describes the uncertainties relating to pending outcome of the litigation regarding contribution to WWF. Our opinion is not qualified in respect of this matter.

Other matter

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

KPMG Taseer Hadi & Co.

Date: October 3, 2011 **KPMG Taseer Hadi & Co.**
Chartered Accountants
Karachi **Mohammad Nadeem**

STATEMENT OF ASSETS AND LIABILITIES

AS AT 30 JUNE 2011

	Note	2011	2010
ASSETS			
Balances with banks	4	**171,524,224**	126,687,979
Investments	5	**597,936,509**	557,837,978
Receivable against sale of investments		**955,937**	-
Dividend and other receivables	6	**3,984,993**	5,342,968
Security deposits	7	**2,675,000**	3,675,000
Total assets		**777,076,663**	693,543,925
LIABILITIES			
Payable to Management Company	8	**3,734,815**	5,293,663
Remuneration payable to the Trustee	9	**49,869**	52,818
Annual fee payable to Securities and Exchange Commission of Pakistan	10	**642,864**	691,986
Payable against purchase of investments		**-**	468,984
Unclaimed dividend		**5,490,781**	6,262,441
Accrued expenses and other liabilities	11	**951,121**	2,613,803
Total liabilities		**10,869,450**	15,383,695
Contingency	12		
NET ASSETS ATTRIBUTABLE TO CERTIFICATE HOLDERS	Rupees	**766,207,213**	678,160,230
CERTIFICATE CAPITAL AND RESERVES			
Certificate capital	13	**1,000,000,000**	1,000,000,000
Unrealised appreciation on re-measurement of investments classified as 'available for sale' - net		**8,276,697**	6,196,630
Accumulated losses		**(242,069,484)**	(328,036,400)
TOTAL CERTIFICATE HOLDERS FUND	Rupees	**766,207,213**	678,160,230
NET ASSETS VALUE PER CERTIFICATE	Rupees 15	**7.66**	6.78

The annexed notes 1 to 21 form an integral part of these financial statements.

For National Asset Management Company Limited
(Management Company)

Chief Executive **Director**

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011	2010
		(Rupees)	
INCOME			
Capital gains on sale of investments - net		**114,162,308**	149,514,096
Dividend income		**24,129,338**	28,629,389
Profit on investments and bank balances	*14*	**38,777,928**	37,880,204
Diminution on re-measurement of investments classified as financial assets at fair value through profit or loss - net		**(47,054,780)**	(79,416,663)
		130,014,794	136,607,026
EXPENSES			
Remuneration to the Management Company		**22,689,299**	24,423,056
Remuneration to the Trustee		**634,443**	707,050
Annual Fee - Central Depository Company of Pakistan Limited		**67,500**	67,500
Annual fee - Securities and Exchange Commission of Pakistan		**642,863**	691,986
Securities transaction costs		**4,104,137**	2,321,768
Auditors' remuneration		**573,902**	519,659
Annual listing fee		**127,083**	75,000
Bank charges		**5,665**	8,383
Legal and professional charges		**120,000**	113,000
Other expenses		**710,902**	497,476
Impairment losses on investments classified as 'available for sale'		**6,416,088**	4,981,968
Provision against non-performing investment classified as 'held to maturity'		**10,000,000**	-
Reversal / (provision) for workers' welfare fund	*12*	**(2,044,004)**	2,044,004
Total Expenses		**44,047,878**	36,450,850
Net income for the year		**85,966,916**	100,156,176
Basic and diluted earnings per certificate	*15*	**0.86**	1.00

The annexed notes 1 to 21 form an integral part of these financial statements.

For National Asset Management Company Limited
(Management Company)

Chief Executive **Director**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	(Rupees)	
Net income for the year	**85,966,916**	100,156,176
Other comprehensive income for the year		
- Net unrealised (diminution) / appreciation in the value of investment classified as 'available for sale'	**(4,336,021)**	1,214,662
- Impairment losses on investments classified as 'available for sale' - transferred to income statement	**6,416,088**	4,981,968
	2,080,067	6,196,630
Total comprehensive income for the year	**88,046,983**	106,352,806

The annexed notes 1 to 21 form an integral part of these financial statements.

For National Asset Management Company Limited
(Management Company)

Chief Executive **Director**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

CASH FLOWS FROM OPERATING ACTIVITIES	*Note*	2011	2010
		(Rupees)	
Net income for the year		**85,966,916**	100,156,176
Adjustments for:			
Dividend income		**(24,129,338)**	(28,629,389)
Diminution on re-measurement of investments classified as financial assets at fair value through profit or loss - net		**47,054,780**	79,416,663
Impairment losses on investments classified as 'available for sale'		**6,416,088**	4,981,968
		115,308,446	155,925,418
Movement in:			
Investments - net		**(91,958,316)**	59,925,282
Receivable against sale of investments		**(955,937)**	542,981
Security deposits		**1,000,000**	-
Dividend and other receivables		**25,487,313**	29,034,620
Accrued expenses and other liabilities		**(1,662,682)**	2,164,329
Payable to Management Company		**(1,558,848)**	(1,884,154)
Annual fee - Securities and Exchange Commission of Pakistan		**(49,122)**	(5,339)
Remuneration to Trustee		**(2,949)**	(1,371)
Net cash flows from operating activities		**45,607,905**	245,701,766
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities - Dividend paid		**(771,660)**	(143,999,009)
Net increase in cash and cash equivalents during the year		**44,836,245**	101,702,757
Cash and cash equivalents at beginning of the year		**126,687,979**	24,985,222
Cash and cash equivalents at end of the year	*4*	**171,524,224**	126,687,979

The annexed notes 1 to 21 form an integral part of these financial statements.

For National Asset Management Company Limited
(Management Company)

Chief Executive **Director**

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	(Rupees)	
Undistributed losses at beginning of the year	**(328,036,400)**	(278,192,576)
Distributions during the year		
Interim dividend (2010: Re. 0.50 per certificate)	-	(50,000,000)
Interim dividend (2010: Re. 0.60 per certificate)	-	(60,000,000)
Interim dividend (2010: Re. 0.40 per certificate)	-	(40,000,000)
	-	(150,000,000)
Net income for the year	**85,966,916**	100,156,176
Accumulated losses carried forward	**(242,069,484)**	(328,036,400)

The annexed notes 1 to 21 form an integral part of these financial statements.

For National Asset Management Company Limited
(Management Company)

Chief Executive **Director**

STATEMENT OF MOVEMENT IN EQUITY AND RESERVES 'PER CERTIFICATE'

FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	(Rupees)	
Net assets per certificate at beginning of the year	**6.78**	7.21
Capital gains on sale of investments - net	**1.14**	1.50
Dividend income	**0.24**	0.29
Diminution on re-measurement of investments classified as financial assets at fair value through profit or loss - net	**(0.47)**	(0.79)
Profit on balances with banks	**0.23**	0.23
Profit on certificate of musharaka	**0.02**	0.03
Profit on certificate of investments	**0.06**	0.10
Profit on term deposit receipts	**0.05**	-
Profit on treasury bills	**0.03**	-
Profit on sukuk bonds	**-**	0.01
	1.30	1.37
Expenses	**(0.38)**	(0.31)
Impairment losses on financial assets classified as 'available for sale'	**(0.06)**	(0.05)
Unrealised appreciation on re-measurement of investments classified as 'available for sale' - net	**0.02**	0.06
Distributions during the year	**-**	(1.50)
Net assets per certificate at end of the year	**7.66**	6.78

The annexed notes 1 to 21 form an integral part of these financial statements.

For National Asset Management Company Limited
(Management Company)

Chief Executive | **Director**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	Certificate capital	Unrealised appreciation / (diminution) on re-measurement of investments classified as available for sale - net	Accumulated loss	Total
	(Rupees)			
Balance as at 01 July 2009	1,000,000,000	-	(278,192,576)	721,807,424
Total comprehensive imcome for the year				
Net income for the year	-	-	100,156,176	100,156,176
Other comprehensive income				
- Net unrealised appreciation in the value of investment classified as 'available for sale'	-	1,214,662	-	1,214,662
- Impairment losses on investments classified as 'available for sale' - transferred to income statement	-	4,981,968	-	4,981,968
Total comprehensive income for the year	-	6,196,630	100,156,176	106,352,806
Transactions with owners recorded directly in equity - distribution				
Distributions:				
- Interim dividend @ Re. 0.50 per certificate	-	-	(50,000,000)	(50,000,000)
- Interim dividend @ Re. 0.60 per certificate	-	-	(60,000,000)	(60,000,000)
- Interim dividend @ Re. 0.40 per certificate	-	-	(40,000,000)	(40,000,000)
Total transactions with owners-distributions	-	-	(150,000,000)	(150,000,000)
Balance as at 30 June 2010	1,000,000,000	6,196,630	(328,036,400)	678,160,230
Total comprehensive income for the year				
Net income for the year	-	-	85,966,916	85,966,916
Other comprehensive income				
- Net unrealised diminution in the value of investment classified as 'available for sale'	-	(4,336,021)	-	(4,336,021)
- Impairment losses on investments classified as 'available for sale' - transferred to income statement	-	6,416,088	-	6,416,088
Total comprehensive income for the year	-	2,080,067	85,966,916	88,046,983
Balance as at 30 June 2011	**1,000,000,000**	**8,276,697**	**(242,069,484)**	**766,207,213**

The annexed notes 1 to 21 form an integral part of these financial statements.

For National Asset Management Company Limited
(Management Company)

Chief Executive **Director**

NOTES THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

NAMCO Balanced Fund (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) and has been authorised as a closed end scheme by the Securities and Exchange Commission of Pakistan (SECP) on May 03, 2006. It was constituted under a Trust Deed, dated April 17, 2006, between National Asset Management Company Limited as Management Company and First Dawood Investment Bank Limited as the Trustee. The Securities and Exchange Commission of Pakistan (SECP) authorised constitution of the Trust Deed on 22 April 2010 and it was executed on 4 November 2010 in accordance with the NBFC Regulations. During the year, the first supplemental trust deed for change of trustee and amendment of trust deed of NBF was executed between the Management Company and MCB Financial Services Limited (MCBFSL) as the new Trustee in place of First Dawood Investment Bank Limited (FDIBL).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP on 13 December 2005. The registered office of the Management Company is situated at 179-B, Abu Bakar Block, New Garden Town, Lahore. The principal office of the Management Company is situated at 19-C, Sunset Lane 6, South Park Avenue, Phase II Ext, DHA Karachi, Pakistan.

The Fund is a closed end balanced mutual fund and its certificates are listed on Karachi Stock Exchange. The principal activity of the Fund is to make investments in equity market and fixed income securities including money market instruments.

The policy of the Fund is to invest in a mix of investment grade money market instruments, debt securities, government securities and derivative transactions. The Fund is categorised as an balanced scheme as specified by SECP and is subject to guidelines prescribed by SECP.

JCR-VIS Credit Rating Company Limited has assigned management quality rating of AM3- to the Management Company. The AM3- rating is categorized as "Good Quality Management". JCR-VIS Credit Rating Company has assigned MFR 3-Star to NAMCO Balanced Fund which denotes average performance.

The Non-Banking Finance Companies and Notified Entities Regulations, 2008 notified by the SECP require under clause 65 of such regulations that a closed end fund shall, upon expiry of 5 years from 21 November 2007, hold a meeting of certificate holders to seek the approval of the certificate holders (by special resolution) to convert into an open end scheme or revoke the closed end scheme.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value as disclosed in these financial statements.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional currency of the Fund. Figures have been rounded off to the nearest of rupees, except otherwise stated.

2.4 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 the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

2.4.1 Classification and valuation of investments (refer note 3.1).

2.4.2 Impairment of investment (refer note 3.4)

2.4.3 Workers' welfare fund liability (refer note 12)

2.4.4 Provision for taxation (refer note 3.7)

2.4.5 Other assets

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

2.5 Standards, Interpretations and Amendments not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2011:

- IAS 24 Related Party Disclosures (revised 2009) - (effective for annual periods beginning on or after January 1, 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Fund.

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Fund's financial statements.

- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Fund.

- Improvements to IFRSs 2010 – In May 2010 the IASB issued improvements to IFRSs 2010 which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programs to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Fund.

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Fund.

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in income statement, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in income statement is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statements of the Fund.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to income statement in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Investments

Financial assets in the scope of IAS 39, are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Fund determines the classification of its financial assets after initial recognition and where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "Financial assets at fairvalue through profit or loss". Financial assets are classified as held for trading if they are acquired forthe purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in income.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Fund has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments, that are intended to be held to maturity, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of a difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction cost and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivatives financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gains or losses previously reported in statement of changes in equity are included in the income statement.

Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued as follows:

a) Basis of valuation of debt securities

Investment in term finance certificates and sukuks are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1/2009 dated 06 January 2009. Under the said directive, investment in term finance certificates and sukuks bonds are valued on the basis of traded, thinly traded and non traded securities. Accordingly, traded investment in debt securities have been valued at the rates determined and announced by Mutual Funds Association of Pakistan (MUFAP) based on the methodology prescribed in the said circular.

Fair value of the investments in Federal Government securities comprising treasury bills is determined by reference to the quotation obtained from the PKRV rate sheet on the Reuters page.

b) Basis of valuation of equity securities

The investment of the Fund in equity securities is valued on the basis of closing quoted market prices available at the stock exchange.

Date of Recognition

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

Derecognition

All investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risk and rewards of ownership.

3.2 Derivative Financial Instruments

Derivative instruments are measured at initially and of each subsequent measurement at their fair values which is calculated as being the net difference between the contract price and the closing price reported on the primary exchange of the futures contract. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of assets and liabilities. The resultant gains and losses are included in the income currently. All derivatives in a net receivables positions (positive fair values) are reported as financial asset held for trading. All derivatives in a net payable position (negative fair values) are reported as financial liabilities held for trading.

3.3 Securities under repurchase / resale agreements (including those purchased / sold under Continuous Funding System)

Transactions of purchase under resale (reverse-repo) of marketable and government securities, including the securities purchased under continuous funding system, 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-repos) are not recognised in the statement of assets and liabilities. Amounts paid under these agreements are included in receivable in respect of reverse repurchase transactions / against continuous funding system. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the reverse-repo agreement.

Transactions of sale under repurchase (repo) of marketable and government securities are entered into at contracted rates for specified periods of time. Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of assets and liabilities and are measured in accordance with accounting policies for investment securities. The counterparty liabilities for amounts received under these transactions are recorded as financial liabilities. The difference between sale and repurchase price is treated as borrowing charges and accrued over the life of the repo agreement. All reverse repo / continuous funding system transactions are accounted for on the settlement date.

3.4 Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that the financial asset or a group of financial assets is impaired. The carrying value of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised.

whenever the carrying amount of an asset exceeds its recoverable amount. Provision for impairment losses are recognised in the income statement in case of held for trading financial assets. If any such evidence exists for available for sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is reclassified from the statement of comprehensive Income to the income statement.

For financial assets classified as 'loans and receivable', a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to original terms. The amount of the provision is the difference between the asset's carrying value and present value of estimated future cash outflows, discounted at the original effective interest rate.

Provision for non-performing debt securities is made in accordance with the criteria for provision of non-performing debt securities specified in Circular No. 1 dated 06 January 2009 and Circular No. 13 dated 04 May 2009 issued by the SECP and is recognised immediately in the income statement. The provisioning policy has been duly formulated and approved by the Board of Directors of the Management Company.

3.5 Financial instruments

Financial assets include balances with banks, dividend and other receivable and security deposits and financial liabilities include payable to Trustee, payable against purchase of investments, unclaimed dividend and accrued expenses and other liabilities. These are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument and derecognized when the Fund losses control of contractual rights that comprises the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. At the time of initial recognition all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Any gain or loss on derecognition of financial assets and financial liabilities is taken to income statement.

3.6 Revenue recognition

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

- Return on bank balances are recognised at effective profit rates based on a time proportion basis.

- Interest income from reverse repurchase transactions and continuous funding system lending arrangements, returns on certificates of investment, placements, commercial papers, certificates of musharika, term deposits and investments in debt securities are recognised at rate of return implicit in the instrument on a time proportionate basis.

- Dividend income is recognised in income statement when the Fund's right to receive the payment is established.

3.7 Taxation

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 for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the certificate holders.

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

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 asset if any to the extent that it is probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of taxation in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its certificate holders every year.

3.8 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only 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 amount and the Fund intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.9 Provision

A provision is recognised in the statement of assets and liabilities when the Fund has a legal or constructive obligation as result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are regularly reviewed amount and adjusted to reflect the current best estimate.

3.10 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and those investments which are readily convertible to known amount of cash subject to an in significant risk of significant changes of values and have maturities of less than three months from the date of acquisition.

3.12 Distributions

Distributions declared including the bonus certificates are recorded in the period in which they are approved. Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, requires that the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains / loss to the certificate holders.

3.13 Liabilities

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

4. BALANCES WITH BANKS - local currency	2011	2010
	(Rupees)	
Profit and loss sharing bank accounts	**171,524,224**	91,687,979
Term deposit receipts maturing within 1 month	-	35,000,000
	171,524,224	126,687,979

Return on profit and loss sharing accounts and term deposit receipts range from 5% to 13% (2010: 8% to 18.5%) per annum. Cash and cash equivalents comprise of profit and loss sharing accounts and term deposit receipts. As at 30 June 2011, bank balances amounted to Rs. 171.524 million (2010: 126.688 million) represents 22.39% (2010: 18.68%) of the net assets.

5. INVESTMENTS		2011	2010
Financial asset at fair value through profit or loss - held for trading			
Quoted equity securities	*5.1*	**427,106,423**	429,685,543
Available for sale			
Quoted equity securities	*5.2*	**57,312,288**	41,652,435
Loans and receivables			
Fixed income and other debt securities	*5.3*	**64,500,000**	76,500,000
Held to maturity			
Fixed income and other debt securities	*5.4*	**49,017,798**	10,000,000
		597,936,509	557,837,978

5.1 Investments classified as 'financial assets at fair value through profit or loss - held for trading'

Unless stated otherwise, the holdings are in ordinary shares / certificates of Rs 10 each.

Name of investee	Number of shares					Balance as at 30 June 2011			Percentage in relation to		
	As at 1 July 2010	Purchases during the year	Bonus / rights issue	Sales during the year	Holding as at 30 June 2011	Carrying cost	Market value	Appreciation / (diminution)	Market value as a percentage of net assets	Investee paid-up capital	Total investments
						-------------------------(Rupees)----------------------					
EQUITY INVESTMENT											
B.R.R. Guardian Modaraba	1,243,507	-	-	81,539	1,161,968	1,498,939	2,544,710	1,045,771	0.33%	1.49%	0.43%
	1,243,507	**-**	**-**	**81,539**	**1,161,968**	**1,498,939**	**2,544,710**	**1,045,771**			
FINANCIAL SERVICES											
Arif Habib Limited	30,000	6,300	6,000	42,300	-	-	-	-	0.00%	0.00%	0.00%
Escorts Investment Bank Limited	610,973	-	-	610,973	-	-	-	-	0.00%	0.00%	0.00%
First National Equities Limited	135,595	10	-	1,910	133,695	1,561,528	389,052	(1,172,476)	0.05%	0.23%	0.07%
Invest Capital Investment Bank Limited	323,113	-	-	323,113	-	-	-	-	0.00%	0.00%	0.00%
Jahangir Siddiqui & Company Limited	-	225,610	-	225,610	-	-	-	-	0.00%	0.00%	0.00%
Orix Leasing Pakistan Limited	220,240	100	-	220,340	-	-	-	-	0.00%	0.00%	0.00%
	1,319,921	**232,020**	**6,000**	**1,424,246**	**133,695**	**1,561,528**	**389,052**	**(1,172,476)**			
NON LIFE INSURANCE											
Askari Gen Insurance Company Limited	68,803	-	-	68,803	-	-	-	-	0.00%	0.00%	0.00%
Askari Gen Insurance Company Limited LOR	-	17,200	-	17,200	-	-	-	-	0.00%	0.00%	0.00%
Adamjee Insurance Company Limited	217,530	128,381	-	345,911	-	-	-	-	0.00%	0.00%	0.00%
EFU General Insurance Limited	37,173	7,000	-	44,173	-	-	-	-	0.00%	0.00%	0.00%
Habib Insurance Company Limited	74,975	-	-	74,975	-	-	-	-	0.00%	0.00%	0.00%
Pak Re-insurance Limited	248,436	161,178	-	409,614	-	-	-	-	0.00%	0.00%	0.00%
	646,917	**313,759**	**-**	**960,676**	**-**	**-**	**-**	**-**			
PERSONAL GOODS											
Azgard Nine Limited	497,000	721,851	-	495,861	722,990	8,209,779.43	3,990,905	(4,218,874)	0.52%	0.16%	0.67%
Nishat (Chunian) Limited	-	661,000	-	661,000	-	-	-	-	0.00%	0.00%	0.00%
Nishat Mills Limited	1,242,500	845,040	-	1,577,540	510,000	30,177,763	25,673,400	(4,504,363)	3.35%	0.15%	4.29%
Samin Textile Mills Limited	9,500	-	-	9,500	-	-	-	-	0.00%	0.00%	0.00%
	1,749,000	**2,227,891**	**-**	**2,743,901**	**1,232,990**	**38,387,542**	**29,664,305**	**(8,723,237)**			
JUTE											
Latif Jute Mills Limited	**-**	**85,000**	**-**	**-**	**85,000**	**572,900**	**572,900**	**-**	0.03%	2.39%	0.10%
FOOD PRODUCTS											
Shakerganj Sugar Mills Limited	**62,097**	**10,005**	**-**	**72,102**	**-**	**-**	**-**	**-**	0.03%	0.00%	0.00%
CONSTRUCTION & MATERIALS											
Attock Cement Pakistan Limited	92,000	153,080	-	7,800	237,280	14,355,917	11,515,198	(2,840,719)	1.50%	0.27%	1.93%
Dewan Cement Limited	139,000	85,000	-	224,000	-	-	-	-	0.00%	0.00%	0.00%
D.G. Khan Cement Limited	399,400	682,189	-	825,977	255,612	6,255,934	5,876,520	(379,414)	0.77%	0.06%	0.98%
Fauji Cement Company Limited	900,000	92,500	-	992,500	-	-	-	-	0.00%	0.00%	0.00%
Lucky Cement Limited	73,800	412,726	-	421,526	65,000	4,782,033	4,604,600	(177,433)	0.60%	0.02%	0.77%
Maple Leaf Cement Limited	200,000	9,210	-	209,210	-	-	-	-	0.00%	0.00%	0.00%
Pioneer Cement Limited	-	917,233	-	601,365	315,868	1,774,594	1,740,433	(34,161)	0.23%	0.14%	0.29%
	1,804,200	**2,351,938**	**-**	**3,282,378**	**873,760**	**27,168,478**	**23,736,751**	**(3,431,727)**			
INDUSTRIAL METALS AND MINNING											
Cresent Steel & Allied Products Limited	104,530	111,788		58,336	157,982	4,253,901	4,126,490	(127,411)	0.54%	0.28%	0.69%
	104,530	**111,788**	**-**	**58,336**	**157,982**	**4,253,901**	**4,126,490**	**(127,411)**			
AUTOMOBILE & PARTS											
Pakistan Suzuki Motors Company Limited	71,999	23,532	-	6,500	89,031	6,917,881	5,568,889	(1,348,992)	0.73%	0.11%	0.93%
	71,999	**23,532**	**-**	**6,500**	**89,031**	**6,917,881**	**5,568,889**	**(1,348,992)**			
FIXED LINE TELECOMMUNICATION											
Pakistan Telecommunication Company Limited	720,100	377,540	-	1,097,640	-	-	-	-	0.00%	0.00%	0.00%
WorldCall Telcom Limited	819,000	531,000	-	1,350,000	-	-	-	-	0.00%	0.00%	0.00%
	1,539,100	**908,540**	**-**	**2,447,640**	**-**	**-**	**-**	**-**			
GENERAL INDUSTRIALS											
Packages Limited	**36,400**	**47,953**	**-**	**84,353**	**-**	**-**	**-**	**-**	0.00%	0.00%	0.00%
OIL & GAS											
Attock Petroleum Limited	31,000	98,209	7,799	133,008	4,000	1,527,881	1,497,080	(30,801)	0.20%	0.00%	0.25%
Byco Petroleum Pakistan Limited	246,970	76,100	-	323,070	-	-	-	-	0.00%	0.00%	0.00%
Mari Gas Limited	42,500	134,455	-	176,955	-	-	-	-	0.00%	0.00%	0.00%
National Refinery Limited	46,500	4,500	-	51,000	-	-	-	-	0.00%	0.00%	0.00%
Oil & Gas Development Corporation Limited	-	347,016	-	332,016	15,000	2,315,419	2,294,850	(20,569)	0.30%	0.00%	0.38%
Pakistan Oil Fields Limited	85,251	481,586	-	534,497	32,340	11,665,155	11,610,383	(54,772)	1.52%	0.01%	1.94%
Pakistan Petroleum Limited	95,900	310,475	25,000	383,875	47,500	10,211,403	9,835,825	(375,578)	1.28%	0.00%	1.64%
Pakistan State Oil Company Limited	51,270	424,320	-	346,065	129,525	36,866,753	34,269,725	(2,597,028)	4.47%	0.08%	5.73%
	599,391	**1,876,661**	**32,799**	**2,280,486**	**228,365**	**62,586,611**	**59,507,863**	**(3,078,748)**			
GAS WATER & MULTI-UTILITIES											
Sui Northern Gas Company Limited	146,764	739,762	-	256,500	630,026	16,706,265	12,550,118	(4,156,147)	1.64%	0.11%	2.10%
Sui Southern Gas Company Limited	497,566	387,434	94,992	979,992	-			-	0.00%	0.00%	0.00%
	644,330	**1,127,196**	**94,992**	**1,236,492**	**630,026**	**16,706,265**	**12,550,118**	**(4,156,147)**			
REFINERIES											
Attock Refinery Limited	-	334,293	-	299,293	35,000	4,419,558	4,295,550	(124,008)	0.56%	0.04%	0.72%
	-	**334,293**	**-**	**299,293**	**35,000**	**4,419,558**	**4,295,550**	**(124,008)**			

Name of investee	Number of shares: As at 1 July 2010	Purchases during the year	Bonus / rights issue	Sales during the year	Holding as at 30 June 2011	Balance as at 30 June 2011: Carrying cost	Market value	Appreciation / (diminution)	Percentage in relation to: Market value as a percentage of net assets	Investee paid-up capital	Total investments
						-------------------------(Rupees)---------------------					
BANKS											
Arif Habib Bank Limited	183,785	-	-	183,785	-	-	-	-	0.00%	0.00%	0.00%
Askari Commercial Bank Limited	855,564	411,339	17,822	884,725	400,000	5,403,531	4,352,000	(1,051,531)	0.57%	0.06%	0.73%
Bank Al-Falah Limited	150,000	4,504,535	-	1,631,845	3,022,690	30,221,715	28,927,143	(1,294,572)	3.78%	0.34%	4.84%
Bank of Punjab Limited	234,350	220,358	-	454,708	-	-	-	-	0.00%	0.00%	0.00%
Faysal Bank Limited	105,000	90,090	2,518	197,608	-	-	-	-	0.00%	0.00%	0.00%
Habib Bank Limited	375,190	385,034	4,000	694,176	70,048	8,320,056	8,129,771	(190,285)	1.06%	0.01%	1.36%
JS Bank Limited	419,500	-	-	419,500	-	-	-	-	0.00%	0.00%	0.00%
MCB Bank Limited	200,201	380,334	500	529,535	51,500	10,490,927	10,263,950	(226,977)	1.34%	0.01%	1.72%
National Bank of Pakistan	251,500	672,600	25,000	899,100	50,000	2,907,830	2,521,000	(386,830)	0.33%	0.00%	0.42%
NIB Bank Limited	1,364,000	-	-	1,364,000	-	-	-	-	0.00%	0.00%	0.00%
Samba Bank Limited	-	43,301	-	43,301	-	-	-	-	0.00%	0.00%	0.00%
SILK Bank Limited	-	2,950,000		800,000	2,150,000	6,296,859	5,439,500	(857,359)	0.71%	0.08%	0.91%
Summit Bank Limited	-	183,785	-	183,785	-	-	-	-	0.00%	0.00%	0.00%
United Bank Limited	36,500	362,629	-	365,629	33,500	2,167,495	2,073,985	(93,510)	0.27%	0.00%	0.35%
	4,175,590	**10,204,005**	**49,840**	**8,651,697**	**5,777,738**	**65,808,413**	**61,707,349**	**(4,101,064)**			
CHEMICALS											
Arif Habib Corporation Limited	375,000	302,805	-	497,805	180,000	5,115,625	4,734,000	(381,625)	0.62%	0.05%	0.79%
Engro Corporation	33,000	477,962	-	325,962	185,000	34,158,429	30,201,250	(3,957,179)	3.94%	0.05%	5.05%
Fatima Fertilizer Company Limited	-	2,310,500	-	2,310,500	-	-	-	-	0.00%	0.00%	0.00%
Fauji Fertilizer Bin Qasim Limited	601,000	1,209,244	-	1,243,229	567,015	22,888,497	23,899,682	1,011,185	3.12%	0.06%	4.00%
Fauji Fertilizer Company Limited	104,500	263,837	-	368,337	-	-	-	-	0.00%	0.00%	0.00%
ICI Pakistan Limited	-	95,400	-	95,400	-	-	-	-	0.00%	0.00%	0.00%
LOTTE Pakistan PTA Limited	3,080,000	5,023,200	-	5,703,200	2,400,000	36,469,308	33,192,000	(3,277,308)	4.33%	0.16%	5.55%
Sitara Peroxide Limited	30,500	-	-	30,500	-	-	-	-	0.00%	0.00%	0.00%
	4,224,000	**9,682,948**	**-**	**10,574,933**	**3,332,015**	**98,631,859**	**92,026,932**	**(6,604,927)**			
TRAVEL & LEISURE											
Pakistan International Airlines Corporation	**500,100**	**-**	**-**	**500,100**	**-**	**-**	**-**	-	0.00%	0.00%	0.00%
SOFTWARE & COMPUTER											
Netsol Technologies	**72,000**	**126,504**	**-**	**198,504**	**-**	**-**	**-**	-	0.00%	0.00%	0.00%
ELECTRICITY											
Hub Power Company Limited	135,320	782,306	-	697,626	220,000	8,107,434	8,250,000	142,566	1.08%	0.02%	1.38%
Kot Addu Power Company Limited	70,500	538,714	-	457,825	151,389	6,228,063	6,450,685	222,622	0.84%	0.02%	1.08%
Nishat Chunian Power Limited	-	4,247,400	-	832,500	3,414,900	53,529,603	46,852,429	(6,677,174)	6.11%	0.93%	7.84%
Nishat Power Limited	-	4,640,000	-	180,000	4,460,000	77,782,228	68,862,400	(8,919,828)	8.99%	1.26%	11.52%
	205,820	**10,208,420**	**-**	**2,167,951**	**8,246,289**	**145,647,328**	**130,415,514**	**(15,231,814)**			
	18,998,902	**39,872,453**	**183,631**	**37,071,127**	**21,983,859**	**474,161,203**	**427,106,423**	**(47,054,780)**			

5.2 Investments classified as 'available for sale'

Unless stated otherwise, the holdings are in ordinary shares / certificates of Rs 10 each.

Name of investee	Number of shares: As at 1 July 2010	Purchases during the year	Bonus / rights issue	Sales during the year	Holding as at 30 June 2011	Balance as at 30 June 2011: Carrying cost	Market value	Appreciation / (diminution)	Percentage in relation to: Market value as a percentage of net assets	Investee paid-up capital*	Total investments
						------------------------ (Rupees) ------------------------					
FINANCIAL SERVICES											
First National Equities Limited	716,791	24,650	-	-	741,441	8,573,681	2,157,593	(6,416,088)	0.28%	1.29%	0.36%
Jahangir Siddiqui and Company Limited	185,768	75,000	-	260,768	-	-	-	-	0.00%	0.00%	0.00%
JS Global Capital Limited	28,490	1,000	-	29,490	-	-	-	-	0.00%	0.00%	0.00%
SME Leasing Limited	456,766	1,500	-	505	457,761	3,660,075	4,348,730	688,655	0.57%	1.43%	0.73%
	1,387,815	**102,150**	**-**	**290,763**	**1,199,202**	**12,233,756**	**6,506,323**	**(5,727,433)**			
					-						
CONSTRUCTION											
Pioneer Cement Limited	**60,000**	**-**	**-**	**60,000**	**-**	**-**	**-**	**-**	0.06%	0.0%	0.00%
BANKS											
Bank Alfalah Limited	-	596,925	-	-	596,925	5,969,250	5,712,572	(256,678)	3.73%	0.07%	0.96%
United Bank Limited	466,815	149,761	-	366,576	250,000	13,743,407	15,477,500	1,734,093	3.73%	0.02%	2.59%
	466,815	**746,686**	**-**	**366,576**	**846,925**	**19,712,657**	**21,190,072**	**1,477,415**			
CHEMICALS											
Fatima Fertilizer Company Limited	**-**	**2,640,000**	**-**	**1,940,000**	**700,000**	**9,282,000**	**11,648,000**	**2,366,000**	0.06%	0.04%	1.95%
TRAVEL & LEISURE											
Pakistan International Airlines Corporation	**200,500**	**-**	**-**	**200,500**	**-**	**-**	**-**	**-**	0.08%	0.0%	0.00%
ELECTRICITY											
Hub Power Company Limited	-	30,000	-	-	30,000	1,110,000	1,125,000	15,000	0.15%	0.00%	0.19%
Kot Addu Power Company Limited	-	30,000	-	-	30,000	1,221,000	1,278,000	57,000	0.17%	0.00%	0.21%
Nishat Chunian Power Limited	-	1,021,931	-	-	1,021,931	16,350,896	14,020,893	(2,330,003)	1.83%	0.28%	2.34%
Nishat Power Limited	-	100,000	-	-	100,000	1,738,000	1,544,000	(194,000)	0.20%	0.03%	0.26%
	-	**1,181,931**	**-**	**-**	**1,181,931**	**20,419,896**	**17,967,893**	**(2,452,003)**			
	2,115,130	**4,670,767**	**-**	**2,857,839**	**3,928,058**	**61,648,309**	**57,312,288**	**(4,336,021)**			

5.3 Investments classified as 'Loans and receivables'

		Profit / mark-up rate	Maturity date	Carrying cost as at 30 June 2011	Value as a percentage of net assets	Value as percentage of investments
				(Rupees)		
Certificate of Musharaka						
Al Zamin Leasing Modaraba	*5.3.1*	12%	10-Sep-2011	19,000,000	2.48%	3.18%
Certificate of Investment						
Al Zamin Leasing Corporation	*5.3.1*	13%	27-Jan-2012	15,000,000	1.96%	2.51%
First Dawood Investment Bank Limited	*5.3.2*	11%	30-Apr-2012	30,500,000	3.98%	5.10%
				45,500,000	5.94%	7.61%
				64,500,000	**8.42%**	**10.79%**

5.3.1 The Fund made investment in COMs and COIs of Al-Zamin Leasing Modaraba (AZLM) and Al-Zamin Leasing Corporation Limited (AZLC) amounting to Rs. 20 million and Rs. 15 million on 10 June 2009 and 27 January 2009 respectively for a period of six months. However, from time to time these investments have been rolled over. As at 30 June 2011, the total outstanding principal amounted to Rs. 19 million and Rs.15 million respectively along the mark up outstanding amounted to Rs. 0.135 million and Rs. 0.828 million respectively. Given the merger of AZLM and AZLC with and into Invest Capital Investment Bank Limited (Invest Bank) in 2010, all liabilities of AZLM and AZLC, including the outstanding instruments were assigned to Invest Bank. The rating of Invest Bank is downgraded to D by the credit rating agency on 3 September 2010. Subsequent to the year end, an agreement has been executed with Invest Bank whereby both parties agreed to settle investments of Rs.34 million in aggregate along with profit at the rate of 12.5 percent per annum in 27 installments after payment of Rs. 5 million at the time of signing of the agreement. The remaining balance of Rs.29 million will be received in 27 monthly installments starting from 14 October 2011. The Fund has received Rs. 5 million and Rs.0.866 million against accrued profit on 14 September 2011. The Management Company has ensured the provisioning requirements of Circular No. 1 of 2009 dated 6 January 2009 and Circular 3 of 2010 dated 20 January 2010 and other circulars issued by the SECP, as well and considered that no provision is required.

5.3.2 The Fund made investment in COIs of First Dawood Investment Bank limited (FDIBL) - the retiring trustee of the Fund, amounting to Rs. 60 million inApril 2008. During the year ended, the Fund redeemed Rs. 12.0 million from FDIBL. As at 30 June 2011, the total outstanding principal amounted to Rs. 30.5 million (30 June 2010 : Rs. 42.5 million) and the markup outstanding amounted to Rs. 0.625 million (30 June 2010 : 0.795 million). However, no provision has been made on this investment, in view of the recovery of mark-up thereon on due dates.

5.4 Investments classified as 'Held to maturity'

		Profit / mark-up rate / yield	Maturity date	Carrying cost as at 30 June 2011 (Rupees)	Provision held if any	Value of investment after provisioning	Value as a percentage of net assets	Value as percentage of investments
Sukuk bonds of Rs. 5,000 each								
BRR Guardian Modaraba	*5.4.1*	KIBOR plus 1.30%	28-Aug-14	10,000,000	(10,000,000)	-	0.00%	0.00%
Government Securities -								
Treasury Bills - 3 months		13.44%	25-Aug-11	49,017,798	-	49,017,798	6.40%	8.20%
				59,017,798	(10,000,000)	49,017,798		

5.4.1 Upto 31 December 2010, the sukuk bonds of BRR Guardian Modaraba amounting to Rs.10 million had been stated at market values as per rates quoted by MUFAP and accordingly these were carried at Rs.7.5 million. On 24 January 2011, these investments were categorised as non- performing by MUFAP based on default on payment of interest and principal falling due. Since then no rates are being quoted by MUFAP and these are stated at cost less provision. Accordingly, the Management Company in accordance with the requirements of Circular No. 1, has fully provided for the Fund's investment in such sukuk bonds.

5.4.2 Circular no. 7 of 2009 dated 6 March 2009 issued by SECP requires vide circular no. 16 dated 7 July 2010 that rating of any security in the portfolio shall not be lower than investment grade. As of 30 June 2011, ratings of the above mentioned debt securities investments classified as loans and receivables' and 'held to maturity' except for treasury bills were below investment grade (refer note 5.3 and 5.4), however at the time of investments these securities were of the investment grade.

6. DIVIDEND AND OTHER RECEIVABLES

	2011	2010
	(Rupees)	
Dividend receivable	**402,982**	1,505,780
Profit receivable on certificates of musharaka	**135,864**	153,041
Profit receivable on certificates of investments	**1,453,280**	1,622,945
Profit receivable on sukuk bonds	-	653,973
Profit receivable on balances with banks	**1,992,867**	1,407,229
	3,984,993	5,342,968

7. SECURITY DEPOSITS

National Clearing Company of Pakistan Limited	**2,500,000**	3,500,000
Central Depository Company of Pakistan Limited	**175,000**	175,000
	2,675,000	3,675,000

8. PAYABLE TO THE MANAGEMENT COMPANY

Remuneration payable	**1,932,829**	1,689,691
Preliminary expenses and floatation costs payable	**1,801,986**	3,603,972
	3,734,815	5,293,663

Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding 3 percent of the average annual net assets of the Fund and thereafter of an amount equal to 2 percent of such assets of the Fund. In the current period, the Management Company has charged remuneration at the rate of 3 percent of the average annual net assets of the Fund. The amount of remuneration is being paid monthly in arrears.

9. REMUNERATION PAYABLE TO THE TRUSTEE

The Trustee of the Fund is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and offering document as per the tariff specified therein, based on the daily net asset value of the Fund. The remuneration is being paid monthly in arrears. Based on the Trust Deed and offering document the tariff structure applicable to the Fund in respect of the Trustee Fee as at 30 June 2011 and 30 June 2010 is as follows:

Amounts of Fund under management (Average NAV)	**Tariff per annum of NAV**	
	2011	2010
Upto Rs. 250 million	0.10 %	0.12 %
On amount exceeding Rs. 250 million upto Rs. 500 million	0.09 %	Rs.300,000 plus 0.10 % per annum of NAV exceeding Rs.250 million
On amount exceeding Rs. 500 million	0.08 %	Rs.550,000 plus 0.10 % per annum of NAV exceeding Rs.500 million

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

Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.085 percent of the average annual net assets of the Fund with effect from November 21, 2008.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2011	2010
		(Rupees)	
Auditors' remuneration		**325,000**	300,000
Brokerage payable on money market instruments		**499,391**	177,013
Brokerage payable on CFS transactions		-	36,646
Legal advisor fee payable		**55,302**	55,301
Workers' welfare fund		-	2,044,004
Withholding tax payable	*15*	**30,228**	839
Printing cost payable		**41,200**	-
		951,121	2,613,803

12. WORKERS' WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. The Central Depository Company of Pakistan on behalf of funds under its trusteeship along with a few Collective Investment Schemes (CISs) filed a petition before the Honourable High Court of Sindh on the ground that the CIS (mutual funds) are not establishments and as a result not liable to pay contribution to WWF.

Subsequently, the Ministry of Labour and Manpower (the Ministry) vide its letter dated 8 July 2010 issued advice and clarifications which stated that WWF Ordinance 1971 does Establishment Ordinance, 1969 is not applicable to any public listed company and any organized financial institutions including Mutual Funds because they are ruled and governed by separate laws. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that “Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers' Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income on Mutual Fund(s), the product being sold, is exempted under the law ibid”.

Further, the Secretary (Income Tax Policy) Federal Board of Revenue (FBR) issued a letter dated 6 October 2010 to the Members (Domestic Operation) North and South FBR. In the letter reference was made to the clarification issued by the Ministry of Labour and Manpower stating that mutual funds are a product and their income are exempted under the law ibid. The Secretary (Income Tax Policy) Federal Board of Revenue directed that the Ministry’s letter may be circulated amongst field formations for necessary action. Following the issuance of FBR Letter, show cause notice which had been issued by taxation office for two mutual funds for payment of levy under WWF has been withdrawn. However, there have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds and that MUFAP has requested Member Policy Direct Taxes for withdrawal of such show cause notices issued to such mutual funds. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter 4 January 2011 has cancelled ab-initio clarificatory letter dated 6 October 2010 on applicability of WWF on mutual funds. On 14 December 2010, the Ministry filed its response to the constitutional petition pending in the Court. As per the legal counsel who is handling the case, there is contradiction between the above earlier letter and clarification of the Ministry and the response filed by the Ministry before Honourable High Court of Sindh.

In view of the above stated matters, the Management Company is of the view that notwithstanding the show cause notices issued to a number of mutual funds, WWF is not applicable to the Funds and there have been favourable developments supporting Mutual Fund’s point of view hence provision in respect of WWF made upto 6 October 2010 amounted to Rs. 2.256 million (including provision upto 30 June 2010 of Rs. 2.044 million) has been reversed and the provision for the period from 7 October 2010 to 30 June 2011 amounting to Rs.1.474 million has not been made.

Recently, the Lahore High Court in a petition filed by an industrial establishment has declared the amendment introduced in the WWF Ordinance through Finance Act, 2006 and 2008 as unconstitutional and have therefore stroke them down. The Management Company is evaluating the implications of the above developments.

13. CERTIFICATE CAPITAL

	Note	2011	2010
		(Rupees)	
100,000,000 Fully paid ordinary certificates of Rs.10 each (2010: 100,000,000)	*12.1*	**1,000,000,000**	1,000,000,000

13.1 National Asset Management Company Limited (NAMCO) and First National Equities Limited (FNEL) hold 12,116,301 (2010: 10,807,921) and 453,011 (2010: 452,000) certificates respectively of Rs. 10 each as at 30 June 2011.

14. PROFIT ON INVESTMENTS AND BANK BALANCES

	2011	2010
	(Rupees)	
Profit on balances with banks	**22,665,910**	23,067,254
Profit on certificates of musharaka	**2,449,370**	3,246,740
Profit on certificates of investments	**6,017,229**	10,188,986
Profit on term deposit receipts	**4,884,459**	-
Profit on treasury bills	**2,676,039**	-
Profit on sukuk bonds	**84,921**	1,377,224
	38,777,928	37,880,204

15. BASIC AND DILUTED EARNINGS / (LOSS) PER CERTIFICATE

Net income for the year	*Rupees*	**85,966,916**	100,156,176
Number of certificates in issue	*Number*	**100,000,000**	100,000,000
Basic earnings per certificate	*Rupees*	**0.86**	1.00

There is no dilutive effect on the basic earnings / (loss) per certificate of the Fund.

16. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

16.1 Related parties include National Asset Management Company Limited being the Management Company, First Dawood Investment Bank Limited (former trustee), MCB Financial Services Limited being the trustee, First National Equities Limited being the associates of the Management Company and Key Management personnel.

16.2 The transactions with connected persons / related parties are at contracted rates and terms determined in accordance with market rates.

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

16.4 Details of transactions and balances with connected persons / related parties other than those which have been disclosed elsewhere are as follows:

Transactions with connected persons / related parties during the year	2011	2010
	(Rupees)	
National Asset Management Company Limited - Management Company		
- Management Fee	**22,689,299**	24,423,056
- Certificates issued [No. of certificates 1,308,380 (2010: 349,921)]	**13,083,800**	3,499,210
First National Equities Limited		
- Brokerage	**1,071,200**	577,537
- Purchase of marketable securities	**451,821,894**	259,750,321
- Sale of marketable securities	**460,062,273**	421,574,871
Certificate issued (No. of certificate 1,011)	**10,110**	-
Switch Securities Limited		
- Brokerage	**80**	73,943
- Purchase of marketable securities	**14,550**	15,845,481
- Sale of marketable securities	**4,940**	2,860,459
Executives of the Management Company		
- Certificates issued [No. of Certificates Nil (2010: 4,000)]	-	40,000
MCB Financial Services Limited		
- Remuneration to the trustee	**410,061**	-
First Dawood Investment Bank Limited		
- Remuneration to the retiring trustee	**224,382**	707,050

Balances with connected persons / related parties	2011	2010
	(Rupees)	
National Asset Management Company Limited - Management Company		
- Management fee payable	**1,932,829**	1,689,691
- Balance payable in respect of preliminary expenses and floatation costs	**1,801,986**	3,603,972
- Certificates in issue [No. of certificates 12,116,301 (2010: 10,807,921)]	**121,163,010**	108,079,210
First National Equities Limited		
- Brokerage payable	**178,276**	72,094
- Certificates in issue [No. of certificates 453,011 (2010: 452,000)]	**4,530,110**	4,520,000
- Market value of Shares [Number of shares 875,136 (2010: 852,386)]	**2,546,645**	9,955,869
First Pakistan Securities		
- Brokerage payable	**-**	1,630
- Certificates in issue [No. of certificates 1,512,000 (2010: 1,512,000)]	**15,120,000**	15,120,000
Switch Securities Limited		
- Brokerage payable	**-**	27,344
- Certificates in issue [No. of certificates 2,000,000 (2010: 2,000,000)]	**20,000,000**	20,000,000
Executives of the Management Company		
- Certificates in issue [No. of certificates 589,000 (2010: 28,500)]	**5,890,000**	285,000

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Financial risk management

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

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed by Board of Directors and audit committee regularly to reflect changes in market conditions and the Fund's activities.

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

The Fund primarily invests in quoted equity securities, fixed income securities and other money market instruments. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

17.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Fund's performance to developments affecting a particular industry.

Management of credit risk

The Fund’s policy is to enter into financial contracts with reputable counterparties in accordance with the internal risk management policies and investment guidelines approved by the Board of Directors. The IC closely monitors the creditworthiness of the Fund’s counterparties (e.g., issuer of the instruments, brokers, banks, etc.) by reviewing their credit ratings, financial statements and press releases on a regular basis. In addition the credit risk is also minimized due to the fact that the fund only invests in the high quality financial assets, majority of which have been rated by a reputable rating agency. All transactions in debt securities are settled / paid upon delivery. The risk of default in such transactions is considered minimal, as delivery of securities is guaranteed by reputable brokers or the transactions are carried with counter parties of high reputation.

The Fund's credit risk is primarily attributable to its investments and balances with banks. The credit risk on Fund's financial assets is limited because the counter parties are financial institutions with reasonably high credit ratings.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	Carrying amount	
	2011	2010
	(Rupees)	
Bank balances	**171,524,224**	126,687,979
Investments		
- Loans and receivables	**64,500,000**	76,500,000
- Held to maturity	**-**	10,000,000
	64,500,000	86,500,000
Receivable against sale of investments	**955,937**	-
Dividend and other receivables	**3,984,993**	5,342,968
Security deposits	**2,675,000**	3,675,000
	243,640,154	222,205,947

Investment in government securities i.e. treasury bills are not considered to be exposed to credit risk.

Details of the credit ratings of balances with banks and investment in loans and receivables andsukuk bonds as at 30 June 2011 are as follows:

Credit quality of bank balances

Name of Bank	**Current rating**	**2011 %**	2010 %
NIB Bank Ltd	AA-	**60.64%**	0%
Bank of Punjab	AA-	**39.30%**	0%
Bank Alfalah Limited	AA	**0.01%**	0%
Faysal Bank Limited	AA	**0.05%**	28%
Atlas Bank Limited	Non-rated	**0%**	1%
KASB Bank Limited	A-/A2	**0%**	71%
		100%	100%

Credit quality of Loans and Receivables	**2011**	2010
A-2	**52.71%**	0.00%
D	**47.29%**	55.55%
Rating Withdrawn by the rating agency	**0.00%**	44.45%
	100%	100%

Concentration of the 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. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentration of credit risk.

Settlement risk

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

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

Past due or impaired financial assets

None of the financial assets of the Fund are past due or impaired except for sukuk bonds of BRR Guardian Modaraba as at 30 June 2011.

17.2 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due.

Management of liquidity risk

The Fund's policy is to manage this risk by investing in deposit accounts, short term money market placements treasury bills or in investments that are traded in an active market and can be readily disposed. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements. The present settlement system for listed equity securities is a T+2 system, which means that proceeds from sales (to pay off redemptions) of holdings will be received on the second day after the sale.

The Fund has the ability to borrow in the short term to ensure settlement. No such borrowings have arisen during the year. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets, up to 90 days, and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

Maturity analysis for financial liabilities

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the year end to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. The maturity profile of the Fund's liabilities based on contractual maturities is given below:

	30 June 2011				
	Carrying amount and contractual cash flows	**Up to 8 days**	**8 days to one months**	**later than one month and not later than three months**	**later than three months**
Non-derivative liabilities	----------------------------		(Rupees)	----------------------------	
Payable to the Management Company	**3,734,815**	**(1,932,829)**	**-**	**-**	**(1,801,986)**
Remuneration payable to the Trustee	**49,869**	**(49,869)**	**-**	**-**	**-**
Unclaimed dividend	**5,490,781**	**(5,490,781)**	**-**	**-**	**-**
Accrued expenses and other liabilities	**920,893**	**-**	**-**	**(920,893)**	**-**
	10,196,358	**(7,473,479)**	**-**	**(920,893)**	**(1,801,986)**

Non-derivative liabilities	June 30, 2010 Carrying amount and contractual cash flows	Up to 8 days	8 days to one months	later than one month and not later than three months	later than three months
	-----------------------------	(Rupees)	-----------------------------		
Payable against purchase of investments	468,984	(468,984)	-	-	-
Payable to the Management Company	5,293,663	(1,689,691)	-	-	(3,603,972)
Remuneration payable to the Trustee	52,818	(52,818)	-	-	-
Unclaimed dividend	6,262,441	(6,262,441)	-	-	-
Accrued expenses and other liabilities	568,960	-	-	(568,960)	-
	12,646,866	(8,473,934)	-	(568,960)	(3,603,972)

Above financial liabilities do not carry any mark-up.

17.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk (equity price risk). The Fund is exposed to interest rate risk and equity price risk.

Management of market risks

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

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.

At year end, details of the interest rate profile of the Fund's interest bearing financial instruments were as follows:

	2011	2010
Fixed rate instruments	**(Rupees)**	
Financial assets	**113,517,798**	76,500,000
Variable rate instruments		
Financial assets	**-**	10,000,000

Fair value sensitivity analysis for fixed rate instruments

Fixed rate instruments comprise of certificates of investments, certificate of musharaka and treasury bills. The Fund's income from these investments is not exposed to changes in market interest rates.

The composition of the Fund's investment portfolio and KIBOR rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2011 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

Cash flow sensitivity analysis for variable rate instruments

Equity price risk

Equity price risk is the risk of changes in the fair value of equity securities as the result of changes in the levels of stock exchange index and the value of individual shares. The equity price risk exposure arises from the Fund's investments in equity securities. This arises from investments held by the Fund for which prices in the future are uncertain. The Fund policy is to manage price risk through diversification and selection of securities within specified limits set by internal risk management guidelines, which are prepared in line with Non-Banking Finance Companies and Notified Entities Regulations, 2008.

A summary analysis of investments by industry sector, the percentage in relation to the Fund's own net assets, the percentage of issued capital of the investee company, total investment and their fair values as at 30 June 2011 are stated in note 5.1 and 5.2.

In case of one percent increase / decrease in share prices at year end, there would have increased / decreased the Fund's net income in case of held for trading investments and increased / decreased remeasurement appreciation / diminution on investments in case of available for sale investments by Rs. 4.271 million and Rs. 0.573 million respectively (30 June 2010: Rs.4.297 million and Rs. 0.416 million respectively).

17.4 Operational risks

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

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

- requirements for appropriate segregation of duties between various functions, roles and responsibilities; documentation of controls and procedures;

- compliance with regulatory and other legal requirements; requirements for the reconciliation and monitoring of transactions;

- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified; contingency plans;

- ethical and business standards; risk mitigation, including insurance where this is effective.

17.5 Certificate Holders' Fund risk management

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

The Fund manages its investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The Fund is not exposed to externally imposed minimum certificate capital maintenance requirement.

17.6 Fair value of financial instruments

The Fund's accounting policy on fair value measurements is disclosed in note 3.1.

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

- Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 1 financial instruments include investment in quoted equity securities amounting to Rs. 484,418,711 as at 30 June 2011 (2010: Rs. 471,337,978).

- Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). There are no items to report therein.

- Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (unobservable inputs). Level 3 financial instruments include sukuk bonds of BRR Guardian Modaraba which are fully provided as these are categorised as non-performing.

The carrying amounts of all other financial assets and liabilities reflected in the financial statements approximate their fair values.

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

	(Rupees)
Transfer from level 2 during the year	10,000,000
Provision made during the year	(10,000,000)
Balance as at 30 June 2011	-

18. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on October 3, 2011 have proposed a bonus distribution at the rate of 8% . The financial statements of the fund for the year ended 30 June 2011 do not include the effect of the final distribution which will be accounted for in the financial statements of the fund for the year ended 30 June 2012.

19. SUPPLEMENTARY NON FINANCIAL INFORMATION

The information regarding certificate holding pattern of the Fund, top ten brokers of the Fund, members of the Investment Committee, fund manager, meetings of the Board of Directors, credit rating of the Fund and the Management Company of the Fund as required under Schedule V of Non Banking Finance Companies and Notified Entities Regulations, 2008 has been disclosed in Annexure I to the financial statements.

20. OPERATING SEGMENT

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Investment Committee (IC) of the Management Company has been identified as the chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments. The Fund manager works under the supervision of the IC and follows the directions given by the Committee.

The IC is responsible for the Fund's entire portfolio and considers the business to have a single operating segment. The IC's asset allocation decisions are based on a single integrated investment strategy and the Fund's performance is evaluated on an overall basis.

The internal reporting provided to the IC for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting standards as applicable in Pakistan.

The Fund is domiciled in Pakistan. The Fund's income is generated from resources invested in quoted equity securities, certificate of investment, certificates of musharika and sukuk bonds and balances maintained with banks which are based in Pakistan.

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by Board of Directors of the Management Company on October 3, 2011.

For National Asset Management Company Limited
(Management Company)

Chief Executive	**Director**

Annexure I

SUPPLEMENTARY NON FINANCIAL INFORMATION AS REQUIRED UNDER SECTION 6(D), (F), (G), (H), (I), AND (J) OF THE FIFTH SCHEDULE TO THE NON BANKING FINANCE COMPANIES AND NOTIFIED ENTITIES REGULATIONS, 2008

(i) CERTIFICATE HOLDING PATTERN OF THE FUND AS AT 30 JUNE 2011

No. of Certificate Holders	Having Certificate From	To	Certificates held	Percentage
29	1	100	382	0.00%
145	101	500	70,879	0.07%
39	501	1000	37,417	0.04%
30	1001	5000	79,239	0.08%
6	5001	10000	47,600	0.05%
1	20001	25000	22,360	0.02%
3	25001	30000	79,431	0.08%
2	45001	50000	94,866	0.09%
2	50001	55000	110,000	0.11%
1	65001	70000	67,821	0.07%
1	70001	75000	75,000	0.08%
2	95001	100000	199,500	0.20%
1	105001	110000	110,000	0.11%
2	155001	160000	313,586	0.31%
1	195001	200000	200,000	0.20%
1	205001	210000	208,000	0.21%
1	220001	225000	221,632	0.22%
1	225001	230000	225,450	0.23%
4	245001	250000	993,311	0.99%
3	495001	500000	1,500,000	1.50%
1	585001	590000	587,000	0.59%
1	700001	705000	700,499	0.70%
1	995001	1000000	999,950	1.00%
1	1430001	1435000	1,433,667	1.43%
1	1470001	1475000	1,473,467	1.47%
1	1510001	1515000	1,512,000	1.51%
2	1995001	2000000	4,000,000	4.00%
2	2495001	2500000	5,000,000	5.00%
1	3855001	3860000	3,855,273	3.86%
1	3935001	3940000	3,935,078	3.94%
1	4995001	5000000	5,000,000	5.00%
1	5580001	5585000	5,582,649	5.58%
1	5595001	5600000	5,600,000	5.60%
1	6865001	6870000	6,867,333	6.87%
1	7495001	7500000	7,500,000	7.50%
1	7560001	7565000	7,561,933	7.56%
1	9395001	9400000	9,400,000	9.40%
1	11390001	11395000	11,393,442	11.39%
1	12940001	12945000	12,941,235	12.94%
296			100,000,000	100.00%

(ii) PATTERN OF CERTIFICATE HOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE AS AT 30 JUNE 2011

Category	Certificate Holding		
	Certificate holders	Number of certificates	Percentage
Individuals	261	1,571,407	1.57%
Insurance Companies	-	-	-
Banks, DFIs and Non-Banking Financial Institutions	10	32,096,428	32.10%
Financial Institutions	-	-	-
Modarabas	-	-	-
Directors, CEO & their spouses & minor children	-	-	-
Associates Companies	4	16,081,812	16.08%
Foreign Investor	2	18,523,884	18.52%
Others	19	31,726,469	31.73%
	296	100,000,000	100.00%

PATTERN OF CERTIFICATE HOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE AS AT 30 JUNE 2010

Category	Certificate Holding		
	Certificate holders	Number of certificates	Percentage
Individuals	258	1,494,166	1.49%
Insurance Companies	-	-	0.00%
Banks, DFIs and Non-Banking Financial Institutions	13	39,897,994	39.90%
Financial Institutions	1	3,935,667	3.94%
Modarabas	1	5,400,000	5.40%
Directors, CEO & their spouses & minor children	3	30,500	0.03%
Associates Companies	4	14,771,921	14.77%
Foreign Investor	1	3,522,600	3.52%
Others	23	30,947,152	30.95%
	304	100,000,000	100.00%

(iii) LIST OF TOP TEN BROKERS BY PERCENT OF THE COMMISSION PAID

Broker's Name	2011
First National Equities Ltd	**29.57%**
Intermarket Securities Pvt. Ltd	**6.47%**
Al-Hoqani Securities & Investment Ltd.	**6.25%**
Pearl Securities Ltd.	**6.23%**
AKD Securities	**5.92%**
Standard Capital Securities Ltd.	**3.78%**
MRA Securities Ltd.	**3.29%**
Elixir Securities Pakistan Pvt. Ltd	**3.06%**
AHM Securities Ltd.	**2.75%**
Taurus Securities Ltd.	**2.73%**

Broker's Name	2010
First National Equities Ltd	29.15%
Intermarket Securities Pvt. Ltd	7.40%
BMA Capital Management Ltd	5.51%
Arif Habib Securities Ltd	5.06%
AKD Securities	4.49%
Dalal Securities Pvt. Ltd	4.39%
Elixir Securities Pakistan Pvt. Ltd	4.00%
Shehzad Chamdia Securities	3.94%
ACE Securities Pvt. Ltd	3.91%
Switch Securities	3.70%

(iv) PARTICULARS OF MEMBERS OF THE INVESTMENT COMMITTEE

Following are the members of the Investment Committee of the Fund:

	Designation	Qualification	Experience in years
- Mr. Mubarik Ali	CEO	MBA	20
- Mr. Muhammad Faraz	CFO & Company Secretary	ACMA / FPA	11
- Mr. Faisal Merchant	CIO	MBA	16
- Mr. Muhammad Arshad	Fund Manager	MBA	10

(v) DIRECTOR MEETING ATTENDANCE

		Meetings			
Name of Director	**Designation**	**Held**	**Attended**	**Leave granted**	**Meeting not attended**
Lt. General (Retd.) M. Hamid Khan	Chairman	5	5	-	-
Dr. Syed Salman Ali Shah	Chairman (Former)	5	3	2	25th and 27th
Mr. Shafiq A. Khan	Director	5	5	-	-
Justice (Retd.) M. Javed Buttar	Director	5	5	-	-
Mr. Mubarik Ali	Director / CEO	5	2	-	23rd, 24th and 25th
Mr. Etrat Hussain Rizvi	Director / CEO (Former)	5	3	-	26th and 27th

Mr. Mubarik Ali has been appointed as Director / CEO in place of Mr. Etrat H. Rizvi on 26th Board meeting held on 21 February 2011 and approval of SECP has been obtained on 3 May 2011, vide letter reference SCD/NBFC-II/DD/ NAMCO/205/2011 . The Board elected Lt. Gen. (Retd.) M. Hamid Khan as its Chairman in place of Dr. Syed Salman Ali Shah, who resigned from the Board.

Dates of the meetings of the Board of Directors

Twenty third meeting	August 9, 2010
Twenty fourth meeting	September 24, 2010
Twenty fifth meeting	October 27, 2010
Twenty sixth meeting	February 21, 2011
Twenty seven meeting	April 18, 2011

(vi) FUND AND ASSET MANAGER RATING

JCR - VIS has reaffirmed management quality rating of "AM3-" of National Asset Management Company Limited in its report dated 08 August 2011. A "Positive" outlook has been assigned in view of developments as regards strengthening of the management team to establish in-house business development and business management capabilities and reconstitution of the Board by appointment of independent directors. The rating of the Fund has been disclosed in note 1 to the financial statements.

National Asset Management Comapany Limited
19-C, Sunset Lane-6, South Park Avenue,
Phase-II Extension, D.H.A., Karachi
PABX : 0092-21-35312416-19
Fax : 0092-21-35889743, 35395924
Website : www.namco.com.pk