

KASB BALANCED FUND

Annual

REPORT

for the Year Ended June 30, 2010

Report

Managed by:



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FUND INFORMATION

For the year ended June 30, 2010

Management Company

KASB Funds Limited

Registered Office:

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

Principal Office:

11th Floor, Trade Centre, I. I. Chundrigar Road,
Karachi-74200, Pakistan

UAN: (92-21) 111 535 535

Fax: (92-21) 3263 9188

URL: www.kasbfunds.com

Board of Directors of KASB Funds Limited

Mr. Robert John Richard Owen - Chairman

Ms. Naz Khan - Chief Executive

Mr. Syed Muhammad Rehmanullah

Mr. Muzaffar Ali Shah Bukhari

Mr. Masood Karim Sheikh

Chief Financial Officer

Mr. Muhammad Imran Khalil

Company Secretary

Mr. Muhammad Imran Khalil

Audit Committee

Mr. Masood Karim Sheikh - Chairman

Mr. Robert John Richard Owen

Mr. Syed Muhammad Rehmanullah

Trustee

Central Depository Company of Pakistan Limited, CDC House,
99-B, Block 'B', SMCHS, Main Shakra-e-Faisal, Karachi

Fund Rating

3 star by PACRA

(February 2010)

Bankers to the Fund

KASB Bank Limited

Auditors

KPMG Taseer Hadi & Co. - Chartered
Accountants, First Floor, Shiekh Sultan Trust
Building No. 2, Beaumont Road,
P.O.Box 8517, Karachi

Legal Advisor

Bawaney & Partners
Room No. 404, 4th Floor, Beaumont Plaza,
6-cl-10, Beaumont Road, Civil Lines,
Karachi-75530

Registrar

Noble Computer Services (Pvt.) Limited
Mezzanine Floor, House of Habib Building
(Siddiqsons Tower) 3-Jinnah Cooperative Housing Society,
Main Shakra-e-Faisal Karachi-75350

Distributors

KASB Funds Limited
KASB Bank Limited
KASB Securities Limited
IGI Investment Bank Limited
Atlas Capital Markets (Private) Limited
Standard Chartered Bank (Pakistan) Limited

Management Company Rating

Rated AM3+ by JCR-VIS
(May 2010)

MISSION STATEMENT

KASB Balanced Fund seeks to generate regular income together with long term capital appreciation by investing in income bearing securities as well as equities.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2010

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Balanced Fund (KBF, the Fund), is pleased to present the third Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2010.

Financial Highlights

	FY 2010	FY 2009	Increase / (Decrease) (%)
Net income / (loss) (Rs. in Million)	31.38	(99.83)	131.43
Net Assets as at June 30 (Rs. in Million)	462.89	525.61	(26.07)
NAV per Unit as on June 30 (Rs.) *	43.13	42.75	0.88
Return (%)	0.89	(14.28)	106.23

* Par value of each unit is Rs. 50.

Economic Environment

The economic environment improved considerably in the outgoing fiscal year FY10 with a GDP growth of 4.1% as against a GDP growth of 1.2% in FY09. Pakistan economy is still passing through a consolidation phase which is reflected in an improved balance of payment position, highest ever foreign exchange reserves (USD16.75bn), robust workers' remittances of over USD 8 billion in FY10 (14% YoY growth) and relatively stable exchange rate.

Despite all these positives, the country's economy still faces a number of significant challenges. A higher budget deficit this year, rising domestic and foreign debt, persistent inflationary pressures and lower tax-to-GDP ratio are the major obstacles in the path of stable macroeconomic growth for the next year. In addition, energy and water shortages and increasing war-on-terror expenses limits the government's spending ability to accelerate economic activity.

Interest rates in the economy continue to remain firm as the central bank strictly followed a tight monetary policy stance due to stubborn inflation as well as agreements with the IMF. The SBP has kept the discount rate unchanged at 12.50% at fiscal year end after the last cut of 50bps during November 2009. Furthermore the private sector continues to be crowded out due to higher govt. borrowing needs, liquidity constraints in the market and risk aversion by lenders.

Capital Market

FY10 saw the equity market rise significantly as the KSE-30 Index appreciated by 26.22% during the period under review. Net Foreign Portfolio Investment of USD 569 million has been the primary driver behind this bull run as abundant global liquidity has seen money flowing to all emerging and frontier markets. Substantial progress on political issues during the year, particularly the passage of the 18th amendment unanimously by the Senate and National Assembly, has been instrumental in our view in wooing foreign investors who have chosen to diversify their investments to Pakistan, given cheap valuations as compared to the region. Inclusion of Pakistan in the MSCI Frontiers Market Index, Moody's maintaining Pakistan's credit rating at B3 as well as regular release of funds by IMF under the standby agreement has further provided impetus to foreign portfolio investors, notwithstanding the fact that KSE-100 failed to garner enough confidence for upgrade to MSCI Emerging Market Index. However, Foreign Direct Investment (FDI), which is longer term and generally aids in building infrastructure and contributing to economic growth remains elusive.

The equity market has nonetheless witnessed a bearish streak over the last quarter due to concerns over imposition of the Capital Gains Tax. Local retail investors have chosen to remain on the sidelines until modalities on the mode of implementation becomes clearer. Furthermore, volumes have dried up of late due to absence of a leverage product in the market.

Lack of liquidity for corporate debt continues to prevail as does pricing volatility. A few instruments were restructured during the quarter as most of the companies that were having financial difficulties in a lean economic patch have managed to negotiate a restructuring with their investors. Market continues to be risk averse as investors find government papers yield attractive resulting in very low trades in TFCs/Sukuks. Assets under management of the industry declined by Rs 7 billion during the year and there was a shift from income to money market and government securities funds.

Investment Strategy

KBF aims to achieve the objective of generating regular income together with capital appreciation. The Fund invests a maximum of 70% and a minimum of 65% in fixed income together with a maximum of 40% and a minimum of 30% in equities. On the income side, the fund invests both in shorter duration and longer duration debt instruments as well as fixed income transactions in the capital market to achieve consistent income for Unit Holders keeping in view capital preservation. On the equity side, the Fund invests in fundamentally undervalued stocks that have business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management. Liquidity is an important consideration in the stock selection process as well and illiquid but fundamentally under valued stocks are kept at a minimum. For the outgoing fiscal year, banking, fertilizer and oil and gas sectors remained in favour with the fund as they offered most value as well as growth opportunities.

For FY10, the income portion of KBF was invested in floating rate instruments and long term placements. On the equity side, we continue to follow stock-specific, fundamentals driven strategy to outperform the benchmark.

Fund Performance

The Fund has earned a return of 0.89% for FY10 against the benchmark (65% 1 Month KIBOR + 35% KSE-30) return of 17.72%. While the equity portion outperformed its benchmark, fund underperformance has come from the income portion on the back of re-valuation impact in TFCs both due to credit related issues as well as market pricing. The Net Asset Value per unit of the Fund at the close of the year stood at Rs. 43.13. The net income for the year ended June 30, 2010 was Rs. 31.38 million.

Income Distribution

The Board of Directors of KASB Funds Limited approved the dividend distribution of Rs. 2.75 per unit to the unit holders of the Fund for the year ended June 30, 2010.

As the Fund has distributed among the unit holders not less than ninety per cent of its accounting income for the financial year ended June 30, 2010, as reduced by capital gains whether realized or unrealized, therefore, its income will not be subject to income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

DETAILS OF PATTERN OF HOLDING (UNITS)

For the year ended June 30, 2010

As at June 30, 2010

Sale and redemption of units

The fund size of KBF was Rs. 625.81 million on June 30, 2009 which decreased by 26.07% by the end of the financial year to close at Rs. 462.69 million on June 30, 2010. During the year, units worth Rs. 1.77 million were issued and units with a value of Rs. 183.16 million were redeemed. As on June 30, 2010, the total number of outstanding units was 10,727,020 with a value of Rs. 462.69 million.

Code of Corporate Governance

The Board of Directors states that:

- a) The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund.
- b) Proper books of accounts of the Fund have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements of the Fund except for the change in accounting policy as discussed in note 2.2 of the financial statements and accounting estimates are based on reasonable and prudent judgments.
- d) Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed in the preparation of the financial statements of the Fund. Wherever, the requirements of the Trust Deed, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives shall prevail.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts about the Fund's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements;
- i) Key operating and financial data is enclosed.
- j) The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company.
- k) The detailed pattern of unit holding, as required by the code of corporate governance is enclosed.

Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2010 is disclosed in note 24 of the financial statements.

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

Pattern of Holding

The pattern of holdings (units) presents a diversified investor base. As on June 30, 2010, banks and financial institutions held 87.86% out of the total units; individuals held 3.22% units; modarabas, mutual funds and other corporate sector entities held 5.13% units; 3.79% units were held by Retirement Funds and Non-Profit Organisations. Detailed pattern is also annexed.

Future Outlook

The country remains on the path of economic stabilization with an improvement on a number of key economic indicators. Inflationary pressures in the economy continue to prevail constraining the central bank to use monetary policy to stimulate economic growth. Fiscal deficit continues to remain a concern with massive government borrowing crowding out the private sector. Impact of the vast devastation caused by the recent floods remains to be quantified and is likely to have a negative impact on the fiscal deficit as well as the economy for at least a couple of years. The trend of global commodity prices and external bi/multilateral inflows will remain critical for the direction of the country's economy.

As the modalities of Capital Gains Tax become clearer amongst investors and the fear of the unknown resides, market volumes are expected to pick up in the next fiscal year. Until volumes pick up, directional movement is likely to be subdued and we are likely to see a very range bound market for the upcoming quarter as investors adjust to this new tax regime. Potential downside risks for the market include a rise in interest rates due to a spike in inflation, negative developments on the pending IMF tranche or a substantial economic impact due to the recent floods.

On the debt side, restructuring of most troubled debt instruments has successfully taken place during the year. Over the long term, returns are expected to remain healthy as credit issues resolve.

Auditors

The Audit Committee of the Board of Directors recommended the re-appointment of M/s KPMG Taseer Hadi & Co. – Chartered Accountants as auditors of KASB Balanced Fund for the financial year ending June 30, 2011. The Board has approved the appointment.

Acknowledgement

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

For and on behalf of the Board

August 27, 2010
Karachi

Naz Khan
Chief Executive

	Units held	Units held (%)
Associated companies		
KASB Bank Limited	6,413,107	59.78
Banks and Financial Institutions	3,011,735	28.08
Individuals	345,603	3.22
Retirement Funds	194,649	1.81
Modarabas and Mutual Funds	56,721	0.53
Other Corporate Sector Entities	493,055	4.60
Non Profit Organisations	212,150	1.98
	<u>10,727,020</u>	<u>100.00</u>

PERFORMANCE TABLE

For the year ended June 30, 2010

	2010	2009	2008
Total net asset value as at June 30 (Rs. '000)	462,688	625,814	1,124,019
Net asset value per unit as at June 30 (Rs.)	43.13	42.75	49.87
Selling price for units as at June 30 (Rs.)	44.01	43.63	50.89
Repurchase price for units as at June 30 (Rs.)	43.13	42.75	49.87
Final dividend distribution per unit (Rs.)	2.75	-	-
Date of final distribution	July 3, 2010	-	-
Highest selling price per unit (Rs.)	48.57	50.76	54.89
Lowest selling price per unit (Rs.)	43.44	35.48	49.38
Highest repurchase price per unit (Rs.)	47.59	49.74	53.79
Lowest repurchase price per unit (Rs.)	42.57	34.77	48.39
Return (%)	0.89	-14.28	-0.26

Return since inception is -13.74%

Launch date of the Fund is December 31, 2007.

Disclaimer:

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

ANNUAL FUND MANAGER'S REPORT
Type & Category of Fund

Open end balanced

Inception Date

December 31, 2007

Investment objective

The Fund seeks to generate regular income together with long term capital appreciation by investing in income bearing securities as well as equities.

Accomplishment of objective

The fund is achieving its objective of generating regular income by investing in the fixed income instruments within the SECP rules. The fund continues to target long-term capital appreciation through investment in equities within the SECP rules

Benchmark

65% 1 month KIBOR + 35% KSE 30 Index

	KBF Return (%)	Benchmark return (%)
Since inception	-13.74	2.21
FY 2010	0.89	17.72
CY 2010	-4.11	2.92
For June 2010	0.37	1.87

Strategies and policies employed during the period

Due to continued liquidity pressure in the markets and risk aversion by the participants, the corporate debt market remained highly depressed resulting in few trades of govt. backed TFCs/Sukuks and top rated banking instruments. In the presence of very few buyers, the prices of majority of TFCs declined significantly during the year as bargain hunting gained momentum. The fund remained focused in offloading TFCs and to restructure non-performing corporate debt. As a result most of instruments held in the fund with credit concerns have been restructured during the year. On the equity side, the Fund invested in fundamentally undervalued stocks that had business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management

Asset Allocation	June 30, 2010 (%)	June 30, 2009 (%)
Other Equity Investments	6.64	7.68
Chemicals	3.77	8.09
Commercial Banks	6.41	6.84
Oil & Gas	9.76	8.04
Personal Goods	3.98	0.56
Non-Life Insurance	2.56	0.49
Govt. Debt	0.00	4.00
Placements	13.33	12.90
TFCs & Sukuks	37.55	38.50
Cash & Other Assets	16.00	13.95

Significant changes in asset allocation during the period

As compared to the beginning of the year, the Fund's exposure to govt. debt was reduced to nil, while the allocation of Cash & Other Assets within the portfolio increased to 16% in line with fund strategy. Asset allocation of the equity portion changes dynamically as per sector outlook.

Fund Performance

Returns on the fund remained on the lower side due mainly to the valuation impact as well as credit deterioration in income instruments held by the fund. KBF has provided return of -13.74% since inception, against benchmark return of 21%. It has recorded a return of 0.89% in FY10 and -4.11% during half year CY10.

The AUM of the fund were PKR 626 million (NAV per unit: Rs 42.75 on June 30, 2009 and at the end of the period the AUM of the fund stood at PKR 463 million (NAV per unit: Rs 43.13).

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

The economic environment improved considerably in the outgoing fiscal year FY10 with a GDP growth of 4.1% as against a GDP growth of 1.2% in FY09. Pakistan economy is still passing through a consolidation phase which is reflected in an improved balance of payment position, highest ever foreign exchange reserves (USD16.76bn), robust workers' remittances of over USD 8 billion in FY10 (14% YoY growth) and relatively stable exchange rate.

Despite all these positives, the country's economy still faces a number of significant challenges. A higher budget deficit this year, rising domestic and foreign debt, persistent inflationary pressures and lower tax-to-GDP ratio are the major obstacles in the path of stable macroeconomic growth for the next year. In addition, energy & water shortages and increasing war-on-terror expenses limits the government's spending ability to accelerate economic activity.

Interest rates in the economy continue to remain firm as the central bank strictly follows tight monetary policy stance due to stubborn inflation as well as agreements with the IMF. The SBP has kept the discount rate unchanged at 12.50% at fiscal year end after the last cut of 50bps during November 2009. Furthermore the private sector continues to be crowded out due to higher govt. borrowing needs, liquidity constraints in the market and risk aversion by lenders.

The equity market has nonetheless witnessed a bearish streak over the last quarter due to concerns over imposition of the Capital Gains Tax. Local retail investors have chosen to remain on the sidelines until modalities on the mode of implementation becomes clearer. Furthermore, volumes have dried up of late due to absence of a leverage product in the market.

Lack of liquidity for corporate debt continues to prevail amid pricing volatility. A few instruments were restructured during the quarter as most of the companies that were having financial difficulties in a lean economic patch have managed to negotiate a restructuring with its investors. Market continues to be risk averse as investors find government papers yield attractive resulting in very few trades in TFCs/Sukuks.

Fund performance by market(s) and by instruments

For details, please refer to the full yearly accounts.

Distribution

The fund distributed Rs 2.75 as final dividend for FY10.

Date of Distribution	Amount of Distribution (PKR)	NAV (PKR)	Ex-NAV of Fund (PKR)
July 03, 2010	2.75	43.13	40.38

Significant changes in the state of affairs

During the period under review the liquidity crunch and risk aversion increased significantly in the market. Government has been relying heavily on the banking sector to finance its fiscal deficit by providing higher returns on the govt. papers, resulting in the non-availability of loan to private sector. As a result, leasing and investment banks were not able to pay off the fund's lending on time. There were few other companies that delayed payments on their principal and markup commitments. This resulted in fall in NAV of funds holding sukuks and TFCs.

Breakdown of unit holdings by size

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

Unit Splits

There were no unit splits during the period.

Circumstances materially affecting the interests of the unit holders

Changes in market rates of TFCs/ Sukuks and other debt instruments based on the new pricing mechanism severely affected fund returns. In addition, market to market impacts of secondary market trades also affected fund performance.

Soft Commission

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

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

The KASB Balanced Fund (the Fund), an open-end fund was established under a Trust Deed dated October 25, 2007, executed between KASB Funds Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2010 in accordance with the provisions of the following:

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

Muhammad Hanif Jakhura

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi, September 22, 2010

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

For the year ended June 30, 2010

This Statement is being presented to comply with the Code of Corporate Governance ("the Code") contained in Regulation No. 35 of the Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited ("KSE" or "the Stock Exchange"). The purpose of the Code is to establish a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance, KASB Funds Limited ("the Company" or "the Management Company"), which is an Unlisted Public Limited Company, is the Management Company of KASB Balanced Fund ("the Fund"). The Fund being an open-end scheme doesn't have its own Board of Directors ("the Board"). The Management Company, which manages the affairs of the Fund, has applied the principals contained in the Code to the Fund, whose Units are listed on the Stock Exchange, in the following manner:

- The Management Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. All the directors except the Chief Executive Officer (CEO) are non-executive directors and none of the directors represent minority shareholders.
- The directors have confirmed that none of them is serving as a director in more than ten listed companies in Pakistan, including the Management Company.
- All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- On February 12, 2010, Mr. Amir Zahoor Khan resigned from the Board of the Management Company. Mr. Muzaffar Ali Shah Bukhari was appointed in his place to duly fill the vacancy. Further, on February 19, 2010 Mr. Farid Arshad Masood resigned from the Board of the Management Company and the Board appointed Mr. Masood Karim Sheikh in his place. However, application for appointment of Mr. Masood Karim Sheikh as Director on Board of the Management Company has been filed with the Securities and Exchange Commission of Pakistan and is currently under process.
- The Management Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Management Company.
- The Board has developed a vision/mission statement and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
- All the powers of the Board have been duly exercised and decisions on material transactions, including appointment, determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
- The meetings of the Board were presided over by the Chairman of the Board. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- An orientation course was conducted during the year in a meeting of the Board to apprise them of their duties and responsibilities.
- During the year, there was a change of the Company Secretary and the Internal Auditors; however, there was no change of Chief Financial Officer.
- The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The financial statements of the Fund were duly endorsed by CEO and CFO of the Management Company before approval of the Board.
- The directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit-holding.
- The Management Company has complied with all the corporate and financial reporting requirements of the Code as applicable to the Fund.
- The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
- The meetings of the Audit Committee were held at least once every quarter prior to the approval of the quarterly, half-yearly and final results of the Fund as required by the Code. The terms of reference of the Audit Committee have been formulated and approved by the Board and advised to the Committee for compliance.
- The Management Company had outsourced the internal audit function to a firm of Chartered Accountants (Ernst and Young Ford Rhodes Sidat Hyder & Co.) up to March 31, 2010. However, since Ernst and Young Ford Rhodes Sidat Hyder & Co. have been appointed as the Statutory Auditors of the Management Company for the year ending December 31, 2010, the Board Audit Committee has appointed Ms. Saman Hasan Qadri as the Internal Auditor of the Management Company. The said person is conversant with the policies and procedures of the Company and involved in the Internal Audit function on a full time basis.
- 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 Units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
- The statutory auditors of the Fund or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- The related party transactions have been placed before the Audit Committee and approved by the Board with necessary justification for non arm's length transactions (if any) and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
- We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

August 27, 2010
KarachiNaz Khan
Chief Executive

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 KASB Funds Limited, "the Management Company" of the Fund to comply with the Listing Regulations 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. 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 Management Company'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 Company personnel and review of various documents prepared by the Management Company to comply with the Code.

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

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 for the year ended 30 June 2010.

Date: 27 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **KASB Balanced Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2010, and the income statement, statement of comprehensive income, cash flow statement, distribution statement, statement of movement in Unit Holders' Funds for the year ended 30 June 2010 and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 2010, and of its financial performance, cash flows and transactions for the year ended 30 June 2010 in accordance with approved accounting standards as applicable in Pakistan.

Other matters

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

Date: 27 August 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

STATEMENT OF ASSETS AND LIABILITIES

As at June 30, 2010

<i>Note</i>	2010	2009
	(Rupees in '000)	
ASSETS		
Bank balances	59,113	67,616
Placements	22,050	80,712
Certificates of investment	39,608	-
Receivable against sale of investments	84	4,190
Investments	327,016	456,196
Dividend and profit receivable	9,686	11,907
Deposits and prepayments	7,627	7,673
Preliminary expenses and floatation costs	1,601	2,241
Total assets	466,785	630,535
LIABILITIES		
Payable against purchase of investments	1,023	-
Payable on redemption of units	-	972
Payable to KASB Funds Limited - Management Company	617	999
Payable to Central Depository Company of Pakistan Limited - Trustee	80	126
Payable to The Securities and Exchange Commission of Pakistan	444	767
Accrued expenses and other liabilities	1,933	1,857
Total liabilities	4,097	4,721
Net assets	462,688	625,814
Unit holders' funds	462,688	625,814
(Number of units)		
Number of units in issue	10,727,020	14,637,966
(Rupees)		
Net asset value per unit	43.13	42.75

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

For KASB Funds Limited
(Management Company)
Chief Executive

Director

INCOME STATEMENT

For the year ended June 30, 2010

	Note	2010	2009
(Rupees in '000)			
Income / (loss)			
Income from term finance and sukuk certificates		36,998	39,888
Income from continuous funding system		-	3,131
Income from government securities		1,667	2,501
Dividend income		7,077	10,420
Income from placements		4,091	20,189
Income from certificates of investment		5,455	8,046
Income from term deposit receipts		-	1,219
Profit on bank and other deposits		9,269	8,695
Capital gain / (loss) on sale of investments		64,664	(155,879)
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	7.5	(20,571)	(5,495)
Total income / (loss)		108,650	(67,285)
Expenses			
Remuneration of KASB Funds Limited - Management Company	11.1	10,452	16,693
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12.1	1,045	1,662
Annual fee - The Securities and Exchange Commission of Pakistan		444	767
Transaction cost on securities		2,517	5,874
Settlement and bank charges		264	483
Legal and professional charges		572	489
Fees and subscription		140	1,088
Auditors' remuneration	16	506	714
Amortisation of preliminary expenses and floatation costs		640	640
Printing and other expenses		139	142
Provision for Workers' Welfare Fund	17	627	-
Provision against non-performing investments		50,000	50,000
Provision against non-performing placements		9,450	-
Provision for doubtful income receivable		12,864	8,252
Total expenses		89,660	86,804
		18,990	(154,089)
Net realised element of income and capital gains included in prices of units issued less those in units redeemed		12,388	54,262
Net income / (loss) for the year		31,378	(99,827)
Earnings / (loss) per unit	18		

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2010

	2010	2009
(Rupees in '000)		
Net income / (loss) for the year	31,378	(99,827)
Other comprehensive income:		
Net unrealised diminution in fair value of investments classified as available for sale' during the year	(734)	(8,127)
Net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation	1,778	3,372
Other comprehensive income / (loss) for the year	1,044	(4,755)
Total comprehensive income / (loss) for the year	32,422	(104,582)

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

DISTRIBUTION STATEMENT

	2010	2009
	(Rupees in '000)	
Accumulated loss brought forward		
- Realised (losses) / gains	(22,087)	22,245
- Unrealised losses-net	(77,478)	(25,355)
	<u>(99,565)</u>	<u>(3,110)</u>
Net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation / diminution	1,778	3,372
Net income / (loss) for the year	31,378	(99,827)
	<u>33,156</u>	<u>(96,455)</u>
Accumulated loss carried forward	(66,409)	(99,565)
Accumulated loss carried forward		
- Realised gains / (losses)	29,862	(22,087)
- Unrealised losses-net	(96,271)	(77,478)
	<u>(66,409)</u>	<u>(99,565)</u>

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the year ended June 30, 2010

	2010	2009
	(Rupees in '000)	
Net assets at beginning of the year	625,814	1,124,019
Issue of 39,476 units (2009: 1,539,491 units)	1,773	10,230
Redemption of 3,950,422 units (2009: 9,441,532 units)	(183,155)	(346,219)
	<u>(181,382)</u>	<u>(335,989)</u>
Element of income and capital gains included in prices of units issued less those in units redeemed:		
- amount representing accrued income and realised capital gains - transferred to the Income Statement	(12,388)	(54,262)
- amount representing unrealised capital gains - transferred directly to Distribution Statement	(14,166)	(57,634)
Unrealised diminution in fair value of investments classified as 'available for sale' at end of the year	(8,733)	(7,999)
Unrealised diminution / (appreciation) in fair value of investments classified as available for sale' at beginning of the year	7,999	(128)
Unrealised diminution in fair value of investments classified as available for sale' during the year	(734)	(8,127)
Net (loss) / income for the year (excluding unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' and capital gains / (losses))	(12,715)	111,547
Capital gain / (loss) for the year	64,664	(155,879)
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	(20,571)	(55,495)
Net unrealised element of income and capital gains included in prices of units issued less those in units redeemed-amounts representing unrealised appreciation / (diminution)	1,778	3,372
Net income / (loss) (including net element of income and capital gains included in prices of units issued less those in units redeemed-amount representing unrealised appreciation / (diminution))	33,156	(96,455)
Net assets as at the end of the year	<u>462,688</u>	<u>625,814</u>
	(Rupees)	
Net asset value per unit as at beginning of the year	<u>42.75</u>	<u>49.87</u>
Net asset value per unit as at end of the year	<u>43.13</u>	<u>42.75</u>

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

CASH FLOW STATEMENT

For the year ended June 30, 2010

	2010	2009
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) for the year	31,378	(99,827)
Adjustments for:		
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'	20,571	5,495
Provision against non-performing investments	50,000	
Provision against non-performing placements	9,450	
Provision for doubtful income receivable	12,864	58,252
Net realised element of income and capital gains included in prices of units issued less those in units redeemed	(12,388)	(54,262)
Amortisation of preliminary expenses and floatation costs	640	640
	112,515	(89,702)
Decrease / (increase) in assets		
Receivable against sale of investments	4,106	19,201
Receivable against continuous funding system	-	120,679
Investments	35,561	267,528
Placements	58,662	(712)
Certificate of investment	(39,606)	50,000
Dividend and income receivable	2,221	(3,793)
Deposits and prepayments	46	(4,069)
	60,988	448,834
Increase / (decrease) in liabilities		
Payable against purchase of investments	1,023	(756)
Payable to KASB Funds Limited - Management Company	(382)	(5,688)
Payable to Central Depository Company of Pakistan Limited - Trustee	(46)	(92)
Payable to The Securities and Exchange Commission of Pakistan	(323)	261
Accrued expenses and other liabilities	76	1,098
	348	(5,187)
Net cash generated from operating activities	173,851	353,945
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on redemption on units	(972)	-
Net payments from sale and redemption of units	(181,382)	(335,017)
Net cash used in financing activities	(182,354)	(335,017)
Net (decrease) / increase in cash and cash equivalents during the year	8,503	18,928
Cash and cash equivalents at beginning of the year	67,616	48,688
Cash and cash equivalents at end of the year	59,113	67,616

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

For KASB Funds Limited
(Management Company)

Chief Executive

Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Balanced Fund ("the Fund") was established under a Trust Deed executed between KASB Funds Limited (KFL) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on October 25, 2007 and was approved by The Securities and Exchange Commission of Pakistan (SECP) on November 26, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to undertake asset management and investment advisory services as Non-Banking Finance Company under the NBFC Rules issued by the SECP. The registered office of the Management Company is situated at 9th Floor, Trade Centre, I, I JCRVIS has assigned management quality rating of AM2- to the Management Company. Chundrigar Road, Karachi, Pakistan. The JCR-VIS has assigned management quality rating of AM3+39659to the Management Company and Pakistan Credit Rating Agency Limited (PACRA) has assigned a 3 star rating to the Fund.

The Fund is an open-ended balanced fund and is listed on the Karachi Stock Exchange (Guarantee) Limited. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder.

The primary objective of the Fund is to generate regular income together with long term capital appreciation by investing in a portfolio constituting of income bearing securities as well as equities.

Under circular 7 of 2009 dated March 6, 2009 issued by the SECP, all Collective Investment Schemes (CISs) are required to categorise open end CISs on the basis of investment parameters including eligible assets classes with pre-specified risk profile with the approval of Board of Directors of Asset Management Company. Funds are also required to disclose in the offering document the authorised investments and rating of securities that it would invest in. Accordingly, the Fund has submitted the amended offering document to the SECP for approval purposes and intends to assign Balanced Scheme or Assets Allocation Scheme to the Fund, based on the discussions and guidelines issued by the SECP. The management company would make the requisite amendments along with aligning investment portfolio, once it receives the required approval from SECP.

Title to the assets of the Fund are held in the name of Central Depository Company of Pakistan Limited as a trustee of the Fund.

2. BASIS OF PREPARATION
2.1 Statement of compliance

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

2.2 Change in accounting policy

Starting July 01, 2009 the Fund has changed its accounting policy with respect to "Revised IAS 1 Presentation of Financial Statements (2007)". The revision to IAS 1 requires the Fund to present all unit holders changes and all non-unit holders changes in the Statement of Unit Holders' Fund, separately. Where the Fund restates / reclassifies comparative information, they are required to present a restated Statement of Asset and Liabilities as at the beginning of the comparative period. In addition, the standard introduces the Statement of Comprehensive Income: it presents all items of recognised income and expense, either in one single statement (i.e Statement of Comprehensive Income), or in two linked statements (i.e Income Statement and Statement of Comprehensive Income). The Fund has elected to present two statements.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the change in accounting policy only effects presentation / disclosures of financial statements, there is no impact on net income for the year / loss for previous year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

2.3 Other accounting developments*Disclosures pertaining to fair values and liquidity risk of financial instruments*

The Fund has acquired Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

Apart from above other standards, amendments to published standards and interpretations of accounting standards became effective during the year, however they did not affect the Fund's financial statements.

2.4 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after July 1, 2010 are either not relevant to Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures:

IFRS 2 (amendment) - Share - based payments and withdrawal of IFRIC 8 - Scope of IFRS 2 and IFRIC 11 - Group and Treasury Share Transactions (effective for annual periods beginning on or after January 01, 2010). Amendment provides guidance on the accounting for share based payment transactions among group entities.

International Accounting Standard (IAS) 24 (Revised): Related Party Disclosures (effective for annual period beginning on or after January 01, 2011). The amendments to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party.

Amendments to IAS 32: Classification of Rights Issues (effective for period beginning on or after February 01, 2010). Under the amendment to IAS 32 rights, options and warrants – otherwise meeting the definition of equity instruments in IAS 32.11 – issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for period beginning on or after July 01, 2010). IFRIC 19 clarifies the accounting when an entity extinguish the liability by issuing its own equity instruments to the creditor.

Amendments to IFRIC 14: Prepayment of a Minimum Funding Requirement (effective for period beginning on or after July 01, 2011); IFRIC 14; IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction has been amended to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognise prepayments of minimum funding contributions, as an asset.

The International Accounting Standards Board made certain amendments to existing standards as part of its second and third annual improvements project. The effective dates for these amendments vary by standards.

2.5 Basis of measurement

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

2.6 Functional and presentation currency

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

2.7 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. 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 judgements about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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 its revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amount recognised in the financial statements are as follows:

Investments stated at fair value & derivative financial instruments
The management company has determined fair value of certain investments by using quotations from The Karachi Stock Exchange (Guarantee) Limited and using rates notified by Mutual Fund Association of Pakistan (MUFAP). Fair value estimates are made at a specific point in time, based on market conditions and information about financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgments (e.g. valuation, interest rates, etc.) and therefore, cannot be determined with precision.

Other assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented, except for change as disclosed in note 2.2 to these financial statements.

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

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

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

b) 'Available-for-sale'

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

c) Loans and receivables

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

d) Financial liabilities

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

Recognition

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

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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

Measurement

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

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

Fair value measurement principles

The fair value of a security listed on a stock exchange, local or foreign as the case may be, and derivatives is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing ask price nor lower than the closing bid price.

Basis of valuation of Term Finance Certificates / Sukuk Certificates

Investment in debt securities are valued at the rates determined and notified by Mutual Funds Association of Pakistan (MUFAP) as per the methodology prescribed by SECP via Circular 1 of 2009 and Circular 3 of 2010. The circular also specifies a criteria for application of discretionary discount to yield of any debt security calculated by MUFAP and contain criteria for the provisioning of non-performing debt securities.

Investment in thinly and non-traded debt securities with maturity upto six months are valued at their amortised cost in accordance with the requirements of Circular 1 of 2009.

Basis of valuation of Government Securities

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

Securities under repurchase / resale agreements

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

All reverse repo transactions are accounted for on the settlement date.

Impairment

Financial assets not carried 'at fair value through profit or loss' are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

Any subsequent decrease in impairment loss on debt securities classified as 'available for sale', is recognised in the income statement.

The Board of Directors of the Management Company has formulated a comprehensive policy for making provision against non performing investments in compliance with Circular 13 of 2009 issued by SECP.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial assets expires or it transfers the financial assets and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments; Recognition and Measurement.

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

Offsetting of financial instruments

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

3.2 Unit holders' funds

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

3.3 Issue and redemption of units

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

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

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

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

The Fund records the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the Income Statement while the portion of the element of income / (loss) and capital gains / (losses) that relates to unrealised gains / (losses) held by the Fund in Unit Holders' Funds is recorded in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to unit holders.

3.5 Preliminary expenses and floatation costs

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

3.6 Provisions

Provisions are recognised when the Fund has a present, legal or constructive, obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

3.7 Net asset value per unit

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

3.8 Taxation

Current

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

Deferred

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

However, the Fund has previously availed the tax exemption by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders.

3.9 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on reverse repurchase transactions and debt securities is recognised on a time proportion basis using effective interest rate method.
- Unrealised gains / (losses) arising on valuation of investments classified as financial assets 'at fair value through profit or loss' and derivatives are included in the Income Statement in the period in which they arise.
- Profit on bank deposit is recognised on time proportion basis using effective interest rate method.
- Dividend income is recognised when the right to receive the dividend is established.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.10 Expenses

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

3.11 Cash and cash equivalents

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

3.12 Other assets

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

3.13 Dividend distributions and appropriations

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

4. BANK BALANCES

2010 2009
(Rupees in '000)

In deposit accounts 4.1 59,113 67,616

4.1 These deposit accounts carry mark-up at the rate of 5% to 12% per annum (2009: 5% to 12.5% per annum).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

5. PLACEMENTS - Unsecured

This represents placement with a financial institution and carries profit at the rate of 13.42% (June 30, 2009: 15% to 22% p.e annum) and having maturity of 13 days (June 30, 2009: 6 to 7 days).

Due to continuous delays in payments by the counter party, the Fund has recognised provisions against the investment and suspended further accrual of markup in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

The above is without prejudice to the Fund's claim against the above financial institution for the entire exposure and unrecognised markup and other charges etc.

6. CERTIFICATES OF INVESTMENT - Unsecured

This represents certificate of investment with a financial institution and carries profit at the rate of 15% per annum (June 30, 2009: Nil) having a maturity of 2 days (June 30, 2009: Nil).

7. INVESTMENTS

2010 2009

(Rupees in '000)

'At fair value through profit or loss'

Held for trading

- Quoted equity securities 7.1 153,259 191,865

Designated on initial recognition

- Fixed income and other debt securities 7.2 124,655 125,363

- Advance against Pre Initial Public Offer investments 7.3 - 25,000

124,655 150,363

'Available for sale'

- Fixed income and other debt securities 7.4 49,102 113,968

327,016 456,196

The cost of the above investments as at June 30, 2010 amounted to Rs. 461.816 million (June 30, 2009: Rs. 519.689 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

7.1 Quoted equity securities - 'at fair value through profit or loss'

Shares of Listed Companies - Fully paid up ordinary shares of Rs. 10 each unless otherwise stated

Name of the Investee Company	-----Number of shares-----					Market value as at June 30, 2010	Market value as a percentage of total investments
	As at July 01, 2009	Purchases during the year	Bonus issued during the year	Sales during the year	As at June 30, 2010		
(Rupees in '000)							
Construction and Material							
DG Khan Cement Company Limited	600	585,000	-	485,600	100,000	2,362	0.72
Lucky Cement Limited	96,200	743,583	-	728,195	110,588	6,872	2.10
Chemical							
Descon Oxychem Limited	-	198,338	-	148,338	50,000	228	0.07
ICI Pakistan Limited	-	25,000	-	10,000	15,000	1,778	0.54
Engro Corporation Limited	164,110	295,000	4,711	424,500	39,321	6,825	2.09
Fauji Fertilizer Company Limited	339,927	277,700	-	538,500	79,127	8,156	2.49
Fauji Fertilizer Bin Qasim Limited	-	947,038	-	947,038	-	-	-
Lotte Pakistan PTA	-	225,000	-	168,350	56,650	457	0.14
Banks							
Allied Bank Limited	-	831,078	-	831,078	-	-	-
Meezan Bank Limited	-	85,000	-	85,000	-	-	-
Bank Allahah Limited	1,400	1,416,583	-	1,417,983	-	-	-
Habib Bank Limited	10,000	25,000	-	35,000	-	-	-
MCB Bank Limited	182,020	396,500	8,497	543,542	43,475	8,442	2.58
National Bank of Pakistan	140,720	837,500	-	853,220	125,000	8,013	2.45
NIB Bank Limited	-	791,597	-	475,000	316,597	947	0.29
United Bank Limited	112,200	1,103,795	12,536	1,002,225	226,306	12,268	3.75
General Industries							
Eco Pack Limited	-	939,372	-	307,399	631,433	1,509	0.46
Tri-Pack Films Limited	-	42,617	-	7,893	34,724	3,387	1.04
Packages Limited	136,600	150,576	-	249,600	37,576	4,453	1.36
Non Life Insurance							
Adamee Insurance Company Limited	40	1,020,742	10,000	882,282	148,500	11,862	3.63
EFU General Insurance Limited	34,800	-	-	34,800	-	-	-
Pak Reinsurance Company Limited	-	48,000	-	48,000	-	-	-
Financial Services							
Arif Habib Securities Limited	550	504,500	-	505,050	-	-	-
Jahangir Siddiqui & Company Limited	818	440,000	-	290,818	150,000	1,896	0.58
Oil & Gas							
Oil & Gas Development Company Limited	95,200	908,964	-	930,304	73,860	10,465	3.20
Pakistan Oilfields Limited	600	356,600	-	330,369	26,831	5,793	1.77
Pakistan Petroleum Limited	112,070	149,500	14,614	214,000	62,194	11,449	3.50
Pakistan State Oil Company Limited	100,700	194,153	-	236,000	58,853	15,314	4.68
Attock Petroleum Limited	-	69,563	-	62,130	7,433	2,154	0.66
Attock Refinery Limited	-	35,000	-	35,000	-	-	-
Personal Goods							
Azzard Nine Limited	158,598	110,000	-	265,000	3,598	40	0.01
Ibrahim Fibres Limited	-	739,750	-	266,649	473,101	16,171	4.95
Nishat Mills Limited	200	334,650	-	283,810	51,045	2,201	0.67
Nishat Chunian Limited	-	173,522	-	173,522	-	-	-
Nishat Mills Limited - LOR	-	39,874	-	39,874	-	-	-
Electricity							
Hub Power Company Limited	530,000	1,258,000	-	1,503,475	284,525	9,082	2.78
Nishat Chunian Power Limited	-	75,000	-	75,000	75,000	746	0.23
Software and Computer Services							
Netsol Technologies Limited	-	139,136	-	139,000	136	3	0.01
Fixed Line Telecommunication							
Pakistan Telecommunication Company Limited 'A'	-	1,290,000	-	1,268,800	21,200	376	0.11
						<u>153,259</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

7.2 Fixed income and other debt securities - designated as 'at fair value through profit or loss' on initial recognition

Name of the Investee Company	Profit rate (%)	----Number of certificates----			Market / Carrying value as at June 30, 2010	Market / Carrying value as a percentage of total investments
		As at July 01, 2009	Purchases during the year	Sales during the year		
(Rupees in '000)						
Term Finance Certificates						
AgriTech Limited - II (formerly: Pak American Fertilizers Limited)	7.2.1	14.20	1,000	-	1,000	4,705
Pakistan Mobile Communications Limited - III	7.2.2	13.99	20,000	-	20,000	86,500
Allied Bank Limited	7.2.3	13.28	-	7,000	-	33,450
						<u>124,655</u>
Sukuk Certificates						
New Allied Electronics Industries (Private) Limited - I	7.2.4	14.87	160,000	-	160,000	-
						<u>124,655</u>

7.2.1 These privately placed term finance certificates issued on January 14, 2008 and carrying mark-up equal to the base rate of 175 basis points plus 6 months KIBOR per annum with no floor or cap. The principal redemption and mark-up thereon are paid semi-annually. These certificates will mature on January 14, 2015.

7.2.2 These term finance certificates issued on October 28, 2008 and carrying mark-up equal to 6 month KIBOR plus 165 basis points per annum. The principal redemption and mark-up thereon are paid semi-annually with no floor and cap. These certificates mature on October 28, 2013.

7.2.3 These term finance certificates issued on February 28, 2009 and carrying mark-up equal to 6 month KIBOR plus 150 basis points per annum with no floor or cap. The principal redemption and mark-up thereon will be paid semi-annually. These certificates will mature on February 28, 2013

7.2.4 This represents sukuk certificates of New Allied Electronics Industries (Private) Limited - I (NAEIL). The investment in NAEIL is secured against collaterals. On October 25, 2008, owing to financial difficulties, NAEIL paid full markup amounting to Rs. 2.113 million, however, no payment was made against the principal due amounting to Rs. 3.125 million. Subsequently NAEIL has continuously defaulted on every repayment date. The Fund has recognised full provision against the investment and suspended further accruals of markup there against. Therefore, the investment has been fully provided as at June 30, 2010.

The above provision against said investment and related markup are in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and related SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognised markup and other charges etc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

7.3 Advance against Pre Initial Public Offer investments - designated as 'at fair value through profit or loss' on initial recognition

Name of the Investee Company	Profit rate (%)	----Number of certificates----				Carrying value as at June 30, 2010	Carrying value as a percentage of total investments
		As at July 01, 2009	Purchases during the year	Sales during the year	As at June 30, 2010		
(Rupees in '000)							
Dewan Cement Limited	7.3.1	16.12	10,000	-	-	10,000	-

7.3.1 This represents investment in advance against term finance certificates of Dewan Cement Limited (DCL). The investment in DCL is secured against collaterals.

The Fund has made full provision against the said investment and full provision against markup receivable till October 5, 2008. Moreover, the Fund suspended further accruals of markup there against. Therefore, the investment has been fully provided as at June 30, 2010.

The above provision against said investment and related markup are in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and related SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

The above is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognised markup and other charges etc.

7.4 Fixed income and other debt securities- 'available for sale'

Name of the Investee Company	Profit rate (%)	----Number of certificates----				Market value as at June 30, 2010	Market value as a percentage of total investments
		As at July 01, 2009	Purchases during the year	Sales during the year	As at June 30, 2010		
(Rupees in '000)							
Term Finance Certificates							
Agriltech Limited - II (formerly Pak American Fertilizers Limited)	7.4.1	14.20	12,000	-	6,000	6,000	8.63
Sukuk Certificates							
Security Leasing Corporation Limited	7.4.2	6.00	9,500	-	-	9,500	6.38
Pak Elektron Limited	-	1,000	-	1,000	-	-	-
						20,874	
Pakistan Investment Bonds							
Issued on August 30, 2008 with a tenor of 10 years	-	25	-	25	-	-	-
						49,102	

7.4.1 These privately placed term finance certificates issued on January 14, 2008 and carrying mark-up equal to the base rate of 175 basis points plus 6 months KIBOR per annum with no floor or cap. The principal redemption and mark-up thereon are paid semi-annually. These certificates will mature on January 14, 2015.

7.4.2 These privately placed sukuk certificates are secured and will mature on March 19, 2014 and carry mark-up equal to the 600 basis points per annum up to September 19, 2011 and thereafter 1 month KIBOR per annum till maturity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

7.5 Net unrealised diminution in fair value of investments classified as 'at fair value through profit or loss'

	2010	2009
	(Rupees in '000)	
Fair value of investments	277,914	342,227
Less: cost of investments	(403,980)	(397,722)
	(126,066)	(55,495)
Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' at beginning of the year	5,495	5,388
Provision against non-performing investments	50,000	50,000
Realised on disposal during the year	-	(25,368)
	105,495	50,000
	(20,571)	(5,495)

7.6 Net unrealised diminution in fair value of investments classified as 'available for sale'

Fair value of investments	49,102	113,968
Less: cost of investments	(57,835)	(121,967)
	(8,733)	(7,999)
Net unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale' at the beginning of the year	7,999	(128)
	(734)	(8,127)

8. DIVIDEND AND PROFIT RECEIVABLE

Dividend receivable	159	1,656
Income accrued on bank deposits	782	885
Income accrued on placements	921	42
Income accrued on certificates of investment	2,197	-
Income accrued on term finance and sukuk certificates	34,974	24,806
Income accrued on government securities	-	1,002
Less: Provision against doubtful income receivable	(29,347)	(16,484)
	9,686	11,907

9. DEPOSITS AND PREPAYMENTS

Deposit with National Clearing Company of Pakistan Limited	3,500	3,500
Deposit with Central Depository Company of Pakistan Limited	100	100
Financial Institutions (FI) Margins with National Clearing Company of Pakistan Limited	4,027	4,027
Prepaid fee - National Clearing Company of Pakistan Limited	-	46
	7,627	7,673

9.1 This represents FI margins deposited with National Clearing Company of Pakistan Limited.

10. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs	2,241	2,881
Less: Amortisation during the year	(640)	(640)
Balance as at June 30	1,601	2,241

11. PAYABLE TO KASB FUNDS LIMITED - MANAGEMENT COMPANY

Management fee payable	11.1	617	997
Sales loan payable	-	-	2
		617	999

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

- 11.1 Under the provisions of the NBFC 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 three percent of the average annual net assets of the Fund and thereafter, of an amount equal to two percent of such assets of the Fund. During the year, remuneration of management company is charged at the rate of 2 percent per annum of the average annual net assets of the Fund.
- 11.2 In accordance with Clause 6.2.1.2 of the offering document, Management Company has issued type 'B' units to core investors. The Management Company offers a special rebate on the management fee to type 'B' units, (currently rebate is applicable at one-fourth of the management fee applicable to type 'B' units). However, difference between normal rates and reduced rates is passed on to type 'B' unit holders by way of issuance of type 'A' additional units, as a result the management fee charged to Income Statement remains at the rates specified in note 11.1. Total 37,500 additional units were issued during the year to type 'B' unit holders at a value of Rs. 1.686 million. (37,596 additional units were issued during the year ended June 30, 2009 at a value of Rs. 1.615 million.)
12. **PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE**
- | | 2010 | 2009 |
|-------------|------------------|------------|
| | (Rupees in '000) | |
| Trustee fee | 12.1 | 76 |
| CDS charges | | 4 |
| | | 12 |
| | | <u>80</u> |
| | | <u>126</u> |
- 12.1 The trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed at the higher of Rs. 0.7 million or 0.2% per annum on amount upto Rs. 1.0 billion of average daily net assets of the Fund and Rs. 2.0 million plus 0.1% per annum on amount exceeding Rs. 1.0 billion of average daily net assets of the Fund.
13. **PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN** 13.1
- | | 2010 | 2009 |
|--|------------|------------|
| | <u>444</u> | <u>767</u> |
- 13.1 As per schedule II of the NBFC Regulations 2008, balanced funds are required to pay as annual fee to the SECP, an amount equal to 0.085 percent of the average annual net assets of the Scheme.
14. **ACCRUED EXPENSES AND OTHER LIABILITIES**
- | | 2010 | 2009 |
|--|--------------|--------------|
| Auditors' remuneration | 303 | 492 |
| Legal and professional charges payable | 110 | 62 |
| Credit rating fee payable | 100 | - |
| Others | 1,420 | 1,303 |
| | <u>1,933</u> | <u>1,857</u> |
15. **NUMBER OF UNITS IN ISSUE**
The units in issue as at June 30 in each class are:
- | | 2010 | 2009 | 2010 | 2009 |
|----------------|---------|-------------------|-------------------|----------------|
| | (Units) | | (Rupees in '000) | |
| Type 'A' Units | 15.1 | 3,227,020 | 7,137,966 | 139,191 |
| Type 'B' Units | 15.2 | 7,500,000 | 323,497 | 305,168 |
| | | <u>10,727,020</u> | <u>14,637,966</u> | <u>320,646</u> |
| | | | <u>462,888</u> | <u>625,814</u> |
- 15.1 Type 'A' units are meant for all types of investors, except for core investors.
- 15.2 Type 'B' units are meant for the core investors. (Refer note 11.2)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

- | | 2010 | 2009 |
|-----------------------------------|------------------|------------|
| | (Rupees in '000) | |
| 16. AUDITORS' REMUNERATION | | |
| Audit fee | 16.1 | 316 |
| Other certifications and services | | 111 |
| Out of pocket expense | | 79 |
| | | <u>506</u> |
| | | <u>714</u> |
- 16.1 Audit fee includes services for audit of annual financial statements and limited review of condensed interim financial information for the six months period.
17. **WORKERS' WELFARE FUND**
In pursuance of the order passed by the Honorable High Court of Sind against the constitutional petition filed by Mutual Funds Association of Pakistan (MUFAP), the Management Company recorded provision for Workers' Welfare Funds (WWF) for the year ended June 30, 2010 amounting to Rs. 0.627 million in these financial statements. However, subsequent to the year end, Ministry of Labor has issued certain clarifications regarding applicability of WWF on mutual funds and the matter is currently under review and discussion.
18. **EARNINGS PER UNIT**
Earnings per unit (EPU) has not been disclosed as in the opinion of the management, determination of weighted average number of units for calculating EPU per unit is not practicable.
19. **TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES**
Connected persons / related parties include KASB Funds Limited being the Management Company, KASB Bank Limited being the Holding Company of the Management Company, KASB Securities Limited, KASB Modaraba and New Horizon Exploration and Production Limited being the companies under common management, Central Depository Company of Pakistan Limited being the Trustee, other Funds managed by the management company (including KASB Stock Market Fund, KASB Liquid Fund, KASB Islamic Income Fund, KASB Cash Fund and KASB Capital Protected Gold Fund) and directors, key management personnel and officers of the Management Company.
- Transactions with connected persons / related parties are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of NBFC Regulations 2008 and the Trust Deed respectively.
- Details of transactions with connected persons / related parties and balances with them at year end are as follows:
- | | 2010 | 2009 |
|---|------------------|---------------|
| | (Rupees in '000) | |
| 19.1 Transactions | | |
| KASB Funds Limited | | |
| Remuneration expense | 10,452 | 16,693 |
| Sales load | <u>1</u> | <u>98</u> |
| KASB Funds Limited Employees' Provident Fund | | |
| Redemption from the Fund: Nil units (2009: 7,882 units) | - | <u>336</u> |
| KASB Capital Limited | | |
| Transfer out of the Fund: Nil units (2009: 1,350,338 units) | - | <u>58,497</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

		2010	2009
		(Rupees in '000)	
KASB Bank Limited			
Bank charges		5	11
Profit accrued on bank deposits		9,143	8,450
Transfer in the Fund: Nil units (2009: 1,350,338 units)		-	58,497
Additional units: 25,000 units (2009: 25,064 units)		1,124	1,077
KASB Securities Limited			
Brokerage expense	19.3	354	391
KASB Liquid Fund			
Purchase of sukuk certificates: Nil units (2009: 25,500 units)		-	132,068
Purchase of Term Finance Certificates: 7,000 units (2009: Nil units)		34,733	-
Sale of sukuk certificates: Nil units (2009: 10,000 units)		-	51,826
Reverse Repurchase Transaction		-	48,000
Income accrued on Reverse Repurchase Transaction		-	2,035
Central Depository Company of Pakistan Limited - Trustee			
Remuneration		1,045	1,662
CDS charges		66	241
Directors and officers of the Management Company			
Conversion out of the Fund: 5,981 units (2009: 14,733 units)		278	599
19.2 Balances			
KASB Funds Limited			
Payable to the Management Company		617	999
KASB Bank Limited			
Bank balance		57,343	67,249
Profit receivable on bank deposits		782	885
Units held: 6,413,107 (2009: 6,388,107 units)	19.4	276,597	273,092
KASB Securities Limited			
Brokerage payable	19.3	9	34
Central Depository Company of Pakistan Limited - Trustee			
Payable to the trustee		80	126
Security deposit		100	100
Directors and officers of the Management Company			
Units held: Nil (2009: 8,082 units)		-	346
19.3			
The amount disclosed represents the amount of brokerage paid to connected person and not the purchase or sale values of securities transacted through them. The purchase or sale values have not been treated as transactions with connected persons as ultimate counter parties are not connected persons.			
19.4			
The rate of return on this deposit is 12% per annum (2009: 12.5% per annum).			

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

20. RISK MANAGEMENT	
The Board of Directors of management company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies. The management of these risks is carried out by investment committee under policies approved by Board of Directors.	
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 regularly to reflect changes in market conditions and the Fund's activities.	
The Fund's activities expose it to a variety of financial risks such as:	
- Market risk;	
- Credit risk; and	
- Liquidity risk.	
Market risk	
Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate as a result of changes in market 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.	
The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines and regulations laid down by the Securities and Exchange Commission of Pakistan (SECP).	
Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.	
Currency risk	
Currency risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.	
Interest rate risk	
Interest rate risk arises from the possibility that changes in prevailing level of interest rates will affect future cash flows or the fair values of financial instruments. The Fund holds floating rate debt securities that expose the fund to cash flow interest rate risk.	
The Fund manages fair value risk by investing primarily in floating rate debt securities preferably with no cap and floor to insulate Fund from fair value interest rate risk.	
As at June 30, 2010, the investment in debt securities exposed to interest rate risk is detailed in Note 7.2 and 7.4.	
Sensitivity analysis for variable rate instruments	
Presently, the Fund investment in Term Finance Certificates and Sukuk Certificates carry floating interest rate that expose the Fund to cashflow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2010 with all other variables held constant, the net assets of the Fund would have been higher / lower by Rs.0.454 million (2009: Rs.0.504 million) with consequential effect on net income for the year. This arises substantially from the increase / decrease in interest income and receivable on Term Finance Certificates and Sukuk Certificates.	
Investments in placements, certificates of investment which are carried at amortised cost and not expose the Fund to fair value interest rate risk.	
The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests. Further the composition of the Fund's investment portfolio and KIBOR rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the effect on the Fund's net assets and income statement of future movements in interest rates.	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

Yield / interest rate sensitivity position for financial instruments reported on Statement of Assets and Liabilities is based on the earlier of contractual repricing or maturity date.

The Fund's market rate of return sensitivity related to financial assets and financial liabilities can be determined from the following:

On-balance sheet financial instruments	Effective rate of mark-up/return (%)	June 30, 2010			Total	
		Exposed to MROR Risk				Not exposed to MROR Risk
		Up to three months	More than three months and up to one year	More than one year		
(Rupees in '000)						
Financial assets						
Bank balances	15 - 12	59,113	-	-	59,113	
Placements	13.46	22,050	-	-	22,050	
Certificate of investments	15	39,608	-	-	39,608	
Receivable against sale of investments		-	-	84	84	
Investments	6 - 14.87	87,257	86,500	-	153,259	
Dividend and profit receivable		-	-	9,686	9,686	
Deposits and other Prepayments		-	-	7,627	7,627	
		208,028	86,500	-	170,656	
Financial liabilities						
Payable against purchase of investments		-	-	1,023	1,023	
Payable to KASB Funds Limited - Management Company		-	-	617	617	
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	80	80	
Accrued expenses and other liabilities		-	-	1,306	1,306	
		-	-	3,026	3,026	
On-balance sheet gap 2010		208,028	86,500	-	167,630	

On-balance sheet financial instruments	Effective rate of mark-up/return (%)	June 30, 2009			Total	
		Exposed to MROR Risk				Not exposed to MROR Risk
		Up to three months	More than three months and up to one year	More than one year		
(Rupees in '000)						
Financial assets						
Bank balances	5 - 12.5	67,616	-	-	67,616	
Placements	15 - 22	80,712	-	-	80,712	
Receivable against sale of investments		-	-	4,190	4,190	
Investments	14.52 - 17.32	61,009	128,261	25,061	191,865	
Dividend and profit receivable		-	-	11,907	11,907	
Deposits and other receivables		-	-	7,627	7,627	
		209,337	128,261	25,061	215,589	
Financial liabilities						
Payable on redemption of units		-	-	972	972	
Payable to KASB Funds Limited - Management Company		-	-	999	999	
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	126	126	
Accrued expenses and other liabilities		-	-	1,857	1,857	
		-	-	3,954	3,954	
On-balance sheet gap 2009		209,337	128,261	25,061	211,635	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

Other price risk

Other price risk includes equity price risks which is the risk of changes in the fair value of equity securities as a result of changes in the levels of KSE 30 Index and the value of individual shares. The equity price risk exposure arises from investments in equity securities 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.

The Fund manages the risk by limiting exposure to any single investee company and to a particular sector as per the risk management parameters.

A summary analysis of investments by industry sector, the percentage in relation to Fund's total investment as at 30 June 2010 is presented in Note 7.1.

The table below summarises the sensitivity of the Fund's net assets attributable to unit holders to equity price movements as at June 30. The analysis is based on the assumption that KSE 30 index increased by 5% (2009: 5%) and decreased by 5% (2009: 5%), with all other variables held constant and that the fair value of the Fund's portfolio of equity securities moved according to their historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 30 index, having regard to the historical volatility of index of past two and half years (2009: one and half year).

The impact below arises from the reasonable possible change in the fair value of listed equity securities:

	2010	2009
	(Rupees in '000)	
<i>Effect on net assets attributable to unit holders of an increase in the KSE-30 index</i>		
Effect on investments	7,323	8,826
Effect on income statement	7,323	8,826

Effect on net assets attributable to unit holders of a decrease in the KSE-30 index

Effect on investments	(7,323)	(8,826)
Effect on income statement	(7,323)	(8,826)

There is no sensitivity effect on 'unit holders' funds' as the Fund has no quoted equity securities classified as 'available for sale'.

The composition of the Fund's investment portfolio and the correlation thereof to the KSE 30 index, is expected to change over the time. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 30 index.

Credit risk

Credit risk arises from the inability of the issuers of the instruments, the relevant financial institutions or counter parties in case of reverse re-purchase transactions or other arrangements to fulfill their obligations resulting in financial loss to the Fund. These credit exposures exist within financing relationships, derivatives and other transactions. There is also a risk of default by participants and of failure of the financial markets / stock exchanges, the depositories, the settlements or the central clearing system etc.

The credit risk of the Fund mainly arises from its investment in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents, deposits and other receivable balances.

Credit risk management

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collateral in accordance with internal risk management policies and investment guidelines designed for credit risk management. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

The maximum exposure to credit risk before any credit enhancements as at June 30 is the carrying amount of the financial assets as set out below:

	2010	2009
	(Rupees in '000)	
Bank balances	59,113	67,616
Placements	22,050	80,712
Certificates of investment	39,608	-
Investments in fixed income and other debt securities	173,757	214,270
Dividend and profit receivable	9,686	11,907
Deposits and prepayments	7,627	7,627
	<u>311,841</u>	<u>382,132</u>

None of the above financial assets were considered to be past due or impaired in 2010 and 2009 except for the exposures and the provisions there against as provided in note 7.2.4 and 7.3.1. The management company follows:

Circular 1 of 2009 containing criteria for provisioning of non-performing debt securities issued by SECP for the purpose of making provision against non-performing debt securities. Further management company has devised provisioning policy duly approved by the Board of Directors of the management company to make provision over and above required by the said circular and for those exposures not covered by the said circular. For those assets that are not past due it is believed that the risk of default is small and the capital repayments will be made in accordance with the agreed terms and conditions. No terms or conditions are renegotiated.

Settlement risk

Credit risk relating to unsettled transactions in securities is considered to be minimal as the Fund uses brokers with high creditworthiness and the transactions are settled or paid for only upon delivery using central clearing system.

Bank balances

The Fund kept surplus liquidity with banks having credit rating from AAA to A-. The rating of the banks is monitored by the Fund Manager and Investment Committee.

Investment in debt securities

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments and purchase certificate of investments or make placements with financial institutions having sound credit rating. Where the investment is considered doubtful / becomes non-performing as per the criteria specified in Circular 1 of 2009 issued by SECP, a provision is recognised as per the criteria specified therein and also in accordance with provisioning policy of the Fund approved by Board of Directors of the Management Company.

The analysis below summarises the credit quality of the Fund's investment in Term Finance Certificates, Sukuk Certificates, Placements and Certificates of investment as at June 30:

Debt Securities by rating category	2010 (%)	2009 (%)
AA-	13.83	47.65
A+	35.77	-
A	-	1.42
A-	16.38	-
BBB-	-	10.08
Below investment grade	26.65	-
Un-rated / Non-rated	7.37	15.63
A-2	-	13.97
A-3	-	11.25

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

Concentration of credit risk

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

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its obligations arising from its financial liabilities that are settled by delivering cash or other financial assets or that such obligations will have to be settled in a manner disadvantageous to the Fund. Liquidity risk also arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's applicable redemption price calculated in accordance with the Fund's constitutive document and guidelines laid down by The Securities and Exchange Commission of Pakistan (SECP).

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation.

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

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

The liquidity position of the Fund is monitored by Fund Manager and Risk and Compliance Department on daily basis.

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

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

	June 30, 2010			
	Up to three months	More than three months and up to one year	More than one year	Total
	(Rupees in '000)			
Payable against purchase of investments	1,023	-	-	1,023
Payable to KASB Funds Limited - Management Company	617	-	-	617
Payable to Central Depository Company of Pakistan Limited - Trustee	80	-	-	80
Accrued expenses and other liabilities	1,306	-	-	1,306
	<u>3,026</u>	<u>-</u>	<u>-</u>	<u>3,026</u>

	June 30, 2009			
	Up to three months	More than three months and up to one year	More than one year	Total
	(Rupees in '000)			
Payable on redemption of units	972	-	-	972
Payable to KASB Funds Limited - Management Company	999	-	-	999
Payable to Central Depository Company of Pakistan Limited - Trustee	126	-	-	126
Accrued expenses and other liabilities	1,857	-	-	1,857
	<u>3,954</u>	<u>-</u>	<u>-</u>	<u>3,954</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

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

Unit Holders' Funds risk management

As a result of the ability to issue and repurchase/ redeem units except for core investors, the Unit Holders' Fund can vary depending on the demand for redemptions, and subscription to the Fund. The Fund is not subject to externally imposed capital requirements and has no restrictions on the issue and repurchase / redemption of units.

The Fund's objectives in managing the unit holders' fund are to ensure a stable base to maximize return to all investors and also to manage liquidity risk arising from redemptions.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

	Level 1 (Rupees in '000)	Level 3 (Rupees in '000)
June 30, 2010		
'At fair value through profit or loss'		
<i>Held for trading</i>		
- Quoted equity securities	153,259	-
<i>Designated on initial recognition</i>		
- Fixed income and other debt securities	-	124,655
'Available for sale'		
- Fixed income and other debt securities	-	49,102
June 30, 2009		
'At fair value through profit or loss'		
<i>Held for trading</i>		
- Quoted equity securities	191,865	-
<i>Designated on initial recognition</i>		
- Fixed income and other debt securities	-	125,363
- Advance against Pre Initial Public Offer investments	-	25,000
'Available for sale'		
- Fixed income and other debt securities	-	113,968

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

22. PATTERN OF UNITHOLDING

Category	Number of unit holders		Investment amount		Percentage of total investment	
	2010	2009	2010	2009	2010	2009
	Number		----(Rupees in '000)----		(%)	
Individuals	35	70	14,907	48,413	3.22	7.74
Associated companies	1	1	276,616	273,110	59.78	43.64
Banks / Financial Institutions	2	3	129,905	210,748	28.08	33.68
Non Banking Finance Companies	1	-	2,446	-	0.53	-
Retirement Funds	3	7	8,396	57,232	1.81	9.15
Public Limited Companies	-	1	-	2,425	-	0.39
Others	3	4	30,418	33,886	6.58	5.40
	<u>45</u>	<u>85</u>	<u>462,688</u>	<u>625,814</u>	<u>100.00</u>	<u>100.00</u>

23. LIST OF TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker Name	2010 (Percentage)	Broker Name	2009 (Percentage)
KASB Securities Limited.	16.26	Elixir Securities Pakistan (Private) Limited	4.92
Fortune Securities Limited	11.56	Alfalal Securities (Private) Limited	13.20
Foundation Securities Limited	9.94	Invest and Finance Securities Limited	10.42
Live Securities (Private) Limited	9.52	Al Habib Capital Markets (Private) Limited	9.17
Global Securities Pakistan Limited	7.24	KASB Securities Limited	7.34
Elixir Securities Pakistan (Private) Limited	6.83	Ismail Iqbal Securities (Private) Limited	6.62
Taurus Securities Pakistan Limited	6.03	Live Securities (Private) Limited	5.17
JS Global Capital Limited	4.17	Atlas Capital Markets (Private) Limited	4.99
Alfalal Securities (Private) Limited	4.07	Invest Capital Investment Bank Limited	4.41
Invest Capital Investment Bank Limited	3.98	Arif Habib Limited	4.36

24. DATES, NAMES OF PERSONS ATTENDING EACH MEETING OF THE BOARD OF DIRECTORS

Name of the Person	Designation	Meetings		
		Total	Attended	Leave Granted
Mr. Robert John Richard Owen	Chairman	8	8	-
Mr. Amir Zahoor Khan	Director*	5	5	-
Mr. Farid Arshad Masood	Director**	7	6	1
Ms. Naz Khan	Chief Executive & Director	8	8	-
Mr. Syed Muhammad Rehmanullah	Director	8	8	-
Mr. Muhammad Imran Khalil	Chief Financial Officer & Company Secretary	8	8	-
Mr. Irfan Saleem Awan	Company Secretary***	3	3	-
Mr. Mirza Mahmood-ul-Hassan	Company Secretary****	4	4	-

*Mr. Amir Zahoor Khan resigned from the Board in the meeting held on February 12, 2010 and Mr. Muzaffar Ali Shah Bukhari was appointed Director after SECP granted approval on March 5, 2010.

**Mr. Farid Arshad Masood resigned from the Board on February 19, 2010.

***Mr. Irfan Saleem Awan resigned on October 1, 2009.

****Mr. Mirza Mahmood-ul-Hasan resigned on June 10, 2010 and Mr. Muhammad Imran Khalil was appointed as Company Secretary on June 11, 2010 at his place.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2010

Dates of the meetings of the Board of Directors

Thirty-second meeting	July 4, 2009
Thirty-third meeting	July 21, 2009
Thirty-fourth meeting	August 25, 2009
Thirty-fifth meeting	October 23, 2009
Thirty-sixth meeting	November 20, 2009
Thirty-seventh meeting	February 12, 2010
Thirty-eighth meeting	February 19, 2010
Thirty-ninth meeting	April 22, 2010

25. DETAILS OF MEMBER OF INVESTMENT COMMITTEE

Name	Designation	Qualification	Experience (Years)
Naz Khan	Chief Executive Officer	B.A (USA)	17
Muhammad Faisal Potrik	Chief Investment Officer	MBA	10
Khurram Bashir	Fund Manager	M Sc.(Eco. & Finance)	05
Muhammad Kashif Masood	Representative of Risk Management & Compliance	M Sc.(Economics)	03

25.1 Details of other funds managed by the Fund Manager

KASB Stock Market Fund under the management of KASB Funds Limited.

26. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company has approved the final dividend distribution of Rs. 2.75 per unit for the period ended June 30, 2010 amounting to Rs. 29.499 million in total (2009: Nil) in their meeting held on July 3, 2010.

27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 27, 2010 by the Board of Directors of the management Company.

For KASB Funds Limited
(Management Company)

Chief Executive

Director