



**CONTENTS**

|  |           |
|--|-----------|
| <b>Vision &amp; Mission</b>  | <b>2</b>  |
| <b>Organization</b>  | <b>3</b>  |
| <b>Report of the Directors of the Management Company</b>   | <b>4</b>  |
| <b>Fund Manager Report</b>   | <b>8</b>  |
| <b>Performance Table</b>   | <b>9</b>  |
| <b>Statement of Compliance with the Code of Corporate Governance</b>   | <b>10</b> |
| <b>Trustee Report to the Certificate Holders</b>   | <b>12</b> |
| <b>Auditors' Review Report to the Certificate Holders on Statement of Compliance with the Best Practices of the Code of Corporate Governance</b> | <b>13</b> |
| <b>Independent Auditors' Report to the Certificate Holders</b>   | <b>14</b> |
| <b>Statement of Assets and Liabilities</b>   | <b>15</b> |
| <b>Income Statement</b>  | <b>16</b> |
| <b>Statement of Comprehensive Income</b>   | <b>17</b> |
| <b>Cash Flow Statement</b>   | <b>18</b> |
| <b>Distribution Statement</b>  | <b>19</b> |
| <b>Statement of Movement in Equity and Reserves 'Per Certificate'</b>  | <b>20</b> |
| <b>Statement of Changes in Equity</b>  | <b>21</b> |
| <b>Notes to the Financial Statements</b>   | <b>22</b> |
| <b>Pattern of Certificate Holding</b>  | <b>42</b> |
| <b>Pattern of Certificate Holding<br/>As Per Requirements of Code of Corporate Governance</b>  | <b>43</b> |

---



## **VISION**

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

## **MISSION**

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



## ORGANIZATION

### Management Company

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

### Board of Directors

|                                   |                            |
|-----------------------------------|----------------------------|
| Dr. Syed Salman Ali Shah          | Chairman                   |
| Mr. Etrat H. Rizvi                | Director / Chief Executive |
| Mr. Shafiq A. Khan                | Director                   |
| Justice (Retd.) M. Javed Buttar   | Director                   |
| Lt. General (Retd.) M. Hamid Khan | Director                   |

### CFO & Company Secretary

Mr. Muhammad Faraz

### Audit Committee

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

### Auditors'

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

### Legal Advisors

KMS Law Associates  
207, Beaumont Plaza, Karachi.

### Bankers

Bank of Khyber  
KASB Bank Limited  
Bank Al Falah Limited  
Atlas Bank Limited  
Faysal Bank Limited

### Registrar

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



## **REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY**

The Board of Directors of National Asset Management Company Limited, the Management Company of NAMCO Balanced Fund, is pleased to present the accounts of NAMCO Balanced Fund (NBF) for the year ended June 30, 2010.

### **Market Review**

The Karachi Stock Exchange has shown an impressive performance in the fiscal year 2010 as its key index - KSE-100 gained 35.7%, which puts it amongst the best performing markets in the region, closing at 9,722 points. After witnessing worst decline in FY09 by 41.7%, bulls came back with full intensity mainly due to massive buying by the offshore investors.

According to the figures of National Clearing Company of Pakistan Limited (NCCPL), there was a net foreign buying of US\$556 million during FY10 mainly because Pakistan equity market is still relatively cheaper than regional markets and is trading at a discount comparing regional markets. The index increased by 2,560 points to close at 9,722 level at June 30, 2010 as compared to 7,162 points at the end of FY09. The market capitalization increased from Rs. 2.12 trillion (US\$ 26.02 billion) to Rs. 2.73 trillion (US\$ 31.96 billion), registering a surge of 28.8%. Average daily volume during the year was 161 million shares versus 106 million shares a year earlier. The Karachi Stock Exchange has witnessed 8 Initial Public Offerings (IPOs) worth Rs. 4.33 billion in the fiscal year 2009-10 as compared to 4 equity offerings worth Rs. 1.46 billion during same period last year. The depth and breadth of the market must improve to bring stability in the market.

A modest recovery in the economy has been witnessed despite some serious economic crises. GDP growth has begun to seep back into the country; however the biggest concern remains whether this recovery is sustainable. An energy shortage, along with the internal security situation and inability to deal with structural issues especially circular debt coupled with unprecedented floods, pose a considerable hurdle for a more broad based revival of the economy. On the other hand, shortfall in the inflow of external assistance, including from the FoDP combined with the delays in the Coalition Support Fund, has led to high borrowings by the government in the domestic credit market which has resulted in the lower availability of credit to the private sector. An increase in global commodity prices, mainly food has also exerted an upward pressure on the domestic inflation where commodities have witnessed a sizeable increase. Consequently, the SBP has been unable to use expansionary monetary policy which could potentially add to already significant inflation.

### **Fund Performance**

For the year ended June 30, 2010, the gross income without unrealized loss and impairment of the Fund amounted to Rs. 216 million, consisting of realized capital gains Rs. 149.5 million, dividend income Rs. 28.6 million and profits on investments and bank deposits Rs. 37.9 million. The market decline led to a diminution of Rs. 79.4 million in Held for Trading (HFT) investment and impairment loss on financial assets classified as available for sale, thereby paving way for gross income of Rs. 131.6 million.

Operating expenses for the period amounted to Rs. 31.5 million. Thus, the net income for the year ended June 30, 2010 was Rs. 100.2 million resulting due to unrealized diminution in held for trading and available for sale portfolio in the last quarter of the financial year. The Net Asset Value per certificate on June 30, 2010 was Rs. 6.78 after the payment of cash dividend.



During the year, NAMCO Balanced Fund distributed Rs.150 million to certificate holders. During the year 2009-10, the Fund paid three interim cash dividends to certificate holders. Cash dividend of 5% paid in November 2009, 6% in March 2010 and 4% in May 2010, thereby bringing the total cash payout to 15%.

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

### **Managing Company Ratings**

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

### **Future Outlook**

Given the severity of economic damages due to these massive floods, the market has declined by almost 10% in early August. On the basis of earnings multiple and dividend yields, Pakistan remains one of the attractive emerging market and which has been the major reason for continuous inflows of foreign investment. However, equity risk premium will continue to be high for the country given the broader weak macroeconomic picture especially after the recent floods. Not surprisingly, overall, domestic demand is expected to shrink in the immediate future, which is likely to impact the top line growth and earnings across various sectors.

### **Compliance with the Code of Corporate Governance**

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

- \* The financial statements present fairly the state of the affairs of the Fund, the result of its operations cash flow and change in equity.
- \* The Fund has maintained proper books of accounts.
- \* Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- \* International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- \* The system of internal control is sound in design and has been effectively implemented and monitored.
- \* There are no significant doubts upon the Funds ability to continue as going concern.
- \* There has been no material departure from the best practices of the corporate governance, as detailed in Karachi Stock Exchange listing regulations.



- \* The statement showing trades in the certificates of the Fund carried out by the directors, CEO, CFO & Company Secretary of the Asset Management Company and their spouses and minors children has been annexed on page no. 07 (Annexure-A).
- \* The statement showing the certificates held by directors, CEO and Company Secretary of National Asset Management Company Limited ( The Management Company) and their spouses and minor children for the year ended June 30, 2010 has been annexed on page No. 07 (Annexure-B).
- \* The detailed pattern of certificate holdings as required by Code of Corporate Governance has been annexed on page no. 43 (Annexure-C).

**Board Meetings**

During the year, five board meetings of the company were held and the Board was reconstituted as a result of election whereby Dr. Syed Salman Ali Shah, Justice (Retd.) M. Javed Buttar and Lt. General (Retd.) M. Hamid Khan replaced Mr. Ali Aslam Malik, Mr. Ali Raza Jaffery and Mr. Imtiaz A. Pervez who had resigned, closed to the election of directors. The details of the attendance by each director in the board meetings are as given below: -

| Name                              | Designation   | Total | Meetings Attended |
|-----------------------------------|---------------|-------|-------------------|
| Mr. Ali A. Malik                  | Director      | 5     | 2                 |
| Mr. Ali Raza Jaffery              | Director      | 5     | 2                 |
| Mr. Etrat H. Rizvi                | Director/ CEO | 5     | 5                 |
| Mr. Shafiq A. Khan                | Director      | 5     | 2                 |
| Dr. Syed Salman Ali Shah          | Chairman      | 5     | 2                 |
| Justice (Retd.) M. Javed Buttar   | Director      | 5     | 3                 |
| Lt. General (Retd.) M. Hamid Khan | Director      | 5     | 3                 |

**Auditors**

M/s KPMG Taseer Hadi & Co. Chartered Accountants were appointed as auditor of the Fund for the year ending June 30, 2010 in place of outgoing auditors M/s A. F. Ferguson & Co. Chartered Accountants. M/s KPMG Taseer Hadi & Co. being eligible have offered themselves.

**Acknowledgements**

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

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

September 24, 2010  
Lahore

Etrat H. Rizvi  
Chief Executive

**Annexure A**

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

| S. No. | Name                              | Designation                | Purchase                 | Sale | Bonus |
|--------|-----------------------------------|----------------------------|--------------------------|------|-------|
|        |                                   |                            | (Number of certificates) |      |       |
| 1.     | Mr. Ali Aslam Malik               | Director                   | -                        | -    | -     |
| 2.     | Mr. Ali Raza Jaffery              | Director                   | -                        | -    | -     |
| 3.     | Mr. Etrat Hussain Rizvi           | Director/CEO               | 4,000                    | -    | -     |
| 4.     | Mr. Shafiq A. Khan                | Director                   | -                        | -    | -     |
| 5.     | Dr. Syed Salman Ali Shah          | Chairman                   | -                        | -    | -     |
| 6.     | Justice (Retd.) M. Javed Buttar   | Director                   | -                        | -    | -     |
| 7.     | Lt. General (Retd.) M. Hamid Khan | Director                   | -                        | -    | -     |
| 8.     | Mr. Muhammad Faraz*               | CFO &<br>Company Secretary | -                        | -    | -     |

Dr. Syed Salman Ali Shah, Justice (Retd.) M. Javed Buttar and Lt. Gen. (Retd.) M. Hamid Khan were elected to the Board in place of Mr. Ali Aslam Malik and Mr. Ali Raza Jaffery, upon completion of term of office. The new Board elected Dr. Syed Salman Ali Shah as its Chairman.

\* Appointed in Board of Directors meeting held on September 24, 2010.

**Annexure B**

Statement showing certificates held by directors, CEO and Company Secretary of National Asset Management Company Limited (The Management Company) and their spouses and minor children for the year ended June 30, 2010.

| S. No. | Name                              | Designation             | Shares held |
|--------|-----------------------------------|-------------------------|-------------|
| 1.     | Mr. Ali Aslam Malik               | Director                | -           |
| 2.     | Mr. Ali Raza Jaffery              | Director                | -           |
| 3.     | Mr. Etrat Hussain Rizvi           | Director/CEO            | 28,500      |
| 4.     | Mr. Shafiq A. Khan                | Director                | -           |
| 5.     | Dr. Syed Salman Ali Shah          | Chairman                | -           |
| 6.     | Justice (Retd.) M. Javed Buttar   | Director                | -           |
| 7.     | Lt. General (Retd.) M. Hamid Khan | Director                | -           |
| 8.     | Mr. Muhammad Faraz*               | CFO & Company Secretary | 500         |

Dr. Syed Salman Ali Shah, Justice (Retd.) M. Javed Buttar and Lt. Gen. (Retd.) M. Hamid Khan were elected to the Board in place of Mr. Ali Aslam Malik and Mr. Ali Raza Jaffery, upon completion of term of office. The new Board elected Dr. Syed Salman Ali Shah as its Chairman.

\* Appointed in Board of Directors meeting held on September 24, 2010.



FUND MANAGER REPORT

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

Key Information

|                     |                                      |
|---------------------|--------------------------------------|
| Fund Type           | Closed end                           |
| Category            | Balanced Fund                        |
| Net Assets Value    | Rs. 678.160 million                  |
| NAV per Certificate | Rs. 6.78                             |
| Management Fee      | 3 %                                  |
| Trustee             | First Dawood Investment Bank         |
| Auditor             | KPMG Taseer Hadi & Co                |
| Listing             | KSE                                  |
| Benchmark           | 70% KSE-100 Index + 30% 1M Kibor Ask |

Market Review

Continuous inflow of foreign portfolio investment, improved law and order situation, coupled with improvements reported in macro-economic indicators helped KSE 100 index to cross 10,000, for the first time since August 2008 (after 19 months). The index touched highest level of 10,677 in mid April 2010. In view of certain developments in subsequent period the index closed at 9,722 on June 30, 2010. Average daily traded volume expanded to 161 million shares as compared to 105 million shares in fiscal year 2009. At the beginning of the financial year, uncertainty about the discount rate cut by the State Bank and late release of IMF tranche caused some concern in the minds of investors and hence the market moved at slow pace. However, it quickly regained its momentum with the discount rate cut, disbursement of IMF tranche, continuous decline in inflation and foreign inflows.

With the beginning of new financial year, as inflation started easing off, the State Bank continued with its expansionary monetary policy by reducing the discount rates by another 150 basis points to 12.5% in first half of fiscal year 2010. However, later on the policy rate remained unchanged owing to (1) resurgence and persistence in inflation (2) risk to external account from rising international commodity prices and (3) weak fiscal position of the economy. Average yearly inflation stood at 11.7% in fiscal year 2010 as compared to 20.8% in the preceding year.

Distribution

NBF has issued three interim dividends of Rs. 0.50, Rs. 0.60 and Rs. 0.40 per certificate during the year. The cumulative dividend during the year adds to Rs. 1.50 per certificate.

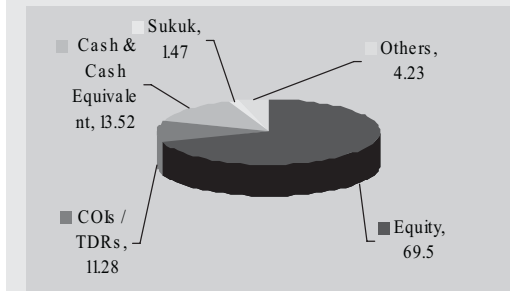
Other Disclosures

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

Asset Allocation of NAMCO Balanced Fund

As of June 30, 2010

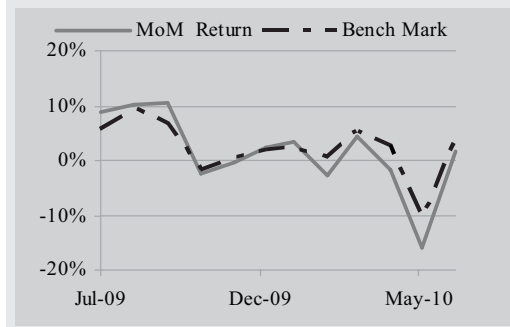
| Segments               | (%) of Portfolio |
|------------------------|------------------|
| Equity                 | 69.50            |
| COIs / TDRs            | 11.28            |
| Cash & Cash Equivalent | 13.52            |
| Sukuk                  | 1.47             |
| Others                 | 4.23             |



Equity Segment Breakdown

| Sectors                        | (%) of Portfolio |
|--------------------------------|------------------|
| Banks                          | 21.08            |
| Oil & gas                      | 11.04            |
| Personal Goods                 | 8.73             |
| Chemicals                      | 8.44             |
| Financial Services             | 5.01             |
| Const. & Materials             | 3.74             |
| Others                         | 11.46            |
| <b>Total Equity Proportion</b> | <b>69.50</b>     |

Fund Performance Vs Benchmark



Split of Shares

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

Investment Committee Members

- Mr. Etrat. H. Rizvi – CEO
- Mr. Faisal Merchant – CIO
- Mr. Asif Iqbal – Fund Manager



**PERFORMANCE TABLE / KEY FINANCIAL DATA**

|  | <b>For the year ended<br/>June 30, 2010</b> | <b>For the year ended<br/>June 30, 2009</b> |
|--|---|---|
| <b>Net Asset</b>                         |   |   |
| Net Asset Value (Million Rs.)            | 678.23                                      | 721.81                                      |
| NAV per unit (Rs.)                       | 6.78  | 7.22  |
| Highest NAV (Rs.)                        | 10.14                                       | 9.20  |
| Lowest NAV (Rs.)                         | 5.59  | 6.60  |
| <b>Distribution (Rs/unit)</b>            |   |   |
| First Interim dividend distribution      | 0.50  | -   |
| Second Interim dividend distribution     | 0.60  | -   |
| Third Interim dividend distribution      | 0.40  | -   |
| Fourth Interim dividend distribution     | -   | -   |
| Final dividend distribution              | -   | -   |
| Total dividend distribution for the year | 1.50  | -   |
| <b>Average Return (%)</b>                |   |   |
| Average annual return for the year       | 18.60                                       | (29.15)                                     |

**Disclaimer:**

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



**STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES  
OF "CODE OF CORPORATE GOVERNANCE"  
FOR THE YEAR ENDED 30 JUNE 2010**

This statement is being presented to comply with the "Code of corporate governance" contained in Regulation No. 35 Chapter XI of the listing regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed Collective Investment Scheme is managed in compliance with the best practices of corporate governance.

1. The Asset Management Company encourages representation of independent non-executive directors on its Board. All the directors except Chief Executive are non-executive directors.
2. The directors of the Asset Management Company have confirmed that none of them is serving as a director in more than ten listed companies, including the Asset Management Company.
3. All the resident directors of the Asset 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year, the Board was reconstituted as a result of election whereby Dr. Syed Salman Ali Shah, Justice (Retd.) M. Javed Buttar and Lt. General (Retd.) M. Hamid Khan replaced Mr. Ali Aslam Malik, Mr. Ali Raza Jaffery and Mr. Imtiaz A. Pervez who had resigned, closed to the election of directors.
5. The Asset Management Company has prepared a 'Statement of Ethics & Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision / mission statement and certain policies of the Asset Management Company. A complete record of the particulars of the significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board. There is no other executive director of the Management Company besides Chief Executive.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter except 1st quarter. Written notices of the Board meeting (five during the years), along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated.
9. The related party transactions carried out during the year have been placed before the Audit Committee and approved by the Board of Directors.
10. 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.
11. The financial statements of the fund were duly endorsed by the Chief Executive and CFO before approval of the Board.



12. Although no orientation courses were held, the directors have been provided with the copies of the NBFC (Establishment and Regulation) Rules, 2003, NBFC & NE Regulations, 2008, Companies Ordinance 1984, Listing Regulations, Code of Corporate Governance, Prudential Regulations, Company's Memorandum and Articles of Association and all other relevant rules and regulations and hence are conversant with the relevant laws applicable to the Company & Fund, its policies and procedures and provisions of Memorandum and Articles of Association and are aware of their duties and responsibilities.
13. The directors, chief executive and executives do not hold any interest in the certificates of the Fund other than that disclosed in the pattern of certificate-holding.
14. The Asset Management Company has complied with all the corporate and financial reporting requirements of the Code.
15. 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.
16. The meetings of the Audit Committee were held at least once every quarter, except 1st quarter, prior to approval of interim and final results of the Fund, as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Asset Management Company has internal audit functions of the Company lead by the qualified person.
18. 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 certificates of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services, except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

September 24, 2010

\_\_\_\_\_  
ETRAT H. RIZVI  
*Chief Executive*



**REPORT OF THE TRUSTEE TO THE CERTIFICATE HOLDERS**

**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**

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

In our opinion, National Asset Management Company Limited, the Management Company has in all material respects managed the Fund during the reporting period ended June 30, 2010 in accordance with the provision of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulation, 2008 and limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund.

Karachi. September 24, 2010

**Abdus Samad Khan**  
Chief Executive Officer  
**First Dawood Investment Bank Limited**



**REVIEW REPORT TO THE CERTIFICATE HOLDERS OF NAMCO BALANCED FUND "THE FUND" ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of National Asset Management Company Limited, "the Management Company" of the Fund to comply with the Listing 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 of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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

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

**Date: 24 September, 2010**  
**Karachi**

*KPMG Taseer Hadi & Co.*

**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**



## INDEPENDENT AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the accompanying financial statements of NAMCO Balanced Fund ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2010, and the income statement, statement of comprehensive income, statement of cash flows, distribution statement, statement of movement in equity and reserves per certificate and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan. 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*

As more fully explained in note 19 to the financial statements, interim distributions during the year amounted to Rs. 150 million as against distributable income of Rs. 100.156 million for the year ended 30 June 2010. In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The financial statements for the year ended 30 June 2009 were audited by another firm of Chartered Accountants who had expressed an unqualified opinion in their audit report dated 15 October 2009.

**Date: 24 September 2010**

**Karachi**

**KPMG Taseer Hadi & Co.  
Chartered Accountants  
Muhammad Nadeem**

**STATEMENT OF ASSETS AND LIABILITIES**

AS AT 30 JUNE 2010

|   | <i>Note</i> | <b>June 30<br/>2010</b> | June 30<br>2009 |
|---|-------------|-------------------------|-----------------|
|   |             | ----- Rupees -----      |                 |
| <b>ASSETS</b>   |             |                         |                 |
| Balances with banks   | 4           | <b>126,687,979</b>      | 24,985,222      |
| Investments   | 5           | <b>557,837,978</b>      | 695,517,449     |
| Receivable against sale of investments  |             | -                       | 542,981         |
| Dividend and other receivables  | 6           | <b>5,342,968</b>        | 5,748,199       |
| Security deposits   | 7           | <b>3,675,000</b>        | 3,675,000       |
| <b>Total Assets</b>   |             | <b>693,543,925</b>      | 730,468,851     |
| <b>LIABILITIES</b>  |             |                         |                 |
| Payable to Management Company- National Asset Management Company Limited                          | 8           | <b>1,689,691</b>        | 1,771,859       |
| Payable to Trustee-First Dawood Investment Bank Limited   | 9           | <b>52,818</b>           | 54,189          |
| Payable to Securities and Exchange Commission of Pakistan   | 10          | <b>691,986</b>          | 697,325         |
| Payable against purchase of investments   |             | <b>468,984</b>          | 21,172          |
| Preliminary expenses and floatation costs payable to Management Company                           |             | <b>3,603,972</b>        | 5,405,958       |
| Unclaimed dividend  |             | <b>6,262,441</b>        | 261,450         |
| Accrued expenses and other liabilities  | 11          | <b>2,613,803</b>        | 449,474         |
| <b>Total Liabilities</b>  |             | <b>15,383,695</b>       | 8,661,427       |
| <b>NET ASSETS</b>   |             | <b>678,160,230</b>      | 721,807,424     |
| <b>CERTIFICATE CAPITAL AND RESERVES</b>   |             |                         |                 |
| Certificate capital   | 12          | <b>1,000,000,000</b>    | 1,000,000,000   |
| Unrealised appreciation on re-measurement of investments classified as 'available for sale' - net |             | <b>6,196,630</b>        | -               |
| Accumulated loss  |             | <b>(328,036,400)</b>    | (278,192,576)   |
| <b>TOTAL CERTIFICATE HOLDERS' FUNDS</b>   |             | <b>678,160,230</b>      | 721,807,424     |
| <b>NET ASSET VALUE PER CERTIFICATE</b>  |             | <b>6.78</b>             | 7.21            |

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

**For National Asset Management Company Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director



**INCOME STATEMENT**  
FOR THE YEAR ENDED 30 JUNE 2010

|   | <i>Note</i> | <b>June 30<br/>2010</b> | June 30<br>2009 |
|---|-------------|-------------------------|-----------------|
| ----- Rupees -----  |             |                         |                 |
| <b>INCOME</b>   |             |                         |                 |
| Capital gains on sale of investments - net  |             | <b>149,514,096</b>      | (94,701,261)    |
| Dividend income   |             | <b>28,629,389</b>       | 31,338,732      |
| Profit on investments and bank balances   | <i>13</i>   | <b>37,880,204</b>       | 30,926,419      |
| Unrealised (diminution) on re-measurement of investments<br>classified as financial assets at fair value through profit or loss - net |             | <b>(79,416,663)</b>     | (177,579,019)   |
| Impairment loss on financial assets classified as 'available for sale'  |             | <b>(4,981,968)</b>      | (60,812,524)    |
| Income from Continuous Funding System (CFS) transactions  |             | -                       | 8,765,849       |
| Other income  |             | -                       | 63,633          |
|   |             | <b>131,625,058</b>      | (261,998,171)   |
| <b>EXPENSES</b>   |             |                         |                 |
| Remuneration to Management Company-National Asset Management<br>Company Limited   |             | <b>24,423,056</b>       | 22,831,824      |
| Remuneration to Trustee-First Dawood Investment Bank Limited  |             | <b>707,050</b>          | 680,530         |
| Annual fee - Central Depository Company of Pakistan Limited   |             | <b>67,500</b>           | 129,465         |
| Annual fee - Securities and Exchange Commission of Pakistan   |             | <b>691,986</b>          | 697,324         |
| Securities transaction costs  |             | <b>2,321,768</b>        | 1,593,469       |
| Auditors' remuneration  | <i>14</i>   | <b>519,659</b>          | 484,807         |
| Amortisation of preliminary expenses and floatation costs   |             | -                       | -               |
| Annual listing fee  |             | <b>75,000</b>           | 127,500         |
| Bank charges  |             | <b>8,383</b>            | 12,405          |
| Legal and professional charges  |             | <b>113,000</b>          | 110,000         |
| Other expenses  |             | <b>497,476</b>          | 890,501         |
| Provision for Workers' Welfare Fund   | <i>15</i>   | <b>2,044,004</b>        | -               |
| <b>Total Expenses</b>   |             | <b>31,468,882</b>       | 27,557,825      |
| <b>Net income / (loss) for the year</b>   |             | <b>100,156,176</b>      | (289,555,996)   |
| <b>Basic and diluted earnings / (loss) per certificate</b>  | <i>16</i>   | <b>1.00</b>             | (2.90)          |

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

**For National Asset Management Company Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director





**STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 30 JUNE 2010

|   | June 30<br>2010    | June 30<br>2009      |
|---|--------------------|----------------------|
|   | ----- Rupees ----- |                      |
| <b>Net income / (loss) for the year</b>   | <b>100,156,176</b> | <b>(289,555,996)</b> |
| <b>Other comprehensive income / (loss) for the year</b>   |                    |                      |
| -Net unrealised appreciation / (diminution) in the value of investment classified as 'available for sale' | 1,214,662          | (68,250,882)         |
| -Impairment losses on investments classified as 'available for sale' - transferred to income statement    | 4,981,968          | 60,812,524           |
|   | 6,196,630          | (7,438,358)          |
| <b>Total comprehensive income / (loss) for the year</b>   | <b>106,352,806</b> | <b>(296,994,354)</b> |

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

**For National Asset Management Company Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director



**STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED 30 JUNE 2010

| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  | <i>Note</i> | <b>June 30<br/>2010</b> | June 30<br>2009 |
|--|-------------|-------------------------|-----------------|
|  |             | ----- Rupees -----      |                 |
| Net income / (loss) for the year   |             | <b>100,156,176</b>      | (289,555,996)   |
| <b>Adjustments for:</b>  |             |                         |                 |
| Dividend income  |             | <b>(28,629,389)</b>     | (31,338,732)    |
| Unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss' - net |             | <b>79,416,663</b>       | 177,579,019     |
| Impairment loss on financial assets classified as 'available for sale'   |             | <b>4,981,968</b>        | 60,812,524      |
|  |             | <b>155,925,418</b>      | (82,503,185)    |
| <b>Movement in:</b>  |             |                         |                 |
| Investments - net  |             | <b>59,477,470</b>       | (103,973,807)   |
| Receivable against sale of investments   |             | <b>542,981</b>          | 37,653,253      |
| Receivable against continuous funding system transactions  |             | -                       | 113,259,104     |
| Prepayments and security deposits  |             | -                       | 1,536,007       |
| Dividend and other receivables   |             | <b>75,811</b>           | 1,308,445       |
| Accrued expenses   |             | <b>2,164,329</b>        | (638,797)       |
| Remuneration to Management Company-National Asset Management Company Limited   |             | <b>(82,168)</b>         | (770,429)       |
| Annual fee - Securities and Exchange Commission of Pakistan  |             | <b>(5,339)</b>          | (389,922)       |
| Remuneration to Trustee-First Dawood Investment Bank Limited   |             | <b>(1,371)</b>          | (12,839)        |
| Preliminary expenses and floatation costs paid to the Management Company   |             | <b>(1,801,986)</b>      | (1,801,986)     |
| <b>Net cash from / (used in) operating activities</b>  |             | <b>216,295,145</b>      | (36,334,156)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |             |                         |                 |
| Payable against purchase of investments  |             | <b>447,812</b>          | (5,074,418)     |
| Dividend received  |             | <b>28,958,809</b>       | 32,469,557      |
| <b>Net cash from investing activities</b>  |             | <b>29,406,621</b>       | 27,395,139      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |             |                         |                 |
| Dividend paid - net cash used in financing activities  |             | <b>(143,999,009)</b>    | -               |
| Net increase / (decrease) in cash and cash equivalents during the year   |             | <b>101,702,757</b>      | (8,939,017)     |
| Cash and cash equivalents at beginning of the year   |             | <b>24,985,222</b>       | 33,924,239      |
| <b>Cash and cash equivalents at end of the year</b>  | 4           | <b>126,687,979</b>      | 24,985,222      |

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

**For National Asset Management Company Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

**DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2010**

|  | <b>June 30<br/>2010</b>     | June 30<br>2009             |
|--|-----------------------------|-----------------------------|
|  | ----- Rupees -----          |                             |
| Undistributed (loss) / income at beginning of the year | (278,192,576)               | 11,363,420                  |
| Net income / (loss) for the year                       | <b>100,156,176</b>          | (289,555,996)               |
| <i>Distributions during the year</i>                   |                             |                             |
| Interim dividend @ Re. 0.50 per certificate            | <b>(50,000,000)</b>         | -                           |
| Interim dividend @ Re. 0.60 per certificate            | <b>(60,000,000)</b>         | -                           |
| Interim dividend @ Re. 0.40 per certificate            | <b>(40,000,000)</b>         | -                           |
|  | <b>(150,000,000)</b>        | -                           |
| Accumulated loss carried forward                       | <b><u>(328,036,400)</u></b> | <b><u>(278,192,576)</u></b> |

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

**For National Asset Management Company Limited  
(Management Company)**

\_\_\_\_\_  
**Chief Executive**

\_\_\_\_\_  
**Director**

**STATEMENT OF MOVEMENT IN EQUITY AND RESERVES 'PER CERTIFICATE'**  
FOR THE YEAR ENDED 30 JUNE 2010

|   | June 30<br>2010    | June 30<br>2009    |
|---|--------------------|--------------------|
|   | ----- Rupees ----- | -----              |
| <b>Net assets per certificate at beginning of the year</b>  | 7.21               | 10.19              |
| Capital gain on sale of investments - net   | <b>1.50</b>        | (0.95)             |
| Dividend income   | <b>0.29</b>        | 0.31               |
| Unrealised (diminution) on re-measurement of investments<br>classified as financial assets at fair value through profit or loss - net | <b>(0.79)</b>      | (1.78)             |
| Income from CFS transactions  | -                  | 0.09               |
| Profit on balances with banks   | <b>0.23</b>        | 0.09               |
| Profit on certificate of musharaka  | <b>0.03</b>        | 0.04               |
| Profit on certificate of investments  | <b>0.10</b>        | 0.15               |
| Profit on term deposit receipts   | -                  | 0.02               |
| Profit on term finance certificates   | -                  | 0.01               |
| Profit on Sukuk Bonds   | <b>0.01</b>        | -                  |
|   | <b>1.37</b>        | (2.02)             |
| Expenses  | <b>(0.31)</b>      | (0.28)             |
| Impairment loss on financial assets classified as 'available for sale'  | <b>(0.05)</b>      | (0.61)             |
| Unrealised appreciation / (diminution) on re-measurement of investments<br>classified as 'available for sale' - net                   | <b>0.06</b>        | (0.07)             |
| Distributions declared during the year  | <b>(1.50)</b>      | -                  |
| <b>Net assets per certificate at end of the year</b>  | <b><u>6.78</u></b> | <b><u>7.21</u></b> |

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

**For National Asset Management Company Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director



**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 30 JUNE 2010

|  | Certificate<br>capital | Unrealised<br>appreciation /<br>(diminution) on<br>re-measurement of<br>investments classified<br>as available for<br>sale - net | (Accumulated<br>loss) /<br>Unappropriated<br>profit | Total              |
|--|------------------------|--|---|--------------------|
|  | ----- (Rupees) -----   |  |   |                    |
| Balance as at 01 July 2008   | 1,000,000,000          | 7,438,358  | 11,363,420  | 1,018,801,778      |
| <i>Total comprehensive loss for the year</i>   |                        |  |   |                    |
| Net (loss) for the year  | -                      | -  | (289,555,996)                                       | (289,555,996)      |
| Other comprehensive loss   |                        |  |   |                    |
| -Net unrealised (diminution) in the value of investment classified as 'available for sale'             | -                      | (68,250,882)   | -   | (68,250,882)       |
| -Impairment losses on investments classified as 'available for sale' - transferred to income statement | -                      | 60,812,524   | -   | 60,812,524         |
| Total comprehensive (loss) for the year  | -                      | (7,438,358)  | (289,555,996)                                       | (296,994,354)      |
| <b>Balance as at 30 June 2009</b>  | <b>1,000,000,000</b>   | <b>-</b>   | <b>(278,192,576)</b>                                | <b>721,807,424</b> |
| <i>Total comprehensive income for the year</i>   |                        |  |   |                    |
| Net income for the year  | -                      | -  | 100,156,176   | 100,156,176        |
| Other comprehensive income   |                        |  |   |                    |
| -Net unrealised appreciation in the value of investment classified as 'available for sale'             | -                      | 1,214,662  | -   | 1,214,662          |
| -Impairment losses on investments classified as 'available for sale' - transferred to income statement | -                      | 4,981,968  | -   | 4,981,968          |
| Total comprehensive income for the year  | -                      | 6,196,630  | 100,156,176   | 106,352,806        |
| <i>Transactions with owners recorded directly in equity - distributions</i>                            |                        |  |   |                    |
| Distributions:   |                        |  |   |                    |
| -Interim dividend @ Re. 0.50 per certificate   | -                      | -  | (50,000,000)  | (50,000,000)       |
| -Interim dividend @ Re. 0.60 per certificate   | -                      | -  | (60,000,000)  | (60,000,000)       |
| -Interim dividend @ Re. 0.40 per certificate   | -                      | -  | (40,000,000)  | (40,000,000)       |
| <i>Total transactions with owners-distributions</i>  | -                      | -  | (150,000,000)                                       | (150,000,000)      |
| <b>Balance as at 30 June 2010</b>  | <b>1,000,000,000</b>   | <b>6,196,630</b>   | <b>(328,036,400)</b>                                | <b>678,160,230</b> |

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

**For National Asset Management Company Limited  
(Management Company)**

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director



## NOTES THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

### 1. LEGAL STATUS AND NATURE OF BUSINESS

NAMCO Balanced Fund ("the Fund") was established under a Trust Deed executed between National Asset Management Company Limited ("NAMCO") as the Management Company and First Dawood Investment Bank Limited ("FDIBL") as the Trustee. The Securities and Exchange Commission of Pakistan ("SECP") authorised constitution of the trust deed on 3 May 2006 and it was executed on 17 April 2006 in accordance with the NBFC Regulations.

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

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

JCR-VIS Credit Rating Company Limited has assigned management quality rating of AM3- to the Management Company. As at 30 June 2010 the Pakistan Credit Rating Agency Limited ("PACRA") through a press release has downgraded rating of the trustee-FDIBL to "D". However, the management is in the process of changing trustee to MCB Financial Services Limited. NAMCO Balanced Fund - NBF has been assigned rating of MFR 3- Star which denotes average performance.

The Non-Banking Finance Companies and Notified Entities Regulations, 2008 notified by the SECP require under clause 65 of such regulations that a closed end fund shall, upon expiry of 5 years from 21 November 2006, hold a meeting of certificate holders to seek the approval of the certificate holders (by special resolution) to convert into an open end scheme or revoke the closed end scheme.

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

#### 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that investments classified as "at fair value through profit or loss- Held for trading" and "available for sale" which are stated at their fair values.

#### 2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is also the functional currency of the Fund and rounded to the nearest Rupees.



## 2.4 Changes in accounting policies

Starting 1 July 2009, the Fund has changed its accounting policies in the following areas:

- "Revised IAS 1 Presentation of Financial Statements (2007)" became effective from 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of assets and liabilities as at the beginning of comparative period in addition to the current requirement to present statement of assets and liabilities at the end of the current period and comparative period. The Fund has opted to present two statements; a income statement and a statement of comprehensive income. Further, assets and liabilities have been presented in the Statement of Assets and Liabilities based on the order of liquidity instead of current and non-current classification to give more appropriate presentation of the financial position of the Fund.
- IFRS 8 - Operating Segments (effective from January 1, 2009). This standard requires the Fund to determine and present operating segments based on the information that is provided internally to the Fund's Chief Operating Decision Maker, that is, the organisation's function which allocates resources to and assesses performance of its operating segments. Management has determined that the Fund has a single reportable segment and therefore the adoption of the said IFRS has only resulted in some entity wide disclosures as described in note 21.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the change in accounting policies only affect presentation / disclosures of financial statements, there is no impact on income for the year and earnings per certificate.

## 2.5 Other accounting developments

### 2.5.1 Disclosures pertaining to fair values and liquidity risk for financial instruments

The Fund has applied 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.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

Revised disclosures in respect of fair values of financial instruments and liquidity risk are included in note 18.

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

### 2.5.2 Standards, Interpretations and Amendments not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after 1 January 2010.

- *Improvements to IFRSs 2009 – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in IFRS 5. These amendments are unlikely to have an impact on the Fund's financial statements.



- **Improvements to IFRSs 2009 – Amendments to IFRS 8 Operating Segments** (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker. The amendment is unlikely to have an impact on Fund's operations.
- **Improvements to IFRSs 2009 – Amendments to IAS 1 Presentation of Financial Statements** (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments. These amendments are unlikely to have an impact on the Fund's financial statements.
- **Improvements to IFRSs 2009 – Amendments to IAS 7 Statement of Cash Flows** (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. These amendments are unlikely to have a significant impact on the Fund's financial statements.
- **Improvements to IFRSs 2009 – Amendments to IAS 17 Leases** (effective for annual periods beginning on or after 1 January 2010). The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of IAS 17, taking account of the fact that land normally has an indefinite economic life. The amendment is not relevant to the Fund's operations.
- **Improvements to IFRSs 2009 – Amendments to IAS 36 Impairment of Assets** (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendments apply prospectively. These amendments are unlikely to have a significant impact on the Fund's financial statements.
- **Improvements to IFRSs 2009 – Amendments to IAS 39 Financial Instruments: Recognition and Measurement** (effective for annual periods beginning on or after 1 January 2010). The amendments provide additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; clarify that the scope exemption in IAS 3 paragraph 2(g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss. The amendments apply prospectively to all unexpired contracts from the date of adoption. These amendments are unlikely to have an impact on the Fund's financial statements.
- **Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters** (effective for annual periods beginning on or after 1 January 2010). The IASB provided additional optional exemptions for first-time adopters of IFRSs that will permit entities to not reassess the determination of whether an arrangement contains a lease if the same assessment as that required by IFRIC 4 was made under previous GAAP; and allow entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed cost at the date of transition for oil and gas assets. The amendment is not relevant to the Fund's operations.
- **Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions** (effective for annual periods beginning on or after 1 January 2010). Amendment provides guidance on the accounting for share based payment transactions among group entities. The amendment is not relevant to the Fund's operations.
- **Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues** (effective for annual periods beginning on or after 1 January 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. These amendments are unlikely to have an impact on the Fund's financial statements.
- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments** (effective for accounting periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This amendment is unlikely to have a significant impact on the Fund's financial statements.
- **Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters** (effective for accounting periods beginning on or after 1 July 2010). The amendment provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the Amendments to IFRS 7. The amendment also clarifies the transitional provisions of the Amendments to IFRS 7. The amendment is not relevant to the Fund's operations.





Improvements to IFRSs 2010 (effective for annual periods beginning on or after 1 July 2010). The IASB issued amendments to various standards effective. Below is a summary of the amendments that are effective for either annual periods beginning on or after 1 July 2010 or annual periods beginning on or after 1 January 2011.

- **Improvements to IFRSs 2010 – Amendments to IFRS 3 Business Combinations** (effective for accounting periods beginning on or after 1 July 2010). The amendments clarify that contingent consideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004); limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. These amendments are unlikely to have an impact on the Fund's financial statements.
- **Improvements to IFRSs 2010 – Amendments to IAS 27 Consolidated and Separate Financial Statements** (effective for annual periods beginning on or after 1 July 2010). The amendments clarify that the consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. These amendments are unlikely to have an impact on the Fund's financial statements.
- **IAS 24 Related Party Disclosures (revised 2009)** (effective for accounting periods beginning on or after 1 January 2011). The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. These amendments are unlikely to have an impact on the Fund's financial statements other than increase in disclosures.
- **Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction** (effective for accounting periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. These amendments are not relevant for the Fund's operations.
- **Improvements to IFRSs 2010 – IFRS 1 First-time Adoption of IFRSs** (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that IAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity's first IFRS financial statements; introduce guidance for entities that publish interim financial information under IAS 34 Interim Financial Reporting and change either their accounting policies or use of the IFRS 1 exemptions during the period covered by their first IFRS financial statements; extend the scope of paragraph D8 of IFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first IFRS financial statements; and introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to IFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendment is not relevant to the Fund's operations.
- **Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures** (effective for accounting periods beginning on or after 1 January 2011). The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. These amendments are unlikely to have an impact on the financial statements of the Fund other than increase in disclosures.
- **Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements** (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. These amendments are unlikely to have an impact on the Fund's financial statements other than increase in disclosures.
- **Improvements to IFRSs 2010 – IAS 34 Interim Financial Reporting** (effective for accounting periods beginning on or after 1 January 2011). The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures. These amendments are unlikely to have an impact on the Fund's financial statements other than increase in disclosures.
- **IFRIC 13 Customer Loyalty Programmes** (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendment is not relevant to the Fund's operations.

**2.6 Accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates underlying the assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by the management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with significant risk of material judgment in the next year are as follows:

***Investment stated at fair value***

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

***Classification and valuation of investments***

The Management has classified investments as disclosed in note 3.1 and has determined fair value of certain investments by using quotations from active market. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matter of judgment (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

***Impairment of investment***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. This objective evidence of impairment of fixed income securities is determined in accordance with provisioning criteria / policy for non performing exposures approved by the Board of Directors of the Management Company in accordance with the requirements of Annexure II of SECP Circular no. 1 of 2009 dated 6 January 2009 and Circular 13 of 2009 dated 4 May 2009. As per provisioning policy, the Investment Committee of the Management Company shall continuously review the provisioning status of all fixed income securities held by Fund, to assess whether there is change in circumstances which warrant additional provision and accordingly shall determine whether additional provision is required or not along with rationale and appropriate grounds and recommend it to Board of Directors for their approval.

***Preliminary expenses and floatation costs***

Amortisation of preliminary expenses and floatation costs as disclosed in note 3.10.

***Other assets***

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.4.

**3.1 Investments**

The Fund classifies its investments in the following categories:

**- Fair value through profit or loss - Held for Trading**

Investments which are acquired principally for the purposes of selling in the near term and are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking are classified as held for trading. This includes quoted equity securities. These investments are initially recognised at fair value, being the cost of the consideration given. The transaction costs associated with the investments classified as 'at fair value through profit or loss' are charged off to the income statement. Subsequent to initial measurement, held for trading investments are measured at fair value. The resultant gains/losses are included in income statement.



- **Held to maturity**

Investments with fixed or determinable maturity where management has both the positive intent and ability to hold till maturity are classified as held-to-maturity. These investments are measured initially at its fair value plus transaction cost that are directly attributable to these investments and are stated at amortised cost. Subsequent to initial measurements, held to maturity investments are measured at amortised cost. Provision for impairment in value, if any, is taken to income. Premiums and discounts on investments are amortised using the effective interest rate method and taken to income statement.

- **Loans and receivables**

Loans and receivables are carried at amortised cost less impairment losses, if any.

- **Available-for-sale**

Investments which do not fall under the above categories are classified as available-for-sale. These investments are initially recognised at fair value, being the cost of the consideration given. After initial recognition, investments classified as available-for-sale are remeasured at fair value, determined with reference to the year-end quoted rates. Gains or losses on remeasurement of these investments are recognised directly in the equity until the investment is sold, collected or otherwise disposed-off, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income statement.

***Basis of valuation***

***Debt Securities***

The fair value of sukuk bonds which are listed but not traded regularly on a stock exchange are valued at the average rate, notified by the Mutual Funds Association of Pakistan (MUFAP).

The SECP vide its circular no. 1/2009 dated 06 January, 2009 has changed the methodology for valuation of debt securities. Under the said directive, investment in TFCs and sukuk certificates have to be valued on the basis of rates quoted by the Mutual Fund Association of Pakistan (MUFAP). Accordingly, investment in sukuk bonds have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular. Prior to the issuance of the said directive investment in sukuk bonds was valued at the lower of discounted redeemable face value of sukuk bonds and the market value as determined using the rates notified by MUFAP in accordance with the SECP circular no. 26/2008 dated 05 November 2008.

***Marketable Equity Securities***

These investments in equity securities are remeasured at fair value determined with reference to the year-end rates quoted on the respective stock exchanges where the security is listed. Gains or losses on re-measurement of these investments are recognised in income statement or in equity as per the classification of investments.

***Date of Recognition***

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

***Derecognition***

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

**3.2 Derivative Financial Instruments**

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

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

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

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

**3.4 Impairment**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a investments classified as 'held to maturity and are measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

**3.5 Revenue recognition**

- Gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.
- Interest income from reverse repurchase transactions and continuous funding system lending arrangements, returns on certificates of investment, placements, commercial papers, certificates of musharika, term deposits and investments in debt securities are recognised at rate of return implicit in the instrument on a time proportionate basis.
- Dividend income is recognised in income statement when the Fund's right to receive payment is established.

**3.6 Taxation**

Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 provides exemption from tax to any income derived by a Mutual Fund, if not less than ninety percent of its accounting income of a year as reduced by capital gains whether realize or unrealized is distributed among the certificate holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains / loss to the certificate holders. The Management Company has distributed a sufficient accounting income of the Fund for the year ended 30 June 2010 in order to comply with the above stated clause and regulation. Accordingly, no tax provision has been made in these financial statements for the year ended 30 June 2010.

**3.7 Financial instruments**

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



**3.8 Offsetting of financial assets and liabilities**

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

**3.9 Provision**

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

**3.10 Preliminary expenses and floatation costs**

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

**3.11 Cash and cash equivalents**

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

**3.12 Distributions**

Distributions declared (cash dividend and bonus certificates) are recorded in the period in which they are approved.

**3.13 Liabilities**

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

|  |                           |                   |
|--|---------------------------|-------------------|
| <b>4. BALANCES WITH BANKS - local currency</b> | <b>June 30<br/>2010</b>   | June 30<br>2009   |
|  | ----- Rupees -----        |                   |
| Profit and loss sharing bank accounts          | <b>91,687,979</b>         | 24,985,222        |
| Term deposit receipts maturing within 1 month  | <b>35,000,000</b>         | -                 |
|  | <u><b>126,687,979</b></u> | <u>24,985,222</u> |

Return on profit and loss sharing accounts and term deposit receipts range from 8% to 18.5% (2009: 5% to 18.5%) per annum. Cash and cash equivalents comprise of profit and loss sharing accounts and term deposit receipts.

|   |             |                           |                    |
|---|-------------|---------------------------|--------------------|
| <b>5. INVESTMENTS</b>   |             | <b>June 30<br/>2010</b>   | June 30<br>2009    |
|   |             | ----- Rupees -----        |                    |
| <b>Financial asset at fair value through profit or loss- Held for trading</b> | <i>Note</i> |                           |                    |
| Quoted equity securities  | 5.1         | <b>429,685,543</b>        | 486,332,839        |
| <b>Available for sale</b>   |             |                           |                    |
| Quoted equity securities  | 5.2         | <b>41,652,435</b>         | 17,184,610         |
| <b>Loans and receivables</b>  |             |                           |                    |
| Fixed income and other debt securities  | 5.3         | <b>76,500,000</b>         | 182,000,000        |
| <b>Held to maturity</b>   |             |                           |                    |
| Fixed income and other debt securities-sukuk bonds                            | 5.4         | <u><b>10,000,000</b></u>  | <u>10,000,000</u>  |
|   |             | <u><b>557,837,978</b></u> | <u>695,517,449</u> |



## NAMCO BALANCED FUND

### 5.1 Investments - financial assets at fair value through profit or loss - held for trading

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

| Name of investee                           | Number of shares  |                           |                      |                       | Holding as at 30 June 2010 | Balance as at 30 June 2010 |                   |                             | Percentage in relation to                  |                           |                   |
|--|-------------------|---------------------------|----------------------|-----------------------|----------------------------|----------------------------|-------------------|-----------------------------|--|---------------------------|-------------------|
|  | As at 1 July 2009 | Purchases during the year | Bonus / rights issue | Sales during the year |                            | Carrying cost              | Market value      | Appreciation / (diminution) | Market value as a percentage of net assets | Investee paid-up capital* | Total investments |
| ------(Rupees)-----                        |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| <b>EQUITY INVESTMENT</b>                   |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Al-Zamin Leasing Modaraba                  | 100,500           | 500                       | -                    | 101,000               | -                          | -                          | -                 | 0.00%                       | 0.00%                                      | 0.00%                     |                   |
| B.R.R. Guardian Modaraba                   | 1,231,500         | 12,007                    | -                    | -                     | 1,243,507                  | 3,352,838                  | 1,604,124         | (1,748,714)                 | 0.24%                                      | 0.16%                     | 0.29%             |
|  | <b>1,332,000</b>  | <b>12,507</b>             | <b>-</b>             | <b>101,000</b>        | <b>1,243,507</b>           | <b>3,352,838</b>           | <b>1,604,124</b>  | <b>(1,748,714)</b>          |  |                           |                   |
| <b>FINANCIAL SERVICES</b>                  |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Arif Habib Limited                         | 64,900            | 9,500                     | 14,250               | 58,650                | 30,000                     | 1,656,241                  | 1,320,000         | (336,241)                   | 0.19%                                      | 0.13%                     | 0.24%             |
| Arif Habib Securities Limited              | 195,400           | 513,500                   | -                    | 333,900               | 375,000                    | 17,855,851                 | 12,453,750        | (5,402,101)                 | 1.84%                                      | 1.25%                     | 2.23%             |
| Al-Zamin Leasing Company Limited           | 25,214            | -                         | -                    | 25,214                | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Escorts Investment Bank Limited            | 607,500           | 3,473                     | -                    | -                     | 610,973                    | 2,436,661                  | 1,765,712         | (670,949)                   | 0.26%                                      | 0.18%                     | 0.32%             |
| First National Equities Limited            | 133,205           | 4,390                     | -                    | 2,000                 | 135,595                    | 1,109,366                  | 1,583,750         | 474,384                     | 0.23%                                      | 0.16%                     | 0.28%             |
| Invest Capital Investment Bank Limited     | -                 | 323,113                   | -                    | -                     | 323,113                    | 450,900                    | 274,646           | (176,254)                   | 0.04%                                      | 0.03%                     | 0.05%             |
| Javed Omer Vohra & Company                 | 44,500            | 5,000                     | -                    | 49,500                | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Jahangir Siddiqui & Company Limited        | 126,700           | 641,768                   | -                    | 768,468               | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| JS Global Capital Limited                  | 17,500            | -                         | -                    | 17,500                | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| JS Investment Limited                      | 23,000            | 10,000                    | -                    | 33,000                | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Orix Leasing Pakistan Limited              | 341,000           | 6,217                     | -                    | 126,977               | 220,240                    | 1,761,732                  | 1,151,855         | (609,877)                   | 0.17%                                      | 0.12%                     | 0.21%             |
|  | <b>1,578,919</b>  | <b>1,516,961</b>          | <b>14,250</b>        | <b>1,415,209</b>      | <b>1,694,921</b>           | <b>25,270,751</b>          | <b>18,549,713</b> | <b>(6,721,038)</b>          |  |                           |                   |
| <b>NON LIFE INSURANCE</b>                  |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Askari Gen Insurance Company Limited       | 60,300            | 8,503                     | -                    | -                     | 68,803                     | 1,655,387                  | 657,069           | (998,318)                   | 0.10%                                      | 0.07%                     | 0.12%             |
| Adanjee Insurance Company Limited          | 166,500           | 330,530                   | 17,500               | 297,000               | 217,530                    | 22,868,255                 | 17,376,296        | (5,491,959)                 | 2.56%                                      | 1.74%                     | 3.11%             |
| EFU General Insurance Limited              | 30,600            | 25,700                    | 2,973                | 22,100                | 37,173                     | 3,365,563                  | 1,826,681         | (1,538,882)                 | 0.27%                                      | 0.18%                     | 0.33%             |
| Habib Insurance Company Limited            | 74,975            | -                         | -                    | -                     | 74,975                     | 1,049,650                  | 941,686           | (107,964)                   | 0.14%                                      | 0.09%                     | 0.17%             |
| Pak Re-insurance Limited                   | 64,000            | 190,936                   | -                    | 6,500                 | 248,436                    | 7,680,707                  | 4,253,224         | (3,427,483)                 | 0.63%                                      | 0.43%                     | 0.76%             |
|  | <b>396,375</b>    | <b>555,669</b>            | <b>20,473</b>        | <b>325,600</b>        | <b>646,917</b>             | <b>36,619,562</b>          | <b>25,054,956</b> | <b>(11,564,606)</b>         |  |                           |                   |
| <b>PERSONAL GOODS</b>                      |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Azgard Nine Limited                        | 4,000             | 633,234                   | -                    | 140,234               | 497,000                    | 10,976,443                 | 5,546,520         | (5,429,923)                 | 0.82%                                      | 0.55%                     | 0.99%             |
| Kohinoor Textile Mills Limited             | 154,500           | 100                       | -                    | 154,600               | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Nishat Mills Limited                       | 270,000           | 1,039,500                 | -                    | 67,000                | 1,242,500                  | 72,574,861                 | 53,576,600        | (18,998,261)                | 7.90%                                      | 5.36%                     | 9.60%             |
| Samini Textile Mills Limited               | 80,000            | -                         | -                    | 70,500                | 9,500                      | -                          | 53,865            | -                           | 0.01%                                      | 0.01%                     | 0.01%             |
|  | <b>508,500</b>    | <b>1,672,834</b>          | <b>-</b>             | <b>432,334</b>        | <b>1,749,000</b>           | <b>83,605,169</b>          | <b>59,176,700</b> | <b>(24,428,469)</b>         |  |                           |                   |
| <b>FOOD PRODUCTS</b>                       |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Shakerganj Sugar Mills Limited             | 107,500           | -                         | -                    | 45,403                | 62,097                     | 316,695                    | 235,969           | (80,726)                    | 0.03%                                      | 0.02%                     | 0.04%             |
| <b>CONSTRUCTION &amp; MATERIALS</b>        |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Attock Cement Pakistan Limited             | 87,500            | 9,500                     | 17,000               | 22,000                | 92,000                     | 5,449,641                  | 6,026,000         | 576,359                     | 0.89%                                      | 0.60%                     | 1.08%             |
| Dewan Cement Limited                       | 149,000           | -                         | -                    | 10,000                | 139,000                    | 382,250                    | 239,080           | (143,170)                   | 0.04%                                      | 0.02%                     | 0.04%             |
| D.G. Khan Cement Limited                   | 353,800           | 246,400                   | -                    | 263,800               | 336,400                    | 11,616,077                 | 9,433,828         | (2,182,249)                 | 1.39%                                      | 0.94%                     | 1.69%             |
| Fauji Cement Company Limited               | 517,000           | 458,000                   | -                    | 75,000                | 900,000                    | 5,879,943                  | 4,095,000         | (1,784,943)                 | 0.60%                                      | 0.41%                     | 0.73%             |
| Lafarge Pakistan Cement Limited            | 659,000           | -                         | -                    | 659,000               | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Lucky Cement Limited                       | 5,000             | 332,340                   | -                    | 263,540               | 73,800                     | 5,471,501                  | 4,585,932         | (885,569)                   | 0.68%                                      | 0.46%                     | 0.82%             |
| Maple Leaf Cement Limited                  | 230,500           | -                         | -                    | 30,500                | 200,000                    | 852,000                    | 622,000           | (230,000)                   | 0.09%                                      | 0.06%                     | 0.11%             |
|  | <b>2,001,800</b>  | <b>1,046,240</b>          | <b>17,000</b>        | <b>1,323,840</b>      | <b>1,741,200</b>           | <b>29,651,412</b>          | <b>25,001,840</b> | <b>(4,649,572)</b>          |  |                           |                   |
| <b>INDUSTRIAL METALS AND MINING</b>        |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Crescent Steel & Allied Products Limited   | 102,600           | 12,066                    | -                    | 10,136                | 104,530                    | 1,976,959                  | 2,624,748         | 647,789                     | 0.39%                                      | 0.26%                     | 0.47%             |
| Dost Steels Limited                        | 52,500            | -                         | -                    | 52,500                | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
|  | <b>155,100</b>    | <b>12,066</b>             | <b>-</b>             | <b>62,636</b>         | <b>104,530</b>             | <b>1,976,959</b>           | <b>2,624,748</b>  | <b>647,789</b>              |  |                           |                   |
| <b>AUTOMOBILE &amp; PARTS</b>              |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Indus Motors Company Limited               | -                 | 50,119                    | -                    | 50,119                | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Pakistan Suzuki Motors Company Limited     | 113,900           | 33,000                    | -                    | 74,901                | 71,999                     | 5,389,992                  | 5,707,361         | 317,369                     | 0.84%                                      | 0.57%                     | 1.02%             |
|  | <b>113,900</b>    | <b>83,119</b>             | <b>-</b>             | <b>125,020</b>        | <b>71,999</b>              | <b>5,389,992</b>           | <b>5,707,361</b>  | <b>317,369</b>              |  |                           |                   |
| <b>FIXED LINE TELECOMMUNICATION</b>        |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Pakistan Telecommunication Company Limited | 781,000           | 591,700                   | -                    | 652,600               | 720,100                    | 13,041,152                 | 12,817,780        | (223,372)                   | 1.89%                                      | 1.28%                     | 2.30%             |
| WorldCall Telcom Limited                   | 361,500           | 719,000                   | -                    | 261,500               | 819,000                    | 3,662,883                  | 2,383,290         | (1,279,593)                 | 0.35%                                      | 0.24%                     | 0.43%             |
|  | <b>1,142,500</b>  | <b>1,310,700</b>          | <b>-</b>             | <b>914,100</b>        | <b>1,539,100</b>           | <b>16,704,035</b>          | <b>15,201,070</b> | <b>(1,502,965)</b>          |  |                           |                   |
| <b>GENERAL INDUSTRIALS</b>                 |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Packages Limited                           | 64,000            | 6,400                     | -                    | 34,000                | 36,400                     | 5,705,391                  | 4,313,400         | (1,391,991)                 | 0.64%                                      | 0.43%                     | 0.77%             |
| <b>OIL &amp; GAS</b>                       |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Attock Petroleum Limited                   | 30,600            | 65,970                    | -                    | 65,570                | 31,000                     | 10,855,769                 | 8,982,250         | (1,873,519)                 | 1.32%                                      | 0.90%                     | 1.61%             |
| Byco Petroleum Pakistan Limited            | 367,500           | 1,269,359                 | -                    | 1,389,889             | 246,970                    | 2,928,818                  | 2,464,761         | (464,057)                   | 0.36%                                      | 0.25%                     | 0.44%             |
| Mari Gas Limited                           | -                 | 88,787                    | 12,500               | 58,787                | 42,500                     | 6,116,602                  | 5,498,650         | (617,952)                   | 0.81%                                      | 0.55%                     | 0.99%             |
| National Refinery Limited                  | 50,700            | 1,500                     | -                    | 5,700                 | 46,500                     | 10,200,000                 | 8,500,000         | (1,700,000)                 | 1.25%                                      | 0.85%                     | 1.52%             |
| Oil & Gas Development Corporation Limited  | 545,200           | 445,177                   | -                    | 990,377               | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Pakistan Oil Fields Limited                | 361,200           | 354,156                   | -                    | 630,105               | 85,251                     | 19,356,310                 | 18,405,691        | (950,619)                   | 2.71%                                      | 1.84%                     | 3.30%             |
| Pakistan Petroleum Limited                 | 205,000           | 221,312                   | 45,000               | 375,412               | 95,900                     | 17,476,541                 | 17,657,108        | 180,567                     | 2.60%                                      | 1.77%                     | 3.17%             |
| Pakistan State Oil Company Limited         | 199,000           | 312,183                   | -                    | 459,913               | 51,270                     | 15,341,783                 | 13,340,454        | (2,001,329)                 | 1.97%                                      | 1.33%                     | 2.39%             |
| Shell Pakistan Limited                     | 10,600            | 8,670                     | -                    | 19,270                | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
|  | <b>1,769,800</b>  | <b>2,767,114</b>          | <b>57,500</b>        | <b>3,995,023</b>      | <b>599,391</b>             | <b>82,275,823</b>          | <b>74,848,914</b> | <b>(7,426,909)</b>          |  |                           |                   |
| <b>GAS WATER &amp; MULTI-UTILITIES</b>     |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Sui Northern Gas Company Limited           | 76,800            | 103,098                   | -                    | 33,134                | 146,764                    | 4,546,950                  | 4,078,572         | (468,378)                   | 0.60%                                      | 0.41%                     | 0.73%             |
| Sui Southern Gas Company Limited           | 52,500            | 633,136                   | -                    | 188,070               | 497,566                    | 8,747,192                  | 7,916,275         | (830,917)                   | 1.17%                                      | 0.79%                     | 1.42%             |
|  | <b>129,300</b>    | <b>736,234</b>            | <b>-</b>             | <b>221,204</b>        | <b>644,330</b>             | <b>13,294,142</b>          | <b>11,994,847</b> | <b>(1,299,295)</b>          |  |                           |                   |
| <b>REFINERIES</b>                          |                   |                           |                      |                       |                            |                            |                   |                             |  |                           |                   |
| Attock Refinery Limited                    | -                 | 2,000                     | -                    | 2,000                 | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Pakistan Refinery Limited                  | 17,500            | 18,500                    | -                    | 36,000                | -                          | -                          | -                 | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
|  | <b>17,500</b>     | <b>20,500</b>             | <b>-</b>             | <b>38,000</b>         | <b>-</b>                   | <b>-</b>                   | <b>-</b>          | <b>-</b>                    |  |                           |                   |



## NAMCO BALANCED FUND

| Name of investee                            | Number of shares  |                           |                      |                       |                            | Balance as at 30 June 2010 |                    |                             | Percentage in relation to                  |                           |                   |
|---|-------------------|---------------------------|----------------------|-----------------------|----------------------------|----------------------------|--------------------|-----------------------------|--|---------------------------|-------------------|
|   | As at 1 July 2009 | Purchases during the year | Bonus / rights issue | Sales during the year | Holding as at 30 June 2010 | Carrying cost              | Market value       | Appreciation / (diminution) | Market value as a percentage of net assets | Investee paid-up capital* | Total investments |
| ----- (Rupees) -----                        |                   |                           |                      |                       |                            |                            |                    |                             |  |                           |                   |
| <b>BANKS</b>                                |                   |                           |                      |                       |                            |                            |                    |                             |  |                           |                   |
| Allied Bank Limited                         | 38,800            | 18,800                    | -                    | 57,600                | -                          | -                          | -                  | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Arif Habib Bank Limited                     | 300,000           | 160,000                   | -                    | 276,215               | 183,785                    | 1,241,050                  | 659,788            | (581,262)                   | 0.10%                                      | 0.07%                     | 0.12%             |
| Askari Commercial Bank Limited              | 317,700           | 583,364                   | 142,200              | 187,700               | 855,564                    | 18,545,987                 | 13,021,684         | (5,524,303)                 | 1.92%                                      | 1.30%                     | 2.33%             |
| Bank Al-Falah Limited                       | 241,100           | 190,000                   | -                    | 281,100               | 150,000                    | 2,097,956                  | 1,419,000          | (678,956)                   | 0.21%                                      | 0.14%                     | 0.25%             |
| Bank Islami Pakistan Limited                | 167,000           | -                         | -                    | 167,000               | -                          | -                          | -                  | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Bank of Punjab Limited                      | 596,700           | 524,288                   | -                    | 886,638               | 234,350                    | 4,357,756                  | 2,362,248          | (1,995,508)                 | 0.35%                                      | 0.24%                     | 0.42%             |
| Faysal Bank Limited                         | 113,000           | 228,700                   | -                    | 236,700               | 105,000                    | 1,758,511                  | 1,497,300          | (261,211)                   | 0.22%                                      | 0.15%                     | 0.27%             |
| Habib Bank Limited                          | 9,000             | 432,300                   | 32,890               | 99,000                | 375,190                    | 43,236,121                 | 36,487,228         | (6,748,893)                 | 5.38%                                      | 3.65%                     | 6.54%             |
| Habib Metropolitan Bank Limited             | 47,900            | -                         | -                    | 47,900                | -                          | -                          | -                  | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| JS Bank Limited                             | 419,500           | -                         | -                    | -                     | 419,500                    | 2,529,585                  | 1,178,795          | (1,350,790)                 | 0.17%                                      | 0.12%                     | 0.21%             |
| MCB Bank Limited                            | -                 | 607,966                   | 16,000               | 423,765               | 200,201                    | 40,057,002                 | 38,877,032         | (1,179,970)                 | 5.73%                                      | 3.89%                     | 6.97%             |
| National Bank of Pakistan                   | 516,600           | 440,000                   | 53,750               | 758,850               | 251,500                    | 16,712,591                 | 16,121,150         | (591,441)                   | 2.38%                                      | 1.61%                     | 2.89%             |
| NIB Bank Limited                            | 1,324,000         | 100,000                   | -                    | 60,000                | 1,364,000                  | 6,358,099                  | 4,078,360          | (2,279,739)                 | 0.60%                                      | 0.41%                     | 0.73%             |
| Samba Bank Limited                          | -                 | 75,000                    | -                    | 75,000                | -                          | -                          | -                  | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Standard Chartered Bank of Pakistan Limited | 66,600            | -                         | -                    | 66,600                | -                          | -                          | -                  | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| SILK Bank Limited                           | 150,000           | -                         | -                    | 150,000               | -                          | -                          | -                  | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| Soneri Bank Limited                         | 85,400            | -                         | -                    | 85,400                | -                          | -                          | -                  | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| United Bank Limited                         | 215,600           | 170,500                   | 6,500                | 356,100               | 36,500                     | 2,010,148                  | 1,978,665          | (31,483)                    | 0.29%                                      | 0.20%                     | 0.35%             |
|   | <b>4,608,900</b>  | <b>3,530,918</b>          | <b>251,340</b>       | <b>4,215,568</b>      | <b>4,175,590</b>           | <b>138,904,806</b>         | <b>117,681,250</b> | <b>(21,223,556)</b>         |  |                           |                   |
| <b>CHEMICALS</b>                            |                   |                           |                      |                       |                            |                            |                    |                             |  |                           |                   |
| Engro Chemical Limited                      | 190,600           | 271,993                   | 8,500                | 438,093               | 33,000                     | 5,736,283                  | 5,728,140          | (8,143)                     | 0.84%                                      | 0.57%                     | 1.03%             |
| Fauji Fertilizer Bin Qasim Limited          | 743,000           | 293,500                   | -                    | 435,500               | 601,000                    | 13,502,701                 | 15,652,564         | 2,149,863                   | 2.31%                                      | 1.57%                     | 2.81%             |
| Fauji Fertilizer Company Limited            | 145,600           | 285,500                   | -                    | 326,600               | 104,500                    | 10,674,808                 | 10,770,815         | 96,007                      | 1.59%                                      | 1.08%                     | 1.93%             |
| LOTTE Pakistan PTA Limited                  | -                 | 4,837,526                 | -                    | 1,757,526             | 3,080,000                  | 24,047,848                 | 24,824,800         | 776,952                     | 3.66%                                      | 2.48%                     | 4.45%             |
| Sitara Peroxide Limited                     | 30,500            | -                         | -                    | -                     | 30,500                     | 562,420                    | 270,840            | (291,580)                   | 0.04%                                      | 0.03%                     | 0.05%             |
|   | <b>1,109,700</b>  | <b>5,688,519</b>          | <b>8,500</b>         | <b>2,957,719</b>      | <b>3,849,000</b>           | <b>54,524,060</b>          | <b>57,247,159</b>  | <b>2,723,099</b>            |  |                           |                   |
| <b>TRAVEL &amp; LEISURE</b>                 |                   |                           |                      |                       |                            |                            |                    |                             |  |                           |                   |
| Pakistan International Airlines Corporation | 613,000           | 100                       | -                    | 113,000               | 500,100                    | 1,660,330                  | 1,375,275          | (285,055)                   | 0.20%                                      | 0.14%                     | 0.25%             |
| <b>SUPPORT SERVICES</b>                     |                   |                           |                      |                       |                            |                            |                    |                             |  |                           |                   |
| TRG Pakistan Limited                        | 675,000           | -                         | -                    | 675,000               | -                          | -                          | -                  | -                           | 0.00%                                      | 0.00%                     | 0.00%             |
| <b>SOFTWARE &amp; COMPUTER</b>              |                   |                           |                      |                       |                            |                            |                    |                             |  |                           |                   |
| Netsol Technologies                         | 264,400           | 228,968                   | -                    | 421,368               | 72,000                     | 2,300,831                  | 1,800,720          | (500,111)                   | 0.27%                                      | 0.18%                     | 0.32%             |
| <b>ELECTRICITY</b>                          |                   |                           |                      |                       |                            |                            |                    |                             |  |                           |                   |
| Hub Power Company Limited                   | 602,500           | 231,920                   | -                    | 699,100               | 135,320                    | 4,415,813                  | 4,324,827          | (90,986)                    | 0.64%                                      | 0.43%                     | 0.78%             |
| Kot Addu Power Company Limited              | 210,500           | 179,898                   | -                    | 319,898               | 70,500                     | 3,133,597                  | 2,942,670          | (190,927)                   | 0.43%                                      | 0.29%                     | 0.53%             |
|   | <b>813,000</b>    | <b>411,818</b>            | <b>-</b>             | <b>1,018,998</b>      | <b>205,820</b>             | <b>7,549,410</b>           | <b>7,267,497</b>   | <b>(281,913)</b>            |  |                           |                   |
|   | <b>17,401,194</b> | <b>19,600,667</b>         | <b>369,063</b>       | <b>18,435,022</b>     | <b>18,935,902</b>          | <b>509,102,206</b>         | <b>429,685,543</b> | <b>(79,416,663)</b>         |  |                           |                   |

### 5.2 Investments classified as 'Available for sale'

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

| Name of investee                            | As at 1 July 2009 | Purchases during the year | Bonus / rights issue | Sales during the year | Holding as at 30 June 2010 | Carrying cost     | Market value      | Appreciation / (diminution) | Percentage in relation to                  |                           |                   |
|---|-------------------|---------------------------|----------------------|-----------------------|----------------------------|-------------------|-------------------|-----------------------------|--|---------------------------|-------------------|
|   |                   |                           |                      |                       |                            |                   |                   |                             | Market value as a percentage of net assets | Investee paid-up capital* | Total investments |
| ----- (Number of shares) -----              |                   |                           |                      |                       |                            |                   |                   |                             |  |                           |                   |
| ----- (Rupees) -----                        |                   |                           |                      |                       |                            |                   |                   |                             |  |                           |                   |
| <b>FINANCIAL SERVICES</b>                   |                   |                           |                      |                       |                            |                   |                   |                             |  |                           |                   |
| First National Equities Limited             | 634,500           | 82,291                    | -                    | -                     | 716,791                    | 6,154,142         | 8,372,119         | 2,217,977                   | 1.23%                                      | 0.12%                     | 1.50%             |
| Jahangir Siddiqui and Company Limited       | 155,000           | 275,700                   | -                    | 244,932               | 185,768                    | 5,412,954         | 2,348,108         | (3,064,846)                 | 0.35%                                      | 0.00%                     | 0.42%             |
| JS Global Capital Limited                   | 15,500            | 12,990                    | -                    | -                     | 28,490                     | 2,385,185         | 1,043,019         | (1,342,166)                 | 0.15%                                      | 0.01%                     | 0.19%             |
| SME Leasing Limited                         | 456,675           | 100                       | -                    | -                     | 456,775                    | 2,284,425         | 3,649,560         | 1,365,135                   | 0.54%                                      | 0.46%                     | 0.65%             |
|   | <b>1,261,675</b>  | <b>371,081</b>            | <b>-</b>             | <b>244,932</b>        | <b>1,387,824</b>           | <b>16,236,706</b> | <b>15,412,806</b> | <b>(823,900)</b>            |  |                           |                   |
| <b>CONSTRUCTION</b>                         |                   |                           |                      |                       |                            |                   |                   |                             |  |                           |                   |
| Pioneer Cement Limited                      | 60,000            | -                         | -                    | -                     | 60,000                     | 814,800           | 382,200           | (432,600)                   | 0.06%                                      | 0.0%                      | 0.07%             |
| <b>BANKS</b>                                |                   |                           |                      |                       |                            |                   |                   |                             |  |                           |                   |
| United Bank Limited                         | 95,500            | 334,650                   | 36,665               | -                     | 466,815                    | 22,720,595        | 25,306,041        | 2,585,446                   | 3.73%                                      | 0.0%                      | 4.54%             |
| <b>TRAVEL &amp; LEISURE</b>                 |                   |                           |                      |                       |                            |                   |                   |                             |  |                           |                   |
| Pakistan International Airlines Corporation | 200,500           | -                         | -                    | -                     | 200,500                    | 665,672           | 551,388           | (114,284)                   | 0.08%                                      | 0.0%                      | 0.10%             |
|   | <b>1,617,675</b>  | <b>705,731</b>            | <b>36,665</b>        | <b>244,932</b>        | <b>2,115,139</b>           | <b>40,437,773</b> | <b>41,652,435</b> | <b>1,214,662</b>            |  |                           |                   |



5.3 Investments classified as 'Loans and receivables'

|                                  |       | Profit /<br>mark-up<br>rate | Maturity<br>date | Carrying cost<br>as at<br>30 June 2010<br><br>(Rupees) | Value as a<br>percentage<br>of net assets | Value as<br>percentage<br>of<br>investments |
|----------------------------------|-------|-----------------------------|------------------|--|---|---|
| <b>Certificate of Musharaka</b>  |       |                             |                  |  |   |   |
| Al Zamin Leasing Modaraba        | 5.3.1 | 14%                         | 10-Dec-2010      | 19,000,000   | 2.80%                                     | 3.41%                                       |
| <b>Certificate of Investment</b> |       |                             |                  |  |   |   |
| Al Zamin Leasing Corporation     | 5.3.2 | 13%                         | 27-Jul-2010      | 15,000,000   | 2.21%                                     | 2.69%                                       |
| First Dawood Investment Bank     | 5.3.3 | 11%                         | 29-Apr-2011      | 42,500,000   | 6.27%                                     | 7.62%                                       |
|                                  |       |                             |                  | 57,500,000   | 8.48%                                     | 10.31%                                      |
|                                  |       |                             |                  | <b>76,500,000</b>                                      | <b>11.28%</b>                             | <b>13.72%</b>                               |

5.3.1 The Fund made investment in COMs of Al-Zamin Leasing Modaraba (AZLM) amounting to Rs. 20 million on 10 June 2009 for a period of six months. However, from time to time the investment in these COMs has been rolled over. These COMs were rolled over on 10 December 2009 for a period of six months. On maturity date 10 June 2010 the principal amount of Rs. 1 million was received from AZLM and the remaining amount of Rs. 19 million was rolled over for additional six months. As at 30 June 2010, the total outstanding principal amounted to Rs. 19 million and the markup outstanding amounted to Rs. 0.153 million. However, no provision has been made on this investment, in view of the recovery of mark-up thereon on due dates.

5.3.2 The Fund made investment in COIs of Al-Zamin Leasing Corporation Limited (AZLC) amounting to Rs. 15 million on 27 January 2009 for a period of six months. However, from time to time the investment in these COIs has been rolled over. These COIs were rolled over on 27 July 2009 for a period of six months. On maturity date 26 January 2010 these COIs were rolled over for additional six months. As at 30 June 2010, the total outstanding principal amounted to Rs. 15 million and the markup outstanding amounted to Rs. 0.828 million. However, no provision has been made on this investment, in view of the recovery of mark-up thereon on due dates.

5.3.3 The Fund made investment in COIs of First Dawood Investment Bank Limited (FDIBL) – the Trustee of the Fund, amounting to Rs. 60 million in April 2008. As at 30 June 2010, the investment in the said COIs stands at Rs. 42.5 million and the markup outstanding amounted to Rs. 0.795 million. As per the terms of this arrangement, FDIBL was required to pay the outstanding amount of COIs along with the mark-up thereon by 29 April 2009. However, in February 2009, the maturity date of these COIs was extended for a period of two years with mutual consent.

5.4 Investments classified as 'Held to maturity'

|                                      | Profit /<br>mark-up<br>rate | Maturity<br>date | Carrying cost<br>as at<br>30 June 2010<br><br>(Rupees) | Value as a<br>percentage<br>of net assets | Value as<br>percentage<br>of<br>investments |
|--------------------------------------|-----------------------------|------------------|--|---|---|
| <i>Sukuk bonds of Rs. 5,000 each</i> |                             |                  |  |   |   |
| BRR Guardian Modaraba                | KIBOR plus<br>1.30%         | 28-Aug-14        | 10,000,000   | 1.47%                                     | 1.79%                                       |

5.4.1 The outstanding profit on these sukuk bonds amounted to Rs. 0.654 million as at 30 June 2010. No provision has been made on this investment, in view of the recovery of mark up thereon on due dates.

6. DIVIDEND AND OTHER RECEIVABLES

|  | June 30<br>2010    | June 30<br>2009  |
|--|--------------------|------------------|
|  | ----- Rupees ----- |                  |
| Dividend receivable                              | 1,505,780          | 1,835,200        |
| Profit receivable on Certificates of Musharaka   | 153,041            | 207,124          |
| Profit receivable on Certificates of Investments | 1,622,945          | 2,521,921        |
| Profit receivable on Sukuk Bonds                 | 653,973            | 803,858          |
| Profit receivable on balance with banks          | 1,407,229          | 380,096          |
|  | <b>5,342,968</b>   | <b>5,748,199</b> |





## NAMCO BALANCED FUND

| 7. SECURITY DEPOSITS                           | June 30,<br>2010     | June 30,<br>2009 |
|--|----------------------|------------------|
|  | ----- (Rupees) ----- |                  |
| National Clearing Company of Pakistan Limited  | 3,500,000            | 3,500,000        |
| Central Depository Company of Pakistan Limited | 175,000              | 175,000          |
|  | <u>3,675,000</u>     | <u>3,675,000</u> |

### 8. PAYABLE TO THE MANAGEMENT COMPANY

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

### 9. PAYABLE TO THE TRUSTEE

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

#### Amounts of Fund under management ( Average NAV )    Tariff per annum

|  |  |
|--|--|
| Upto Rs. 250 million                                       | 0.12 % per annum of NAV  |
| On amount exceeding Rs. 250 million upto Rs. 500 million   | Rs. 300,000 plus 0.10 % per annum of NAV exceeding Rs. 250 million |
| On amount exceeding Rs. 500 million upto Rs. 2,000 million | Rs. 550,000 plus 0.05 % per annum of NAV exceeding Rs. 500 million |

### 10. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.085 percent of the average annual net assets of the Fund with effect from November 21, 2008. Previously, annual fee of an amount equal to one tenth of 1 percent was accrued under the provisions of Non-Banking Finance Companies and Notified Entities, 2007.

| 11. ACCRUED EXPENSES AND OTHER LIABILITIES    | Note | June 30<br>2010    | June 30<br>2009 |
|---|------|--------------------|-----------------|
|   |      | ----- Rupees ----- |                 |
| Auditors' remuneration                        |      | 300,000            | 318,761         |
| Brokerage payable on Money Market Instruments |      | 177,013            | 38,765          |
| Brokerage payable on CFS transactions         |      | 36,646             | 36,646          |
| Legal advisor fee payable                     |      | 55,301             | 55,302          |
| Workers' welfare fund                         |      | 2,044,004          | -               |
| Withholding Tax Payable                       |      | 839                | -               |
|   |      | <u>2,613,803</u>   | <u>449,474</u>  |

### 12. CERTIFICATE CAPITAL

|  |      |                      |                      |
|--|------|----------------------|----------------------|
| 100,000,000 Fully paid ordinary certificates of Rs.10 each (2009: 100,000,000) | 12.1 | <u>1,000,000,000</u> | <u>1,000,000,000</u> |
|--|------|----------------------|----------------------|



12.1 National Asset Management Company Limited (NAMCO) and First National Equities Limited (FNEL) hold 10,807,921 (2009: 10,458,000) and 452,000 (2009: 208,000) certificates respectively of Rs. 10 each as at 30 June 2010.

|  | <b>June 30<br/>2010</b>  | June 30<br>2009   |
|--|--------------------------|-------------------|
| <b>13. PROFIT ON INVESTMENTS AND BANK BALANCES</b> | ----- Rupees -----       |                   |
| Profit on balances with banks                      | <b>23,067,254</b>        | 9,166,134         |
| Profit on Certificates of Musharaka                | <b>3,246,740</b>         | 3,692,185         |
| Profit on Certificates of Investments              | <b>10,188,986</b>        | 14,514,571        |
| Profit on Clean Placement                          | -                        | 206,812           |
| Profit on Term Deposit Receipts                    | -                        | 1,948,631         |
| Profit on Term Finance Certificates                | -                        | 1,363,916         |
| Profit on Commercial Papers                        | -                        | 34,170            |
| Profit on Sukuk Bonds                              | <b>1,377,224</b>         | -                 |
|  | <b><u>37,880,204</u></b> | <u>30,926,419</u> |

**14. AUDITORS' REMUNERATION**

This includes an amount of Rs. 75,861 for audit fee for the year ended 30 June 2009 to the auditors retired during the year.

**15. WORKERS' WELFARE FUND**

The Finance Act, 2008 brought an amendment in section 2 (f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) with the intention to make the definition of "Industrial Establishment" applicable to any establishment to which the West Pakistan Shop and Establishment Ordinance, 1969 (1969 Ordinance) applies. As a result of this amendment, the WWF Ordinance has become applicable to all Collective Investment Schemes (CIS) whose income exceeds Rs. 0.5 million in a tax year, thus rendering them liable to pay two percent of their total income to Workers Welfare Fund (as defined in section 4 & 2(i) of the WWF Ordinance). The Mutual Fund Association of Pakistan (MUFAP) had filed a constitutional petition before High Court of Sindh on the major grounds that CIS are not covered under the definition of industrial establishment, CIS do not have any worker and amendment was made through money bill.

The Honourable High Court of Sindh vide its order dated 25 May 2010 has dismissed the petition on the main ground that the MUFAP (petitioner) cannot be held to be entitled to maintain a petition in respect of its members as MUFAP is not the aggrieved party. Consequently, few CISs have filed constitutional petitions.

However, the Management Company in pursuance of the order passed by the Honourable High Court of Sindh considers that it is prudent to record the provision for workers welfare fund for the year ended 30 June 2010 of Rs.2.044 million and accordingly provision has been recorded in these financial statements for the year ended 30 June 2010.

**16. BASIC AND DILUTED EARNINGS / (LOSS) PER CERTIFICATE**

|   | <b>June 30<br/>2010</b>                 | June 30<br>2009      |
|---|---|----------------------|
|   | ----- Rupees -----                      |                      |
| Net income / (loss) for the year        | <i>Rupees</i> <b><u>100,156,176</u></b> | <u>(289,555,996)</u> |
| Number of certificates in issue         | <b><u>100,000,000</u></b>               | <u>100,000,000</u>   |
| Basic earnings / (loss) per certificate | <i>Rupees</i> <b><u>1.00</u></b>        | <u>(2.90)</u>        |

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

**17. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES**

17.1 Connected persons / related parties include National Asset Management Company Limited being the Management Company, First Dawood Investment Bank Limited being the trustee of the Fund and directors and officers of the Management Company.

17.2 The transactions with connected persons / related parties are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

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



17.4 Details of transactions and balances with connected persons / related parties are as follows:

| <b>Transactions with connected persons / related parties during the year</b>  | <b>June 30<br/>2010</b>   | <b>June 30<br/>2009</b> |
|---|---------------------------|-------------------------|
| <b>National Asset Management Company Limited -Management Company</b>          | <b>----- Rupees -----</b> |                         |
| - Management Fee  | <b>24,423,056</b>         | 22,831,824              |
| - Certificates issued [ No. of certificates 349,921 (2009: 458,000) ]         | <b>3,499,210</b>          | 4,580,000               |
| <b>First National Equities Limited</b>  |                           |                         |
| - Brokerage   | <b>577,537</b>            | 228,899                 |
| - Purchase of marketable securities   | <b>259,750,321</b>        | 127,324,001             |
| - Sale of marketable securities   | <b>421,574,871</b>        | 90,850,854              |
| <b>First Pakistan Securities</b>  |                           |                         |
| - Brokerage   | -                         | 1,631                   |
| - Purchase of marketable securities   | -                         | 1,631,422               |
| <b>Switch Securities Limited</b>  |                           |                         |
| - Brokerage   | <b>73,943</b>             | 60                      |
| - Purchase of marketable securities   | <b>15,845,481</b>         | 7,350                   |
| - Sale of marketable securities   | <b>2,860,459</b>          | 7,500                   |
| <b>First Dawood Investment Bank Limited - Trustee</b>                         |                           |                         |
| - Trustee Fee   | <b>707,050</b>            | 680,530                 |
| - Profit on Certificate of Investment   | -                         | 6,600,000               |
| <b>Executives of the Management Company</b>                                   |                           |                         |
| - Certificates issued [ No. of Certificates 4,000 (2009: 17,000) ]            | <b>40,000</b>             | 170,000                 |
| <b>Balances with connected persons / related parties</b>                      |                           |                         |
| <b>National Asset Management Company Limited - Management Company</b>         |                           |                         |
| - Management fee payable  | <b>1,689,691</b>          | 1,771,859               |
| - Balance payable in respect of preliminary expenses and floatation costs     | <b>3,603,972</b>          | 5,405,958               |
| - Certificates in issue [ No. of certificates 10,807,921 (2009: 10,458,000) ] | <b>108,079,210</b>        | 104,580,000             |
| <b>First National Equities Limited</b>  |                           |                         |
| - Brokerage payable   | <b>72,094</b>             | 228,609                 |
| - Certificates in issue [ No. of certificates 452,000 (2009: 208,000) ]       | <b>4,520,000</b>          | 2,080,000               |
| - Market value of Shares [ Number of shares 852,386 (2009: 767,705) ]         | <b>9,955,869</b>          | 6,180,025               |
| <b>First Pakistan Securities</b>  |                           |                         |
| - Brokerage payable   | <b>1,630</b>              | 1,169                   |
| - Certificates in issue [ No. of certificates 1,512,000 (2009: 1,512,000) ]   | <b>15,120,000</b>         | 15,120,000              |
| <b>Switch Securities Limited</b>  |                           |                         |
| - Brokerage payable   | <b>27,344</b>             | 3,299                   |
| - Certificates in issue [ No. of certificates 2,000,000 (2009: 2,000,000) ]   | <b>20,000,000</b>         | 20,000,000              |
| <b>First Dawood Investment Bank Limited - Trustee</b>                         |                           |                         |
| - Trustee fee payable   | <b>52,818</b>             | 54,189                  |
| - Certificate of Investment   | <b>42,500,000</b>         | 60,000,000              |
| - Mark-up receivable on Certificate of Investment                             | <b>794,863</b>            | 1,139,177               |
| - Certificates in issue [ No. of Certificates Nil (2009: 1,440,800) ]         | -                         | 14,408,000              |
| <b>Bank of Khyber</b>   |                           |                         |
| - Certificates in issue [ No. of Certificates 6,867,333 (2009: Nil) ]         | <b>68,673,330</b>         | -                       |
| <b>Executives of the Management Company</b>                                   |                           |                         |
| - Certificates in issue [ No. of certificates 28,500 (2009: 24,500) ]         | <b>285,000</b>            | 245,000                 |



18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Financial risk management

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

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

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

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

18.1 Credit risk

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

Management of credit risk

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

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

Exposure to credit risk

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

|   | Carrying amount    |                 |
|---|--------------------|-----------------|
|   | June 30<br>2010    | June 30<br>2009 |
|   | ----- Rupees ----- |                 |
| Bank balances   | 126,687,979        | 24,985,222      |
| Investments   |                    |                 |
| - At fair value through profit or loss account - held for trading | 429,685,543        | 486,332,839     |
| - Available for sale investments                                  | 41,652,435         | 17,184,610      |
| - Held to maturity  | 10,000,000         | 10,000,000      |
| - Loans and receivables   | 76,500,000         | 182,000,000     |
|   | 557,837,978        | 695,517,449     |
| Receivable against sale of investments                            | -                  | 542,981         |
| Dividend and other receivables                                    | 5,342,968          | 5,748,199       |
| Security deposits   | 3,675,000          | 3,675,000       |
|   | 693,543,925        | 730,468,851     |



Details of the credit ratings of balances with banks and investment in loans and receivables and sukuk bonds as at 30 June 2010 are as follows:

***Credit quality of bank balances***

| <b>Name of Bank</b>  | <b>Current rating</b> | <b>June 30 2010 %</b> | <b>June 30 2009 %</b> |
|----------------------|-----------------------|-----------------------|-----------------------|
| Atlas Bank Limited   | A2/A                  | 1%                    | 86%                   |
| KASB Bank Limited    | A2/BBB+               | 71%                   | 12%                   |
| Bank Alfalah Limited | A+/AA                 | 0%                    | 2%                    |
| Faysal Bank Limited  | AA/A1+                | 28%                   | 0%                    |
|                      |                       | <b>100%</b>           | <b>100%</b>           |

***Credit quality of Loans and Receivables***

|                                       |             |             |
|---------------------------------------|-------------|-------------|
| D/D                                   | 55.55%      | 32.97%      |
| Rating Withdrawn by the rating agency | 44.45%      | 32.97%      |
| A3- / A-                              | 0%          | 34.06%      |
|                                       | <b>100%</b> | <b>100%</b> |

***Credit quality of Held to Maturity Investments***

|         |      |      |
|---------|------|------|
| A2/A+ * | 100% | 100% |
|---------|------|------|

\* Subsequent to the year end, the rating of investment has been down graded to non investment grade (default) rating.

*Concentration of the credit risk*

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

*Settlement risk*

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

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

*Past due and impaired assets and collaterals held*

None of the financial assets of the Fund are past due or impaired as at 30 June 2010. All the financial assets of the fund as at 30 June 2010 are unsecured.

**18.2 Liquidity risk**

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

*Management of liquidity risk*

The Fund's policy is to manage this risk by investing in deposit accounts, short term money market placements or in investments that are traded in an active market and can be readily disposed. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements.



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

*Maturity analysis for financial liabilities*

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

|  | <b>June 30, 2010</b>                              |                     |                             |   |                                |
|--|---|---------------------|-----------------------------|---|--------------------------------|
|  | <b>Carrying amount and contractual cash flows</b> | <b>Up to 8 days</b> | <b>8 days to one months</b> | <b>later than one month and not later than three months</b> | <b>later than three months</b> |
| ----- <b>(Rupees)</b> -----  |   |                     |                             |   |                                |
| <i>Non-derivative liabilities</i>                                    |   |                     |                             |   |                                |
| Payable against purchase of investments                              | 468,984   | (468,984)           | -                           | -   | -                              |
| Payable to the Management Company                                    | 5,293,663   | -                   | (1,689,691)                 | -   | (3,603,972)                    |
| Remuneration payable to the Trustee                                  | 52,818  | -                   | (52,818)                    | -   | -                              |
| Annual fee payable to Securities and Exchange Commission of Pakistan | 691,986   | -                   | -                           | (691,986)   | -                              |
| Unclaimed dividend   | 6,262,441   | (6,262,441)         | -                           | -   | -                              |
| Accrued expenses and other liabilities                               | 568,960   | -                   | -                           | (568,960)   | -                              |
|  | <b>13,338,852</b>                                 | <b>(6,731,425)</b>  | <b>(1,742,509)</b>          | <b>(1,260,946)</b>  | <b>(3,603,972)</b>             |

|  | <b>June 30, 2009</b>                              |                     |                             |   |                                |
|--|---|---------------------|-----------------------------|---|--------------------------------|
|  | <b>Carrying amount and contractual cash flows</b> | <b>Up to 8 days</b> | <b>8 days to one months</b> | <b>later than one month and not later than three months</b> | <b>later than three months</b> |
| ----- <b>(Rupees)</b> -----  |   |                     |                             |   |                                |
| <i>Non-derivative liabilities</i>                                    |   |                     |                             |   |                                |
| Payable against purchase of investments                              | 21,172  | (21,172)            | -                           | -   | -                              |
| Payable to the Management Company                                    | 7,177,817   | -                   | (1,771,859)                 | -   | (5,405,958)                    |
| Remuneration payable to the Trustee                                  | 54,189  | -                   | (54,189)                    | -   | -                              |
| Annual fee payable to Securities and Exchange Commission of Pakistan | 697,325   | -                   | -                           | (697,325)   | -                              |
| Unclaimed dividend   | 261,450   | (261,450)           | -                           | -   | -                              |
| Accrued expenses and other liabilities                               | 449,474   | -                   | -                           | (449,474)   | -                              |
|  | <b>8,661,427</b>                                  | <b>(282,622)</b>    | <b>(1,826,048)</b>          | <b>(1,146,799)</b>  | <b>(5,405,958)</b>             |

Above financial liabilities do not carry any mark-up.

**18.3 Market risk**

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

*Management of market risks*

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

*Interest rate risk*

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

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

|                                  | <b>June 30<br/>2010</b> | June 30<br>2009    |
|----------------------------------|-------------------------|--------------------|
|                                  | ----- Rupees -----      |                    |
| <b>Fixed rate instruments</b>    |                         |                    |
| Financial assets                 | <u>76,500,000</u>       | <u>182,000,000</u> |
| <b>Variable rate instruments</b> |                         |                    |
| Financial assets                 | <u>10,000,000</u>       | <u>10,000,000</u>  |

**Fair value sensitivity analysis for fixed rate instruments**

Fixed rate instruments comprise of Certificates of Investments and Certificate of Musharaka. The Fund's income from these investments is not exposed to changes in market interest rates.

The composition of the Fund's investment portfolio and KIBOR rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2010 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

**Cash flow sensitivity analysis for variable rate instruments**

Presently, the Fund holds KIBOR based profit bearing Sukuk bonds exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on the last reprising date of the sukuk bonds, with all other variables held constant, the net assets of the Fund and the net income of the year would have been higher / lower by Rs.0.048 million (2009: Rs. 0.048 million).

*Equity price risk*

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

A summary analysis of investments by industry sector, the percentage in relation to Fund's own net assets, the percentage of issued capital of the investee company, total investment and their fair values as at 30 June 2010 are stated in note 5.1 and 5.2.

In case of one percent increase / decrease in share prices at year end would have increased / decreased the Fund's net income in case of held for trading investments and increased / decreased remeasurement appreciation / diminution on investments in case of available for sale investments by Rs. 4.297 million and Rs. 0.416 million respectively (30 June 2009: Rs.4.863 million and Rs. 0.172 million respectively).

**18.4 Operational risks**

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

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

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



- compliance with regulatory and other legal requirements; requirements for the reconciliation and monitoring of transactions;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified; contingency plans;
- ethical and business standards; risk mitigation, including insurance where this is effective.

**18.5 Certificate Holders' Fund risk management**

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

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

**18.6 Fair value of financial instruments**

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

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

- Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 1 financial instruments include investment in quoted equity securities amounting to Rs. 471,337,978 as at 30 June 2010 (2009: Rs. 503,517,449).
- Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 2 financial instruments include sukuk bonds of Rs. 10,000,000 as at 30 June 2010 (2009: Rs. 10,000,000).
- Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Fund has no items to report in this level.

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

**19. DISTRIBUTIONS**

During the year, the Board of Directors of the Management Company, in their meetings held on 20 October 2009, 18 February 2010 and 20 April 2010, have approved interim distributions aggregating Rs. 150 million. These distributions were made from the distributable income available for the respective periods. However at end of the year 30 June 2010, the Fund has distributable income of Rs. 100.156 million.

In respect of the above matter, the management has obtained a legal advice which has opined that provisions contained in chapter VIIIA of the Companies Ordinance, 1984 and NBFC regulations would prevail over section 249 of the Companies Ordinance, 1984, the Trust deed and offering document of the Fund (which state that no dividend should be paid by a company otherwise than out of profits of the company). It further states the interim dividend was paid out of the profit of the Fund it had generated till that time and loss suffered by the Fund subsequently, a scenario which could not have been reasonably foreseeable, nor was it within the reasonable control of the management company. Hence, such declaration of distribution and their payments would not be deemed as a violation of section 249 of the Companies Ordinance, 1984, Trust deed, offering document or NBFC regulations.





**20. SUPPLEMENTARY NON FINANCIAL INFORMATION**

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

**21. OPERATING SEGMENT**

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

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

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

The Fund is domiciled in Pakistan. The Fund's income is generated from resources invested in quoted equity securities, certificate of investment, certificates of musharika and sukuk bonds and balances maintained with banks which are based in Pakistan. Revenue from capital gain on disposal of 10 major securities and dividend income represent Rs. 118.940 million.

**22. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue by Board of Directors of the Management Company on September 24, 2010.

**For National Asset Management Company Limited  
(Management Company)**

\_\_\_\_\_  
**Chief Executive**

\_\_\_\_\_  
**Director**



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

**(i) CERTIFICATE HOLDING PATTERN OF THE FUND AS AT 30 JUNE 2010**

| No. of<br>Certificate<br>Holders | Having Certificate |          | Certificates<br>held | Percentage     |
|----------------------------------|--------------------|----------|----------------------|----------------|
|                                  | From               | To       |                      |                |
| 18                               | 1                  | 100      | 101                  | 0.00%          |
| 147                              | 101                | 500      | 72,429               | 0.07%          |
| 38                               | 501                | 1000     | 37,017               | 0.04%          |
| 32                               | 1001               | 5000     | 81,395               | 0.08%          |
| 7                                | 5001               | 10000    | 51,901               | 0.05%          |
| 2                                | 10001              | 15000    | 22,500               | 0.02%          |
| 2                                | 20001              | 25000    | 50,000               | 0.05%          |
| 4                                | 25001              | 30000    | 107,677              | 0.11%          |
| 2                                | 45001              | 50000    | 93,029               | 0.09%          |
| 2                                | 50001              | 55000    | 110,000              | 0.11%          |
| 1                                | 60001              | 65000    | 60,001               | 0.06%          |
| 1                                | 90001              | 95000    | 93,995               | 0.09%          |
| 3                                | 95001              | 100000   | 299,500              | 0.30%          |
| 1                                | 105001             | 110000   | 110,000              | 0.11%          |
| 1                                | 120001             | 125000   | 121,000              | 0.12%          |
| 1                                | 155001             | 160000   | 156,500              | 0.16%          |
| 1                                | 190001             | 195000   | 193,623              | 0.19%          |
| 1                                | 195001             | 200000   | 200,000              | 0.20%          |
| 1                                | 200001             | 205000   | 203,500              | 0.20%          |
| 1                                | 205001             | 210000   | 208,000              | 0.21%          |
| 1                                | 220001             | 225000   | 221,733              | 0.22%          |
| 1                                | 225001             | 230000   | 225,450              | 0.23%          |
| 1                                | 240001             | 245000   | 244,000              | 0.24%          |
| 3                                | 245001             | 250000   | 748,500              | 0.75%          |
| 1                                | 310001             | 315000   | 310,921              | 0.31%          |
| 1                                | 395001             | 400000   | 400,000              | 0.40%          |
| 1                                | 485001             | 490000   | 489,500              | 0.49%          |
| 3                                | 495001             | 500000   | 1,500,000            | 1.50%          |
| 1                                | 810001             | 815000   | 811,977              | 0.81%          |
| 1                                | 980001             | 985000   | 980,713              | 0.98%          |
| 1                                | 995001             | 1000000  | 1,000,000            | 1.00%          |
| 1                                | 1225001            | 1230000  | 1,229,910            | 1.23%          |
| 2                                | 1470001            | 1475000  | 2,945,934            | 2.95%          |
| 1                                | 1510001            | 1515000  | 1,512,000            | 1.51%          |
| 1                                | 1690001            | 1695000  | 1,690,714            | 1.69%          |
| 3                                | 1995001            | 2000000  | 5,999,950            | 6.00%          |
| 1                                | 2290001            | 2295000  | 2,292,690            | 2.29%          |
| 1                                | 2430001            | 2435000  | 2,433,667            | 2.43%          |
| 1                                | 2470001            | 2475000  | 2,472,967            | 2.47%          |
| 2                                | 2495001            | 2500000  | 5,000,000            | 5.00%          |
| 1                                | 3855001            | 3860000  | 3,855,273            | 3.86%          |
| 1                                | 3935001            | 3940000  | 3,935,667            | 3.94%          |
| 1                                | 4995001            | 5000000  | 5,000,000            | 5.00%          |
| 1                                | 5395001            | 5400000  | 5,400,000            | 5.40%          |
| 1                                | 5595001            | 5600000  | 5,600,000            | 5.60%          |
| 1                                | 6865001            | 6870000  | 6,867,333            | 6.87%          |
| 1                                | 7495001            | 7500000  | 7,500,000            | 7.50%          |
| 1                                | 7560001            | 7565000  | 7,561,933            | 7.56%          |
| 1                                | 9395001            | 9400000  | 9,400,000            | 9.40%          |
| 1                                | 1009500            | 10100000 | 10,097,000           | 10.11%         |
| <u>304</u>                       |                    |          | <u>100,000,000</u>   | <u>100.00%</u> |



(ii) **PATTERN OF CERTIFICATE HOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE AS AT 30 JUNE 2010**

| Details                                   | Certificates held |
|---|-------------------|
| <b>Associated Companies</b>               |                   |
| National Asset Management Company Limited | 10,807,921        |
| The Bank of Khyber                        | 6,867,333         |
| First Pakistan Securities Limited         | 1,512,000         |
| First National Equities Limited           | 452,000           |
| Switch Securities Limited                 | 2,000,000         |
| <b>Chief Executive</b>                    |                   |
| Etrat H. Rizvi - CEO                      | 28,500            |
| <b>Banks and Financial Institutions</b>   |                   |
|   | 40,366,328        |
| <b>Foreign Investors</b>                  |                   |
|   | 3,522,600         |
| <b>Individuals</b>                        |                   |
|   | 1,496,166         |
| <b>Retirement Funds</b>                   |                   |
|   | 19,631,950        |
| <b>Other corporate sector entities</b>    |                   |
|   | 13,315,202        |
| <b>TOTAL:</b>                             | 100,000,000       |

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

| Name of broker                      | Percentage of commission paid |               |
|-------------------------------------|-------------------------------|---------------|
|                                     | June 30, 2010                 | June 30, 2009 |
| First National Equities Ltd         | 29.15%                        | 22.24%        |
| Intermarket Securities Pvt. Ltd     | 7.40%                         | 7.44%         |
| BMA Capital Management Ltd          | 5.51%                         | 4.80%         |
| Arif Habib Securities Ltd           | 5.06%                         | 5.55%         |
| AKD Securities                      | 4.49%                         | 5.11%         |
| Dalal Securities Pvt. Ltd           | 4.39%                         | 11.14%        |
| Elixir Securities Pakistan Pvt. Ltd | 4.00%                         | 0.00%         |
| Shehzad Chamdia Securities          | 3.94%                         | 18.98%        |
| ACE Securities Pvt. Ltd             | 3.91%                         | 0.00%         |
| Switch Securities                   | 3.70%                         | 0.00%         |
| WE Financial Services               | 0.00%                         | 5.82%         |
| Ample Securities Pvt. Ltd           | 0.00%                         | 4.85%         |
| Dawood Equities Ltd                 | 0.00%                         | 4.34%         |

(iv) **PARTICULARS OF MEMBERS OF THE INVESTMENT COMMITTEE**

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

|                           | Designation  | Qualification    | Experience in years |
|---------------------------|--------------|------------------|---------------------|
| - Mr. Etrat Hussain Rizvi | CEO          | FCIS / MBA / LLB | 36                  |
| - Mr. Muhammad Faraz*     | CFO          | ACMA/FPA         | 10                  |
| - Mr. Faisal Merchant     | AVP Funds    | MBA              | 15                  |
| - Mr. Asif Iqbal          | Fund Manager | MBA              | 6                   |

\* Appointed in Board of Directors meeting held on 24 September, 2010

(v) **DIRECTOR MEETING ATTENDANCE**

| Name of Director                  | Designation    | Meetings |          |               |                      |
|-----------------------------------|----------------|----------|----------|---------------|----------------------|
|                                   |                | Held     | Attended | Leave Granted | Meeting not attended |
| Mr. Ali Aslam Malik               | Director       | 5        | 2        | -             | 20th, 21st and 22nd  |
| Mr. Ali Raza Jaffery              | Director       | 5        | 2        | -             | 20th, 21st and 22nd  |
| Mr. Etrat Hussain Rizvi           | Director / CEO | 5        | 5        | -             | -                    |
| Mr. Shafiq A. Khan                | Director       | 5        | 2        | 3             | 18th, 19th and 21st  |
| Dr. Syed Salman Ali Shah          | Chairman       | 5        | 2        | 1             | 21st                 |
| Justice (Retd.) M. Javed Buttar   | Director       | 5        | 3        | -             | -                    |
| Lt. General (Retd.) M. Hamid Khan | Director       | 5        | 3        | -             | -                    |



Dr. Syed Salman Ali Shah, Justice (Retd.) M. Javed Buttar and Lt. Gen (Retd.) M. Hamid Khan were elected to the Board in place of Mr. Ali Aslam Malik and Mr. Ali Raza Jaffery, upon completion of term of office. The new Board elected Dr. Syed Salman Ali Shah as its Chairman.

**Dates of the meetings of the Board of Directors**

|                       |                   |
|-----------------------|-------------------|
| Eighteenth meeting    | October 7, 2009   |
| Nineteenth meeting    | October 20, 2009  |
| Twentieth meeting     | December 17, 2009 |
| Twenty 1st meeting    | February 18, 2010 |
| Twenty second meeting | April 20, 2010    |

**(vi) FUND AND ASSET MANAGER RATING**

JCR - VIS has awarded management quality rating of "AM3-" to National Asset Management Company Limited in its report dated 05 July 2010. A "Positive" outlook has been assigned in view of developments as regards strengthening of the management team to establish in-house business development and business management capabilities and reconstitution of the Board by appointment of independent directors. The rating of the Fund has been disclosed in note 1 to the financial statements.