

managed by



TO ACHIEVE THE OBJECTIVE OF GENERATING A POSITIVE RETURN AND LONG TERM CAPITAL APPRECIATION, THE FUND CAN INVEST IN EQUITY SECURITIES OR DEBT INSTRUMENTS IN A RANGE OF 0-100% FOR EACH CATEGORY, BASED ON A NUMBER

OF FACTORS INCLUDING (BUT NOT LIMITED TO) ECONOMIC OUTLOOK, MARKET CONDITIONS, INTEREST RATE MOVEMENTS, SECTOR/STOCK FUNDAMENTALS ETC.

KASB ASSET ALLOCATION FUND

(formerly KASB Balanced Fund)

ANNUAL REPORT
June 30, 2013

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FUND INFORMATION

Management Company

KASB Funds Limited

Registered Office:

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

Principal Office

5th Floor, Trade Centre, I.I. Chundrigar
Road, Karachi-74200, Pakistan
UAN: (92-21) 111 535 535
Fax: (92-21) 3263 9188
URL: www.kasbfunds.com

Board of Directors of KASB Funds Limited

Mr. Robert John Richard Owen - Chairman
Mr. Amer Maqbool - Chief Executive
Mr. Qaiser P. Mufti
Mr. Muzaffar Ali Shah Bukhari

Chief Financial Officer

Syed Adnan Abdali

Company Secretary

Syed Adnan Abdali

Audit Committee

Mr. Robert John Richard Owen
Mr. Qaiser P. Mufti
Mr. Muzaffar Ali Shah Bukhari

Trustee

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

Fund Ranking

1 Star by PACRA Short Term
3 Star by Long Term

Bankers to the Fund

KASB Bank Limited
ABL Bank Limited
Burj Bank Limited

Auditors

A. F. Ferguson & Company
State Life Building # 1-C, I.I. Chundrigar Road,
P.O. Box No. 4716, Karachi-74000 Pakistan.

Legal Advisor

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

Registrar

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

Distributors

KASB Funds Limited
KASB Bank Limited
KASB Securities Limited
IGI Investment Bank Limited
Standard Chartered Bank (Pakistan) Limited

Management Company Rating

Rated AM3 by JCR-VIS

MISSION STATEMENT

The Fund aims to generate a positive return and long term capital appreciation for unit holders by investing in both the Equity and Debt markets.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2013

The Board of Directors of KASB Funds Limited (KFL), the Management Company of KASB Asset Allocation Fund (KAAF, the Fund), is pleased to present the Annual Report, together with the audited financial statements of the Fund for the year ended June 30, 2013.

Financial Highlights

	FY 2013	FY 2012
Net Income (Rs. in million)	75.752	3.179
Net Assets as at June 30 (Rs. in million)	344,698	364,837
NAV per Unit as on June 30 (Rs.)**	48.74*	38.97
Return (%)	25.21	5.25

* Ex-NAV after final distribution.

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

Economic Environment

Pakistan's economical woes continued to trouble its economic managers who struggled unsuccessfully to contain its fiscal deficit within the target and exceeded to 8.8% of GDP backed by continued high subsidies, discretionary developmental expenditures and increasing cost of domestic debt servicing. Almost all macro fiscal targets such as tax revenue, subsidies were missed and reached to new highs. Current Account Deficit, however, was relatively tamed at around 1% of GDP.

The country has yet been unable to craft its way out of the quagmire of electricity and gas shortages which have bogged economic growth for some time now. Energy shortages are increasing leading to lower production and consequently hampering exports and increasing imports, while rising unemployment and rapid deterioration in the overall quality of life is giving way to wide spread social unrest. As per some opinions, the continued electricity shortage has affected GDP growth by 2% in FY13.

During the year, mammoth IMF repayment of over kept pressuring the Rupee against the Dollar forcing Central Bank to time and again intrude in the market to contain the depreciation. The central bank, as on June 30th 2012, was USD 10.8bn which came down by 45% to USD 6bn by June 30th, 2013. This decline together with some optimism in US economy led Rupee to depreciate by more than 6% against the green back.

CPI inflation was perhaps the most comforting figure with 7.4% in FY13 as against 11% in FY12. This significant decline helped central bank to focus on growth and consequently to decrease the discount rate by 3% (from 12% in FY12 to 9% in FY13)

Capital Markets

The domestic equity market ended the year with an attractive return of 52%, after recording a modest gain of 10.4% in last year. The drastic change in fortunes was caused by attractive stock valuations, foreign investor's entry into the market and optimistic expectations from upcoming elected setup. The average daily volume also remained healthy in FY13 with 201m shares as against 130m shares last year. Foreign investors poured USD 569m in the outgoing year as compared to an outflow of USD 189m in the previous year.

Investment Strategy

KAAF aims to achieve the objective of generating regular income together with capital appreciation. The fund aims to maximize total returns and outperform the benchmark.

On the income side, the fund invests both in shorter duration and longer duration debt instruments as well as fixed income transactions in the capital market to achieve consistent income for Unit Holders. On the equity side, the Fund invests in fundamentally undervalued stocks that have business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management.

Fund Performance

For the year ended June 30, 2013 the Fund earned a return of 25.21% as against the benchmark return of 20.69% and the Net Asset Value per unit of the fund at the close of the period stood at Rs. 48.74 The net income for the year ended June 30, 2013 is Rs 75.752 million.

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2013

Income Distribution

The Board of Directors of KASB Funds Limited approved the dividend distribution of Rs. 10.5 per unit to the unit holders of the Fund for the year ended June 30, 2013.

As the Fund has distributed among the unit holders not less than ninety per cent of its accounting income for the period ended June 30, 2013, as reduced by capital gains whether realized or unrealized, therefore, its income will not be subject to income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

Sale and redemption of units

The fund size of KAAF was Rs. 364.837 million on June 30, 2012. During the year, units worth Rs. 5.687 million were issued and units with a value of Rs. 110.904 million were redeemed. As on June 30, 2013, the total number of outstanding units was 7,072,493 with a value of Rs. 344.696 million.

Code of Corporate Governance

The Board of Directors states that:

- a) The Financial Statements prepared by the Management Company, present fairly the state of affairs of the Fund and results of its operations, cash flows and movement in unit holder's fund.
- b) Proper books of accounts of the Fund have been maintained.
- c) Appropriate accounting policies have been adopted for preparation of financial statements of the Fund and accounting estimates are based on reasonable and prudent judgments.
- d) Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations 2008) and directives issued by the Securities and Exchange Commission of Pakistan (SECP) have been followed in the preparation of the financial statements of the Fund. Wherever, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations 2008 and the said directives differ with the requirements of these standards, the requirements of the Trust Deed, the NBFC Regulations 2008 and the said directives shall prevail.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts about the Fund's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
- i) Key operating and financial data is enclosed.
- j) The statement as to the value of investment of provident fund is not applicable in the case of Fund as those expenses are borne by the Management Company.
- k) The detailed pattern of unit holding, as required by the code of corporate governance is disclosed in note 27.

Meetings of the Directors

Statement showing attendance of the directors in the meetings of the Board of Directors for the year ended June 30, 2012 is disclosed in note 29 of the financial statements.

During the year, no trades were carried out in the units of the Fund by the Directors, CEO, Company Secretary & CFO, and their spouses and minor children, of the Management Company other than those disclosed in note 22 of these financial statements.

Pattern of Holding

As on June 30, 2013 the pattern of holdings (units) presents a diversified investor base. Detailed pattern is disclosed in note 27 of the financial statements.

Future Outlook

Going forward, fate of issuance of 3G license, a much needed and awaited Etisalat payment, further reimbursement of Coalition Support Fund, conditions behind IMF loan and further aid from other international development banks will likely decide the future course of market.
Karachi Chief Executive

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

For the year ended June 30, 2013

Auditors

The Board of Directors on recommendation of Audit Committee appointed M/s KPMG Taseer Hadi & Co. Chartered Accountants as Auditors of the Fund for the year ended June 30, 2014. The reason of not re-appointing retiring auditors is to appoint one audit firm as auditors for all funds under management.

Acknowledgement

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

For and on behalf of the Board

August 27, 2013
Karachi

Amer Maqbool
Chief Executive



PERFORMANCE TABLE

	FY 2013	FY 2012	FY 2011
Net Asset <i>as of June 30</i>	344,818,957	375,163,341	378,000,000
net asset value per share or certificate <i>as of June 30</i>	48.7549	38.97	38.07
Selling price for units <i>as of June 30</i>	49.75	39.77	38.87
Repurchase price for units <i>as of June 30</i>	48.7549	38.97	38.07
highest selling price	51.17	40.89	45.77
highest repurchase price	50.14	40.7	44.97
lowest selling price	39.76	34.29	38.87
lowest repurchase price	38.96	33.6	38.07
Distributions:			
<i>Interim</i>			
1st	Nil	Nil	Nil
2nd	Nil	Nil	Nil
<i>Final</i>			
	10.5	0.035	Nil
Average annual return of the Collective Investment Scheme:			
For the period of one year	25.21%	5.35%	-5.72%
For the period of two years	28.17%	-3.49%	-5.76%
For the period of three years	20.84%	-3.54%	-18.46%
Since Inception <i>(date of launch)</i>	4.23%	-16.75%	-18.67%
Weighted average portfolio duration <i>(in case of Income and money market fund)</i>	-	-	-
total return of the Collective Investment Scheme, breakdown into:			
Capital growth			
Income distributions			

ANNUAL FUND MANAGERS' REPORT

1. Type & Category of Fund

Open-end Asset Allocation

2. Inception Date

December 31, 2007

3. Investment objective

The Fund seeks to generate regular income together with long term capital appreciation by investing in both the income and debt markets.

4. Accomplishment of objective

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

5. Benchmark

50% 6 month KIBOR + 50% KSE 30 Index

6. Performance Return (please insert the return comparison chart, if necessary)

	KAAF Return	Benchmark return
Since inception	4.23%	54.76%
FY 2013	25.21%	20.69%
CY 2013	12.28%	10.45%
For June 13	-1.26%	-1.71%

7. Strategies and policies employed during the period

Due to continued liquidity pressure in the markets and risk aversion by the participants, the corporate debt market remained highly depressed resulting in trades mainly concentrated towards govt. backed TFCs/Sukuks and top rated banking instruments. In the presence of very few buyers, the prices of majority of TFCs declined significantly during the year, however, on paper, it remained stable due to the pricing mechanism used by mutual funds. The fund remained focused in offloading TFCs and to restructure non-performing corporate debt. On the equity side, The Fund invested in fundamentally undervalued stocks that had business growth prospects corresponding with good earnings growth while also considering qualitative factors such as the quality of the management.

8. Weighted Asset allocation

Asset Allocation	June 30, 2013	June 30, 2012
Other Equity Investments	36.80%	8.23%
Chemicals	7.35%	3.73%
Commercial Banks	-	10.49%
Oil & Gas	2.71%	26.03%
Personal Goods	-	0.72%
Food Producers	-	6.92%
Placements	8.69%	8.69%
TFCs & Sukuks	9.72%	8.20%
Cash & Other Assets	14.73%	26.99%

9. Significant changes in asset allocation during the period

The Fund's exposure to TFC & Sukuks was increased a bit while the allocation of Cash & Other Assets within the portfolio remains at 14.73% in line with fund strategy. Asset allocation of the equity portion changes dynamically as per sector outlook.

10. Fund Performance

Returns on the Fund remained on higher side as compare to last years. KAAF has posted return of 25.21% against benchmark return of 20.60 for the year ended June 30, 2013. It has recorded a return of 12.28% in CY13 against benchmark return of 10.45% for the period.

The AUM of the fund were PKR 364,837 million (NAV per unit: Rs 38.97) on June 30, 2013 and at the end of the period the AUM of the fund stood at PKR 337,120 million (NAV per unit: Rs 47.67)

ANNUAL FUND MANAGERS' REPORT

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

Pakistan's economic performance proved to be a mixture of sorts during the period under review. GDP growth was recorded at 3.7%, while fiscal deficit stood at 8.5% of GDP (including a one off subsidy amounting to 1.9% of GDP). The current account ran into a deficit of 1.9% of GDP, as against a surplus of 0.11% last year, even though foreign remittances continued on their growth trajectory and attained a high level of \$13 billion during the year.

On the positive side, CPI inflation was recorded at an average of 7.4% during the year, remaining well within the government's inflation target. Keeping in view these trends in inflation, the central bank reduced the policy rate by 300 basis points to boost the private credit off take amidst high fiscal deficit and resulting printing of money. However, the private sector continues to be crowded out due to the high government borrowing needs, liquidity constraints in the market, and risk aversion by lenders amid high propensity of banks to lend to the government.

The equity market, taking cue from declining discount rates, also performed strongly and yielded a return of 52% as against a return of 10.45% last year. The average daily volume also remained healthy in FY13 with 201m shares as against 130m shares last year. Foreign investors poured USD 569m in the outgoing year as compared to an outflow of USD 189m in the previous year.

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

For details, please refer to the full yearly accounts.

13. Distribution

The Fund distributed PKR 10.50 per unit (Par Value of PKR 50) for the year ended June 30, 2013.

14. Significant changes in the state of affairs

No significant changes in affairs were witnessed.

15. Breakdown of unit holdings by size

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

16. Unit Splits

There were no unit splits during the period.

18. Soft Commission

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

TRUSTEE REPORT TO THE UNIT HOLDERS OF KASB ASSET ALLOCATION FUND

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

We, Central Depository Company of Pakistan Limited, being the Trustee of KASB Asset Allocation Fund (the Fund) are of the opinion that KASB Funds Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2013 in accordance with the provisions of the following:

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

We would like to draw unit holders' attention towards the fact that the Fund has recognized provision amounting to Rs. 7.578 million against DHA Golf Club Platinum Membership Cards retrospectively on June 30, 2013 without obtaining prior approval of SECP as required under SECP directive. Further, we are of the view that Management Company has made excess provision against these Cards which has been communicated to the SECP and the Management Company.

Muhammads Hanif Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi, October 25, 2013



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended June 30, 2013

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Regulation No 35 of the Listing Regulations of the Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

KASB Funds Limited (the Management Company), an unlisted public company, manages the affairs of KASB Asset Allocation Fund (the Fund). The Fund being a unit trust open end scheme does not have its own Board of Directors. The Management Company has applied the principles contained in the Code to the Fund, whose units are listed as a security on the Exchange, in the following manner:

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

Category	Names
Independent Non-Executive	Mr. Qaiser P. Mufi
Independent Non-Executive	Mr. Robert C. Richard Owen
Chief Executive Officer Non-Independent	Mr. Amer Maqbool
Non-Executive Directors Non-Independent	Mr. Muzaffar Ali Shah Bukhari

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

2. The directors have confirmed that none of them are serving as a director in more than seven listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Management Company are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, have been declared as a defaulter by that stock exchange.
4. There was no casual vacancy occurred in the Board during the year.
5. The Management Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed a vision / mission statement, an overall corporate strategy and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.
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 and other executive and non-executive directors have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Management Company has conducted an orientation course for its directors to apprise them of their duties and responsibilities.
10. During the year, there was no change of the Company Secretary and Chief Financial Officer (CFO).
11. During the year the Board has outsourced the internal audit function to firm of Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
12. The Directors' report relating to the Fund for the year ended June 30, 2013 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Fund were duly endorsed by the CEO and CFO of the Management Company before approval of the Board.
14. The Directors, CEO, and executives do not hold any interest in the units of the Fund other than those disclose in pattern of unit holders of the Fund
15. The Fun has complied with all the applicable corporate and financial reporting requirements of the Code.
16. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee who is an independent director. The related party transaction were placed before the Audit Committee meeting held to approve annual accounts and were approved by the Board with necessary justification for non arm's length transaction (if any) and pricing methods for transaction that were made to terms equivalent to those that prevail in the arm's length transaction only if such terms can be substantiated
17. The meetings of the Audit Committee were held at least once in every quarter and prior to the approval of interim and final results of the Fund as required by the Code. The terms of reference have been approved in the meeting of the Board and the Committee has been advised to ensure compliance with those terms of reference.
18. The Board has formed a Human Resource and Remuneration committee. It comprises of three members including the Chairman of the Committee who is a non-executive director.
19. The board has set up an effective internal audit function which comprises of personnel who are considered suitably qualified and experienced for the purpose and are conversant with policies and procedures of the company.
20. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
22. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
23. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
24. We confirm that all other material principles enshrined in the the Code have been complied with.

For and on behalf of Board of Directors

**REVIEW REPORT TO THE UNIT HOLDERS ON KASB ASSET ALLOCATION 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 KASB Funds Limited, the Management Company of KASB Asset Allocation Fund, to comply with the Listing Regulations No. 35 (Chapter XI) of the Karachi Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the 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 Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of the 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.

Regulation 35 (x) of the Listing Regulation No. 35 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 the above requirements 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 undertaken at arm's length prices 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 Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2013.

Date: September 18, 2013

**A. F. Ferguson & Company
Chartered Accountants**

Karachi



INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of KASB Asset Allocation Fund (here in after referred to as "the Fund"), which comprise the statement of assets and liabilities as at June 30, 2013, the related income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

Emphasis of matter paragraph

We draw attention to note 7 to the accompanying financial statements which explains the matter relating to the distribution made by the Fund exceeding the profit for the year.

We draw attention to note 15 to the accompanying financial statements which refers to an uncertainty relating to the future outcome of the litigation regarding contribution to the Workers' Welfare Fund which is currently pending adjudication at the Honorable High Court of Sindh. Our opinion is not qualified in respect of the aforesaid matters.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at June 30, 2013, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

A. F. Ferguson & Company
Chartered Accountants
Engagement Partner: Rashid A. Jafer

Dated: September 18, 2013
Karachi

**KASB ASSET ALLOCATION FUND
STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2013**

	Note	2013 (Rupees in '000)	2012 (Rupees in '000)
ASSETS			
Balances with banks	4	57,906	115,743
Investments	5	265,619	244,388
Receivable against lending under margin trading system	6	21	3,632
Certificates of investment	7	-	28,845
Receivable against sale of investments		2,798	412
Dividend and income receivable	8	1,266	1,679
Other assets	7	21,267	-
Deposits and prepayments	9	3,083	3,056
Preliminary expenses and floatation costs	10	-	321
Total assets		351,960	398,076
LIABILITIES			
Payable against purchase of investments		12,201	29,611
Payable to KASB Funds Limited - Management Company	11	732	969
Payable to the Central Depository Company of Pakistan Limited - Trustee	12	59	63
Payable to the Securities and Exchange Commission of Pakistan	13	352	326
Accrued expenses and other liabilities	14	1,496	2,270
Total liabilities		14,840	33,239
Net assets		337,120	364,837
Unit holders' funds		337,120	364,837
CONTINGENCIES & COMMITMENTS			
	15		
		(Number of units)	
Number of units in issue	16	7,072,493	9,363,152
		(Rupees)	
Net asset value per unit		47.67	38.97

The annexed notes from 1 to 33 form an integral part of these financial statements.

**For KASB Funds Limited
(Management Company)**

Chief Executive Officer

Director

**KASB ASSET ALLOCATION FUND
INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013**

	Note	2013	2012
----- (Rupees in '000) -----			
Income			
Income from term finance and sukuk certificates		5,258	4,849
Income from government securities		46	1,627
Income from lending under Margin Trading System		2,995	249
Dividend income		9,982	10,694
Income from certificates of investment		2,849	-
Profit on bank deposits		6,226	12,280
Capital gain / (loss) on sale of investments		80,065	(12,791)
Reversal of provision against non-performing placements	17	15,180	9,792
Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss'		(16,590)	5,693
		106,011	32,393
Expenses			
Remuneration of KASB Funds Limited - Management Company		9,323	10,297
Sindh Sales Tax on Management Company's Remuneration		1,514	1,347
Federal Excise Duty on Management Company's remuneration		55	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee		748	700
Annual fee - Securities and Exchange Commission of Pakistan		352	326
Transaction cost on securities		2,994	1,574
Settlement and bank charges		200	80
Legal and professional charges		111	643
Fees and subscription		365	580
Auditors' remuneration	18	548	459
Amortisation of preliminary expenses and floatation costs	10	321	640
Printing and other expenses		122	120
Provision against non-performing debt securities - AFS		4,511	4,046
Provision against non-performing certificates of investment		-	2,842
Provision against other assets		7,578	-
(Reversal) / provision against doubtful income receivables		(4,168)	5,946
Total expenses		<u>24,574</u>	<u>29,600</u>
Net income from operating activities		81,437	2,793
Net element of income / (losses) and capital gains / (losses) included in prices of units issued less those in units redeemed		(13,263)	386
Net income for the year before taxation		<u>68,174</u>	<u>3,179</u>
Taxation	20	-	-
Net income for the year after taxation		<u><u>68,174</u></u>	<u><u>3,179</u></u>
Earning per unit	19		

The annexed notes from 1 to 33 form an integral part of these financial statements.

**For KASB Funds Limited
(Management Company)**

Chief Executive Officer

Director

**KASB ASSET ALLOCATION FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013**

	2013	2012
	----- (Rupees in '000) -----	
Net income for the year	68,174	3,179
Other comprehensive income		
<i>Items that may be reclassified subsequently to the income statement:</i>		
Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale' during the year	(3,710)	5,546
Total comprehensive income for the year	<u>64,464</u>	<u>8,725</u>

The annexed notes from 1 to 33 form an integral part of these financial statements.

**For KASB Funds Limited
(Management Company)**

Chief Executive Officer

Director

**KASB ASSET ALLOCATION FUND
DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013**

	2013	2012
	----- (Rupees in '000) -----	
Accumulated losses brought forward		
- Realised loss	(129,162)	(133,954)
- Unrealised gain	<u>5,693</u>	<u>7,572</u>
	(123,469)	(126,382)
Net element of income / (losses) and capital gains / (losses) included in prices of units issued less those in units redeemed		
- amount transferred to distribution	(2,667)	(266)
Final distribution: Rs 0.035 per unit for the year ended June 30, 2012 (2011: Rs. Nil per unit)	(328)	-
Net income for the year	68,174	3,179
Accumulated losses carried forward	<u>(58,290)</u>	<u>(123,469)</u>
Accumulated losses carried forward		
- Realised loss	(41,700)	(129,162)
- Unrealised (loss) / gain	<u>(16,590)</u>	<u>5,693</u>
	<u>(58,290)</u>	<u>(123,469)</u>

The annexed notes from 1 to 33 form an integral part of these financial statements.

**For KASB Funds Limited
(Management Company)**

Chief Executive Officer

Director

**KASB ASSET ALLOCATION FUND
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	2013	2012
	----- (Rupees in '000) -----	
Net assets at beginning of the year	364,837	357,767
Issue of 113,656 units (2012:222,246 units)	5,687	7,883
Issue of 2,598 bonus units (2012: Nil units)	101	-
Redemption of 2,406,913 units (2012: 256,725 units)	(110,904)	(9,152)
	(105,116)	(1,269)
Element of income and capital gains included in prices of units issued less those in units redeemed:		
- amount representing accrued (income) / losses and realised capital gains / (losses) - transferred to the income statement	13,263	(386)
- amount representing unrealised capital (gains) / losses - transferred to distribution statement	2,667	266
	15,930	(120)
Unrealised diminution in fair value of investments classified as 'available for sale' at end of the year	(36,747)	(28,526)
Provision against non-performing debt securities classified as 'available for sale'	4,511	4,046
Unrealised diminution in fair value of investments classified as 'available for sale' at beginning of the year	28,526	30,026
Unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale' during the year	(3,710)	5,546
Distribution during the year:		
- Issue of bonus units	(101)	-
- Cash dividend	(227)	-
	(328)	-
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to the distribution statement	(2,667)	(266)
Net income for the year [excluding net unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' and capital (loss) / gain]	4,699	10,277
Capital gain / (loss) on sale of investments	80,065	(12,791)
Unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'	(16,590)	5,693
Net income for the year	68,174	3,179
Net assets at end of the year	337,120	364,837

The annexed notes from 1 to 33 form an integral part of these financial statements.

**For KASB Funds Limited
(Management Company)**

Chief Executive Officer

Director

**KASB ASSET ALLOCATION FUND
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013**

	Note	2013	2012
----- (Rupees in '000) -----			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		68,174	3,179
Adjustments for non cash and other items:			
Unrealised diminution / (appreciation) in fair value of investments classified as 'at fair value through profit or loss'		16,590	(5,693)
Provision against non-performing debt securities		4,511	4,046
Reversal of provision against non-performing placements		(15,180)	(9,792)
Provision against non-performing placements written off		(2,653)	-
Provision against non-performing certificates of investment		-	2,842
Provision against other assets		7,578	-
Provision against non-performing certificates of investment written off (Reversal) / provision for doubtful income receivable		(10,763)	-
Net realised element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed		13,263	(386)
Amortisation of preliminary expenses and floatation costs		321	640
		<u>9,499</u>	<u>(2,397)</u>
Decrease / (increase) in assets			
Placements		17,833	9,792
Certificates of investment		39,608	356
Receivable against lending under margin trading system		3,611	-
Receivable against sale of investments		(2,386)	(3,632)
Dividend and income receivable		4,581	31,452
Investments		(46,042)	(6,024)
Other assets		(28,845)	-
Deposits and prepayments		(27)	-
Preliminary expenses and floatation costs		-	16
		<u>(11,667)</u>	<u>31,960</u>
Increase / (decrease) in liabilities			
Payable against purchase of investments		(17,410)	16,204
Payable to KASB Funds Limited - Management Company		(237)	937
Payable to the Central Depository Company of Pakistan Limited - Trustee		(4)	(2)
Payable to the Securities and Exchange Commission of Pakistan		26	(56)
Accrued expenses and other liabilities		(774)	(472)
		<u>(18,399)</u>	<u>16,611</u>
Net cash (used in) / generated from operating activities		<u>(20,567)</u>	<u>46,174</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(227)	-
Net payments from sale and redemption of units		(105,217)	(1,269)
Net cash used in financing activities		<u>(105,444)</u>	<u>(1,269)</u>
Net (decrease) / increase in cash and cash equivalents during the year		<u>(126,011)</u>	<u>44,905</u>
Cash and cash equivalents at beginning of the year		115,743	67,659
Cash and cash equivalents at end of the year	4	<u><u>57,906</u></u>	<u><u>115,743</u></u>

The annexed notes from 1 to 33 form an integral part of these financial statements.

**For KASB Funds Limited
(Management Company)**

Chief Executive Officer

Director

**KASB ASSET ALLOCATION FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1 LEGAL STATUS AND NATURE OF BUSINESS

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

The Management Company of the Fund has been licensed to undertake asset management and investment advisory services as Non-Banking Finance Company under the NBFC Rules issued by the SECP. The registered office of the Management Company is situated at 9th Floor, Trade Centre, I. I. Chundrigar Road, Karachi, Pakistan. The JCR-VIS has assigned management quality rating of AM3 to the Management Company and Pakistan Credit Rating Agency Limited (PACRA) has assigned short term and long term ranking of 2 star to the Fund.

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

The objective of the Fund is to generate a positive return and long term capital appreciation for unit holders by investing in both the Equity and Debt markets.

Title to the assets of the Fund are held in the name of CDC as the trustee of the Fund.

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, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following amendments to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2012 :

- IAS 1, 'Financial statement presentation'. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The effect of this amendment has been incorporated in these financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

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

There are certain new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2013 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in application of its accounting policies. The estimates, judgments and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (note 3.1 and note 5).

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain financial assets have been carried at fair value in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments Recognition and Measurement.'

2.6 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Fund operates. These financial statements are presented in Pakistani Rupees which is the Fund's functional and presentation currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

3.1 Financial assets

3.1.1 Classification

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

a) Financial assets at fair value through profit or loss

These are financial assets acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

c) Held to maturity

These are securities with fixed or determinable payments and fixed maturity that the Fund has the positive intent and ability to hold to maturity.

d) Available for sale

These are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

3.1.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

3.1.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

3.1.4 Subsequent measurement

a) Financial assets 'at fair value through profit or loss' and 'available for sale'

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

- Basis of valuation of equity securities

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

- Basis of valuation of debt securities

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Fund Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its circular no. 1 of 2009 dated January 6, 2009, circular no.33 of 2012 dated October 24, 2012 and circular no. 35 of 2012 dated November 26, 2012. In the determination of the rates MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

- Basis of valuation of government securities

The investment of the Fund in government securities is subsequently stated at fair value which is determined on the basis of rates announced by the Financial Market Association of Pakistan in accordance with the requirements of the NBFC Regulations, 2008.

Net gains and losses arising from changes in fair value of financial assets carried at fair value through profit or loss are taken to the income statement.

Net gains and losses arising from changes in fair value of 'available for sale' financial assets are recognised as 'other comprehensive income' in the statement of comprehensive income until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised as 'other comprehensive income' is transferred to the income statement as capital gain / (loss).

b) Loans and receivables

Subsequent to initial recognition financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method.

Gain or loss is also recognised in the income statement when financial assets carried at amortised cost are derecognised or impaired, and through the amortisation process.

Transactions of purchase under Margin Trading System (MTS) of marketable securities are entered into at contracted rates for specified periods of time. Securities purchased under MTS are not recognised in the Statement of Assets and Liabilities. However, the amount paid under these agreements are recognised as receivable in respect of MTS. Profit is recognised on accrual basis using the effective interest rate method. Cash releases are adjusted against the receivable as reduction in the amount of receivable. The maximum maturity of a MTS contract is 44 working days out of which 25 percent exposure is automatically released at expiry of every 15th day from the day of contract.

c) Held to maturity

These investments are subsequently carried at cost less provision for impairment, if any.

3.1.5 Impairment

The carrying amounts of the Fund's assets are revalued at each reporting date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. If any impairment evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income is reclassified from other comprehensive income and recognised in the income statement.

a) Debt securities

Provision for non-performing debt securities is made on the basis of time based criteria as prescribed under circular no. 1 of 2009 dated January 6, 2009, circular no.33 of 2012 dated October 24, 2012 and circular no. 35 of 2012 dated November 26, 2012, issued by the SECP. Impairment losses recognised on debt securities can be reversed through the 'Income Statement'.

As allowed under circular no. 33 of 2012 dated October 24, 2012, issued by the SECP, the management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid circular, in accordance with a provisioning policy approved by the Board of Directors.

b) Equity securities

For equity securities classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is considered, amongst other indicators, as an indicator that the security is impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in 'income statement' is reclassified from 'unit holders' fund' to 'income statement'. Impairment losses recognised on equity instruments are not reversed through the 'income statement'.

c) Loans and receivables

For financial assets classified as loans and receivables, a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is determined based on the provisioning criteria specified by the SECP.

d) Held to maturity

For financial assets classified as held to maturity, a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms.

3.1.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired, have been realised or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership.

3.1.7 Offsetting of financial assets and liabilities

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

3.2 Cash and cash equivalents

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

3.3 Other Assets

Other Assets are carried at cost less impairment losses, if any.

3.4 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

3.5 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

3.6 Provisions

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

3.7 Taxation

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

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

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that these will be available for set off against future taxable profits. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

3.8 Issue and redemption of units

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

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

3.9 Proposed distributions

Distributions declared subsequent to the year end reporting date are considered as non-adjusting events and are recognised in the financial statements of the period in which such distributions are declared.

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

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

The "element of income/ (loss) and capital gains/ (losses) included in prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognised in the income statement and to the extent that it is represented by unrealised appreciation / (diminution) arising during the year on available for sale securities is included in the distribution statement.

3.11 Borrowing costs

Borrowings costs directly attributable to the acquisition of qualifying assets (one that takes substantial period of time to get ready for use or sale) are capitalised as part of the cost of the asset. Other borrowing costs are taken to the income statement in the period in which they are incurred. Currently the Fund does not have any qualifying assets.

3.12 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the 'income statement' on the date at which the transaction takes place.
- Income on debt securities is recognised on an accrual basis.
- Unrealised capital gains / (losses) arising on re-measurement of investments classified as financial assets 'at fair value through profit or loss' are included in the income statement in the year in which they arise.
- Dividend income is recognised when the right to receive the dividend is established.
- Income on market treasury bills is recognised on effective interest rate basis.
- Profit on bank deposits is recognised on an accrual basis.
- Income on MTS transactions is recognised on an accrual basis.
- Income on placements is recognised on an accrual basis.
- Income on issue and repurchase of units is recognised when the units are issued and redeemed at the transaction date.

3.13 Expenses

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

3.14 Net asset value per unit

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

3.15 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 amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund and the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

4	BALANCES WITH BANKS	Note	2013	2012
			(Rupees in '000)	
	In saving account	4.1	<u>57,906</u>	<u>115,743</u>
4.1	This saving account carries mark-up at the rate of 8.5% per annum (2012: 10.5% per annum).			
5	INVESTMENTS	Note	2013	2012
			(Rupees in '000)	
	'At fair value through profit or loss'			
	Held for trading			
	- Quoted equity securities	5.1	221,239	214,389
	Designated on initial recognition			
	- Fixed income and other debt securities	5.2	13,422	-
	- Advance against Pre Initial Public Offer investments	5.3	-	-
			13,422	-
	'Available for sale'			
	- Fixed income and other debt securities	5.4	20,278	29,999
	- Un-quoted equity securities	5.5	10,680	-
			<u>265,619</u>	<u>244,388</u>

5.1 Quoted equity securities - 'at fair value through profit or loss' - held for trading

Name of investee company	Note	Number of shares				Balance as at June 30, 2013			Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of paid up capital of investee company held
		As at July 1, 2012	Purchased during the year	Bonus/ rights issue	Sold during the year	As at June 30, 2013	Carrying value	Market value			
- Fully paid up ordinary shares of Rs. 10 each unless otherwise stated											
----- No. of Shares -----											
----- (Rupees in '000) -----											
Chemicals											
Dawood Hercules Corporation Limited		-	533,872	-	533,872	-	-	-	0.00%	0.00%	0.00%
Engro Corporation Limited		35,000	541,858	-	501,858	75,000	10,158	9,140	(1,018)	2.71%	3.44%
Falima Fertilizer Company Limited		293,245	187,000	-	480,245	-	-	-	-	0.00%	0.00%
Fauji Fertilizer Bin Qasim Limited		-	39,500	-	39,500	-	-	-	-	0.00%	0.00%
Fauji Fertilizer Company Limited		-	357,700	-	295,000	152,700	17,225	16,405	(820)	4.87%	6.18%
		328,245	1,659,930	-	1,760,475	227,700	27,383	25,545	(1,838)	7.36%	-
Commercial Banks											
Askari Bank Limited		325,000	-	-	325,000	-	-	-	-	0.00%	0.00%
Bank Al-Habib Limited		262,422	10,000	-	272,422	-	-	-	-	0.00%	0.00%
MCB Bank Limited		134,070	12,500	-	146,570	-	-	-	-	0.00%	0.00%
National Bank Of Pakistan		37,500	455,000	4,275	386,775	110,000	4,763	4,523	(240)	1.34%	1.70%
NIB Bank Limited		300,000	-	-	300,000	-	-	-	-	0.00%	0.00%
Silkbank Limited		616,503	-	-	616,503	-	-	-	-	0.00%	0.00%
United Bank Limited		-	76,500	-	76,500	-	-	-	-	0.00%	0.00%
		1,678,495	554,000	4,275	2,123,770	110,000	4,763	4,523	(240)	1.34%	-
Construction and Materials (Cement)											
Attock Cement (Pakistan) Limited		10,000	-	-	10,000	-	-	-	-	0.00%	0.00%
Chehal Cement Company Limited		-	376,000	-	207,500	168,500	10,239	9,805	(434)	2.91%	2.69%
Dowan Cement Limited		-	1,217,500	-	1,217,500	-	-	-	-	0.00%	0.00%
D.G. Khan Cement Company Limited		-	549,000	-	549,000	-	-	-	-	0.00%	0.00%
Fauji Cement Company Limited		-	937,500	-	937,500	-	-	-	-	0.00%	0.00%
Fecto Cement Limited		-	268,000	-	61,500	206,500	9,745	9,914	169	2.94%	3.73%
Kohal Cement Limited		73,500	817,500	-	696,000	285,000	23,652	24,462	810	7.26%	9.21%
Lucky Cement Limited		227,455	42,000	-	269,455	-	-	-	-	0.00%	0.00%
Maple Leaf Cement Factory Limited		-	3,290,000	-	3,140,000	150,000	3,285	3,290	5	0.98%	1.24%
		310,955	7,497,500	-	6,998,455	810,000	46,921	47,771	850	14.09%	-
Electricity											
Hub Power Company Limited		45,000	399,500	-	444,500	-	-	-	-	0.00%	0.00%
Kot Addu Power Company Limited		-	125,000	-	125,000	-	-	-	-	0.00%	0.00%
Nishat Churian Power Limited		98,000	301,000	-	138,000	261,000	8,608	8,631	23	2.56%	3.25%
PAKGEN Power Limited	5.1.1	-	1,552,500	-	896,500	656,000	16,458	16,092	(366)	4.77%	6.06%
		143,000	2,378,000	-	1,604,000	917,000	25,066	24,723	(343)	7.33%	-
Equity Investment Instruments											
First Dawood Mutual Fund	5.1.2	-	1,399,500	-	1,399,500	-	-	-	-	0.00%	0.00%
Nanaco Balance Fund		-	5,000	-	5,000	-	-	-	-	0.00%	0.00%
		-	1,404,500	-	1,404,500	-	-	-	-	0.00%	-
Financial Services											
Jahangir Siddiqui Company Limited		-	416,500	-	416,500	-	-	-	-	0.00%	0.00%
Nest Capital Limited		250,000	416,500	-	250,000	-	-	-	-	0.00%	0.00%
		250,000	416,500	-	416,500	-	-	-	-	0.00%	-
Leasing Companies											
SME Leasing		604,575	-	-	604,575	4,958	3,930	3,930	(1,028)	1.17%	1.48%
		604,575	-	-	604,575	4,958	3,930	3,930	(1,028)	1.17%	-
Fixed Line Telecommunication											
Pakistan Telecommunication Company Limited		-	1,695,500	-	660,000	1,035,500	23,205	22,978	(227)	6.82%	8.65%
Telecard Limited		-	1,740,000	-	1,740,000	-	-	-	-	0.00%	0.00%
		-	3,435,500	-	2,400,000	1,035,500	23,205	22,978	(227)	6.82%	-
Food Producers											
Engro Foods Limited		396,402	40,000	-	436,402	-	-	-	-	0.00%	0.00%
		396,402	40,000	-	436,402	-	-	-	-	0.00%	-
Industrial metals and Mining											
Asha Steel Mills Limited		-	149,600	-	149,600	-	-	-	-	0.00%	0.00%
		-	149,600	-	149,600	-	-	-	-	0.00%	-
Oil and Gas											
Attock Refinery Limited		-	130,100	-	42,700	87,400	17,206	15,081	(2,125)	4.47%	5.68%
Mear Petroleum Company Limited		-	97,000	-	63,000	34,000	5,274	4,643	(631)	1.38%	1.75%
National Refinery Limited		62,572	-	-	62,572	-	-	-	-	0.00%	0.00%
Oil and Gas Development Company Limited		100,467	188,600	-	176,067	113,000	27,728	25,849	(1,879)	7.67%	9.73%
Pakistan Oilfields Limited		68,814	96,000	-	130,314	34,500	17,641	17,159	(482)	5.09%	6.46%
Pakistan Petroleum Limited		89,146	131,500	22,286	202,732	40,000	8,827	8,463	(364)	2.51%	3.19%
Pakistan State Oil Company Limited		99,427	72,000	7,600	155,027	24,000	7,705	7,689	(16)	2.28%	2.89%
		420,426	715,000	29,886	832,412	332,900	84,381	78,884	(5,497)	23.40%	-
Personal Goods (Textile)											
Argard Niree Limited		-	480,000	-	480,000	33,979	3,053	3,053	(50)	0.91%	1.15%
Kohinoor Textile Mills Limited		-	898,500	-	290,000	608,500	9,760	10,132	372	3.01%	3.81%
Nishat Mills Limited		55,500	162,000	-	217,500	-	-	-	-	0.00%	0.00%
		55,500	1,540,500	-	507,500	1,088,500	13,339	13,185	(154)	3.92%	-
						5,126,175	230,016	221,239	(8,777)		

- 5.1.1** Investments include quoted equity securities with market value as at June 30, 2013 aggregating to Rs. 9.812 million which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of Circular No. 11 dated October 23, 2007 issued by the Securities and Exchange Commission of Pakistan.
- 5.1.2** These shares were de-listed and traded at Rs 7 each prior to de-listing. Subsequently, the Fund has received Rs 9.32 million against the said investment i.e. Rs 6.72 per share. The remaining Rs 0.28 per share remain payable to the Fund. Management taking a conservative view has not recorded a debtor of Rs.0.39 million representing the outstanding amount. Out of the total number of shares disposed, 11,000 shares were disposed prior to the de-listing and at the market rate prevailing at the date of transaction.

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

Name of the investee company	Note	As at July 1, 2012	Purchases during the year	Sales during the year	As at June 30, 2013	Market / carrying value as at June 30, 2013	Market / carrying value as a percentage of total investments
----- (Number of certificates) -----							
Term Finance Certificates							
Agritech Limited - II	5.2.1	1,000	-	-	1,000	-	-
Agritech Limited - V	5.2.1	148	-	-	148	-	-
Jahangir Siddiqui Company Limited - V		-	2,500	-	2,500	6,239	2.35
						<u>6,239</u>	
Sukuk Certificates							
New Allied Electronics Industries (Private) Limited -	5.2.2	160,000	-	-	160,000	-	-
Maple Leaf Cement Factory Limited - I	5.2.3	-	5,000	-	5,000	7,183	2.70
						<u>13,422</u>	

- 5.2.1** This represents term finance certificates of Agritech Limited (AL). The investment in AL is secured against collaterals. On July 14, 2010, owing to financial difficulties, AL only paid profit amounting to Rs. 2.462 million and defaulted on payment of principal amounting to Rs. 3.497 million. The Fund has recognised full provision against this investment in light of the provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and applicable SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount. On January 9, 2012, AL has issued term finance certificates carrying profit at the rate of 11% per annum against its defaulted coupon. The Fund has carried such term finance certificates at nil value.

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

- 5.2.2** This represents sukuk certificates of New Allied Electronics Industries (Private) Limited (NAEIL). The investment in NAEIL is secured against collaterals. On October 25, 2008, owing to financial difficulties, NAEIL only paid profit amounting to Rs. 2.113 million and defaulted on repayment of principal amounting to Rs. 3.125 million. The Fund has recognised full provision and has suspended accruals of profit thereagainst in light of the provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and applicable SECP circulars. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

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

- 5.2.3** This represents investment in sukuk certificates of Maple Leaf Cement Factory Limited (MLCFL) purchased during the year on April 12, 2013. These certificates were originally classified as non-performing on September 19, 2011. Management of the Fund believes purchase of these sukuk certificates to be in the best interest of the unitholders of the Fund, considering that MLCFL could be a turnaround company as MLCFL has been consistently paying the debt to sukuk holders for the last one year and it is expected to become performing in upcoming months. Taking in view the current classification of MLCFL sukuk certificates as non-performing and in light of provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and applicable SECP circulars the Fund has recognised an unrealised loss amounting to Rs. 7.81 million against its investment in these sukuk certificates and has not recognised any accrual of mark-up thereagainst. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount.

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

Name of the investee company	Note	As at July 1, 2012	Purchases during the year	Sales during the year	As at June 30, 2013	Carrying value as at June 30, 2013	Carrying value as a percentage of total investments
		----- (Number of certificates) -----			Rupees in '000s		
Dewan Cement Limited	5.3.1	10,000	-	-	10,000	-	-

5.3.1 This represents investment of Rs. 50 million as advance against issue of term finance certificates of Dewan Cement Limited (DCL). The investment in DCL is secured against collaterals. In view of default by the borrower, the Fund has recognised full provision against the said investment and has suspended accrual of markup thereagainst in light of the provisioning policy of the Fund duly approved by the Board of Directors of the Management Company.

Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for the recovery of the amount. The above provision is without prejudice to the Fund's claim against the above company for the entire exposure and unrecognised mark-up and other charges etc.

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

Name of the investee company	Note	As at July 1, 2012	Purchases during the year	Sales during the year	As at June 30, 2013	Market value as at June 30, 2013	Market value as a percentage of total investments
		----- (Number of certificates) -----			Rupees in '000s		
Term Finance Certificates							
Agritech Limited - II	5.2.1	6,000	-	-	6,000	-	-
Agritech Limited - V	5.2.1	887	-	-	887	-	-
Sukuk Certificates							
Security Leasing Corporation Limitec	5.4.1	9,500	-	-	9,500	8,524	3.21
Maple Leaf Cement Factory Limited - I	5.4.2	7,400	1,800	1,000	8,200	11,754	4.43
						<u>20,278</u>	

5.4.1 These sukuk certificates were restructured in March 2011. According to the restructuring terms, Security Leasing Corporation Limited (SLCL) will not pay mark-up, however, payment of principal will continue according to the previous terms. These certificates are secured against registered charge over specific leased assets and associated lease receivables with 25% security margin and will mature on January 19, 2022. The Fund had recognised a provision of Rs. 4.5 million in respect of these certificates during the year ended June 30, 2012.

5.4.2 This represents investment is sukuk certificates of Maple Leaf Cement Factory Limited (MLCFL). The Fund had purchased 7,400 sukuk certificates during the year ended June 30, 2012 from another Fund under common management at a mutually agreed rate. These certificates were classified as non-performing by MUFAP on September 19, 2011.

During the year the Fund has traded into sukuk certificates of MLCFL by purchasing 1,800 certificates on December 13, 2012 and selling off 1,000 certificates on February 20, 2013. Management of the Fund believes purchase of additional 800 sukuk certificates is in the best interest of the unitholders of the Fund, considering that MLCFL could be a turnaround company as MLCFL has been consistently paying the debt to sukuk holders for the last one year and it is expected to become performing in upcoming months. Taking in view the current classification of MLCFL sukuk certificates as non-performing and in light of the provisioning policy of the Fund duly approved by the Board of Directors of the Management Company and applicable SECP circulars the Fund has recognised a provision amounting to Rs. 4.5 million (2012: Rs.4.05 million) against its investment in these sukuk certificates and has not recognised any accrual of mark-up thereagainst. Management is continuously monitoring the Fund's exposure to this investment and is making necessary efforts for recovery of the amount.

5.5 Un-quoted equity securities - 'available for sale'	Note	2013	2012
		(Rupees in '000)	
Burj Bank Limited	5.5.1	<u>10,680</u>	<u>-</u>

5.5.1 During the year the Fund has received 1,333,333 shares of Burj Bank Limited in settlement of the amount due against placement as further explained in note 17 to these financial statements. As per regulation 66(j) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, these have been recorded at the break-up value as per the latest audited financial statements of the bank.

5.6 Significant terms and conditions of term finance and sukuk certificates

Significant terms and conditions of Term Finance Certificates outstanding as at June 30, 2013 are as follows:

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
Agritech Limited - II	4,996.80	Defaulted	14-Jan-08	Defaulted
Agritech Limited - V	5,000.00	Defaulted	1-Jul-11	Defaulted
New Allied Electronics Industries (Private) Limited - I	312.50	Defaulted	27-Jul-07	Defaulted
Security Leasing Corporation Limited	1,452.91	Nil	1-Jun-07	19-Jan-22
Maple Leaf Cement Factory Limited - I	4,489.40	Defaulted	3-Dec-07	Defaulted
Jahangir Siddiqui Company Limited - V	2,495.00	6 months K + 1.7%	4-Jul-07	4-Jul-13

5.6.1 The Fund has stopped accruing markup on defaulted debt instruments and believes there is no guaranteed maturity date of the same.

5.7 Details of non-compliant investment with the investment criteria as specified by the Securities and Exchange Commission of Pakistan

The Securities and Exchange Commission of Pakistan vide Circular no. 7 of 2009 dated March 6, 2009, required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. The Board of Directors of the Management Company has approved the category of the fund as an "Asset Allocation Scheme", in accordance with the said Circular. However, as at June 30, 2013 the Fund is non-compliant with the aforementioned requirement due to the holding of unlisted DHA Golf Club membership cards, as further explained in note 7.

Name of non-compliant asset	Name of Company	Value of assets before provision	Provision held, if any	Value of assets after provision	Percentage of net assets	Percentage of gross assets
(Rupees in 000)						
Other Assets						
DHA Golf Club membership cards	Defence Authority Country & Golf Club	28,845	7,578	21,267	6.31	6.04

5.8 Net unrealised (diminution) / appreciation in fair value of investments classified as 'available for sale'

	2013 (Rupees in '000)	2012
Fair value of investments	30,958	29,999
Less: cost of investments	(67,705)	(58,525)
	<u>(36,747)</u>	<u>(28,526)</u>
Net unrealised diminution in fair value of investments classified as 'available for sale' at beginning of the year	28,526	30,026
Provision against non-performing 'available for sale' investments	4,511	4,046
	<u>33,037</u>	<u>34,072</u>
	<u>(3,710)</u>	<u>5,546</u>

5.9 Movement in provision against debt securities

Opening balance	95,062	91,016
Provision against non-performing investment classified as 'at fair value through profit or loss' during the year	-	-
Provision against non-performing investments classified as 'available for sale' during the year	4,511	4,046
	<u>4,511</u>	<u>4,046</u>
Closing balance	<u>99,573</u>	<u>95,062</u>

6 LENDING UNDER MARGIN TRADING SYSTEM

This represents amount receivable against Margin Trading System and carries profit ranging between 12% to 17% per annum and will mature at the option of financee subject to a maximum of 44 working days.

7 CERTIFICATES OF INVESTMENT (COI)

The Fund invested Rs. 50 million with Al-Zamin Leasing Corporation Limited (Al-Zamin) via two different Certificates of Investment (COI) of Rs. 25 million each on February 2, 2008 and August 7, 2008 respectively. COI placed on February 2, 2008 was rolled over for a period of 6 months upon maturity on August 11, 2008. Partial payment was made on maturity of COI placed on August 7, 2008 and the remaining amount was rolled over for a further 90 days. Subsequently, the investment in these COIs was merged and some more partial principal payments were made by Al-Zamin.

Al-Zamin was later merged with and into InvestCap Investment Bank Limited (ICIB) with all the assets, liabilities, commitments and obligations of Al-Zamin being transferred to and taken over by ICIB being the surviving entity of the said merger.

Due to the continuous delays in payments, the Fund recognised a provision of Rs 7.9 million and Rs 2.8 million during the year ended June 30, 2011 and June 30, 2012 respectively and suspended accrual of markup in line with the provisioning policy of the Fund which was duly approved by the Board of Directors of the Management Company. The carrying value of the investment in the Fund was Rs. 28.8 million as at June 30, 2012.

On November 27, 2012 KASB Funds Limited (KFL) entered into a settlement agreement with ICIB, whereby it was agreed by the borrower to settle its total outstanding balance towards the Fund and KASB Income Opportunity Fund (KIOF), fund under common management, against 27 platinum membership cards of the Defence Housing Authority (DHA) Golf Club. Balances of Rs 39.6 million and Rs 10.3 million were outstanding to the Fund and KIOF, respectively.

CDC, the trustee of the Fund, vide its letter no CDC/T&C-UI/DH/0022/2013 dated January 21, 2013 granted consent on the above settlement subject to the approval of the SECP and conditions defined hereinafter:

- a. Membership cards shall not be valued at the price more than the gold card price published / disclosed on the website of DHA Golf Club or shall be valued at any other price / criteria that SECP may allow;
- b. Any change in the valuation or provisioning on these membership cards will be first approved by the SECP under intimation to us;
- c. KASB Funds Limited shall make active efforts to sell these membership cards at the earliest in the best interests of the Unit Holders and share with us a detailed sale plan alongwith its execution timeline;
- d. KASB Funds Limited shall disclose the book value and market value in the published accounts of the Funds and shall give a detailed disclosure regarding this agreement in its financial statements.

Subsequently, the SECP vide its letter no. SCD/AMCW/KAAF/417/2013 dated February 19, 2013 conveyed its no-objection in relation to the above mentioned settlement subject to the following conditions:

- i. Membership cards shall not be valued more than gold card price published / disclosed on the website of DHA Gold Club;
- ii. Any change in the valuation or provisioning on those membership cards will be first approved by the SECP.
- iii. KASB Funds Limited shall liquidate the said cards within three months of the date of this letter;
- iv. KASB Funds Limited shall disclose the book value and the market value in the published accounts of the funds and shall give a detailed disclosure regarding this arrangement in its financial statements.

Based on the price of a gold card as per DHA Golf Club's website of Rs 1.35 million and the proportion of the outstanding amount between the two funds, an amount of Rs. 28.8 million was settled against the Fund's investment. Provision of Rs.10.76 million made in prior years against this investment has been written off during the current year.

On May 17, 2013 the management company requested an extension in respect of condition (iii) placed by the SECP in its letter dated February 19, 2013 as mentioned above. The SECP vide its letter no. SCD/AMCW/KAAF/569/2013 dated June 3, 2013 conveyed that the request made by the management had not been acceded to.

Subsequent to the year end and announcement of distribution, the management company vide its letter no. KFL/SMN/1307/3 dated July 19, 2013 has apprised the SECP with respect to its efforts for selling such cards and further informed that taking a cautious approach the investment committee has decided to make a provision against the valuation of these cards, valuing them at Rs 1 million each.

After further deliberations, the Fund recognised the said provision amounting to Rs. 7.578 million against its share of cards on June 30, 2013. The management company has not obtained prior SECP approval against such provision as required under the SECP letter dated February 19, 2013 and has admitted the said fact in its aforementioned intimation letter to the SECP. The provision has resulted in the profit for the year being less than the amount distributed to the unit holders. Furthermore, the NAV per unit announced by the Fund is different from that reported in these financial statements, as shown in 7.1 below.

7.1 Reconciliation between net assets announced at year end June 30, 2013 and net assets value reported in these financial statements

	Net assets value (Rupees in '000)	Net assets value per unit (Rupees)
Net Assets Value announced by the Fund as on June 30, 2013	344,698	48.74
Less: provision against DHA Golf Club Platinum Membership Cards	(7,578)	(1.07)
Net Assets Value as disclosed in these financial statements	<u>337,120</u>	<u>47.67</u>

8	DIVIDEND AND INCOME RECEIVABLE	Note	2013	2012
			(Rupees in '000)	
	Dividend receivable		173	116
	Income accrued on bank deposits		741	1,525
	Income accrued on lending under Margin Trading System		-	38
	Income accrued on term finance and sukuk certificates		352	-
			<u>1,266</u>	<u>1,679</u>
9	DEPOSITS AND PREPAYMENTS			
	Deposit with National Clearing Company of Pakistan Limited	9.1	2,750	2,750
	Deposit with Central Depository Company of Pakistan Limited	9.2	100	100
	Prepaid fee - National Clearing Company of Pakistan Limited		233	206
			<u>3,083</u>	<u>3,056</u>

- 9.1** This represents deposit with National Clearing Company of Pakistan Limited in respect of trading of listed securities.
- 9.2** This represents deposit with Central Depository Company of Pakistan Limited on account of initial deposit for opening of investor account for electronic transfer of book-entry securities.

10	PRELIMINARY EXPENSES AND FLOATATION COSTS	Note	2013	2012
			(Rupees in '000)	
	Preliminary expenses and floatation costs		321	961
	Less: Amortisation during the year		(321)	(640)
			<u>-</u>	<u>321</u>
11	PAYABLE TO KASB FUNDS LIMITED - MANAGEMENT COMPANY			
	Management fee payable	11.1	568	835
	Sindh Sales Tax payable on management fee		99	134
	Federal Excise Duty payable on management fee	11.2	55	-
	Sales load		10	-
			<u>732</u>	<u>969</u>

- 11.1** Under the provisions of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non Banking Finance Companies and Notified Entities Regulation, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent per annum of the average annual net assets of the Fund and thereafter of an amount equal to two percent per annum of such assets of the Fund. In the current year, remuneration of the Management company has been charged at the rate of two percent of the average annual net assets of the Fund. The remuneration is paid to the Management Company on a monthly basis in arrears.
- 11.2** During the current year, the Federal Government has levied Federal Excise Duty at the rate of 16% on the remuneration of the Management Company through the Finance Act, 2013 effective from June 13, 2013.

12	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	Note	2013	2012
			(Rupees in '000)	
	Remuneration payable	12.1	59	60
	CDS charges payable		-	3
			<u>59</u>	<u>63</u>

- 12.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets of the Fund. The fee is paid on a monthly basis in arrears.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2013 is as follows:

Net Assets	Tariff per annum
Upto Rs 1,000 million	Rs 0.7 million or 0.2% per annum of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.1% per annum of NAV exceeding Rs 1,000 million

13	PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	Note	2013	2012
			(Rupees in '000)	
	Annual fee	13.1	<u>352</u>	<u>326</u>
13.1	The Fund has been categorised as an Asset Allocation Scheme by the Management Company. Under the provisions of the NBFC Regulations, a collective investment scheme categorised as an Asset Allocation Scheme is required to pay an annual fee to the SECP at an amount equal to 0.095 percent of the average annual net assets of the Fund.			
14	ACCRUED EXPENSES AND OTHER LIABILITIES	Note	2013	2012
			(Rupees in '000)	
	Auditors' remuneration payable		382	335
	Legal and professional charges payable		221	210
	Credit rating fee payable		107	110
	Provision for Workers' Welfare Fund	15.1	627	627
	Others		<u>159</u>	<u>988</u>
			<u>1,496</u>	<u>2,270</u>
15	CONTINGENCIES AND COMMITMENTS			
15.1	Provision for Workers' Welfare Fund			
	The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / Mutual Funds (CISs) / Pension Funds whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a Constitutional Petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (SHC), challenging the applicability of WWF to the CISs / Pension Funds, which is pending adjudication.			
	During the year ended June 30, 2011, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) on July 8, 2010 which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on December 14, 2010 the Ministry filed its response against the Constitutional Petition requesting the Court to dismiss the same. This response was contradictory to the earlier clarification issued by the Ministry. Show cause notices were then issued by the Federal Board of Revenue (FBR) to several mutual funds (CISs) / pension funds for the collection of WWF. In respect of such show cause notices, certain mutual funds (CISs) / pension funds have been granted stay by the Honourable SHC on the basis of the pending Constitutional Petition as referred to above.			
	In March 2013, a three member bench of the Sindh High Court in its judgment on various Constitutional Petitions challenging the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, held that WWF is a tax and consequently, the amendments introduced in the Workers' Welfare Fund Ordinance, 1971 through the Finance Act, 2006 and 2008 respectively (Money Bills) do not suffer from any constitutional or legal infirmity. This judgment was in contrast to the July 2011 single member bench decision of the Honourable Lahore High Court which had held such amendments as unlawful and unconstitutional for the reason that they were made through the money bills. For the CISs and pension funds, the issue of chargeability or otherwise of WWF levy to the CISs / pension funds is currently pending before the Honourable SHC.			
	Owing to uncertainty regarding applicability of WWF on the Fund, the Management Company has suspended further accrual of the charge pertaining to the period from July 1, 2010 to June 30, 2013 and as a matter of abundant caution has not reversed the earlier charge amounting to Rs. 0.627 million recognised till June 30, 2010. The aggregate unrecognised amount of WWF as at June 30, 2013 amounts to Rs 1.43 million. Had the provision been recognised, the net asset value per unit as at June 30, 2013 would have been lower by Rs 0.20.			
15.2	There were no other contingencies and commitments outstanding as at June 30, 2013 and June 30, 2012.			
16	NUMBER OF UNITS IN ISSUE		2013	2012
			(Units)	
	Total outstanding at the beginning of the year		9,363,152	9,397,631
	Sales during the year		113,656	222,246
	Bonus units issued		2,598	-
	Redemption during the year		<u>(2,406,913)</u>	<u>(256,725)</u>
	Total units in issue at the end of the year		<u>7,072,493</u>	<u>9,363,152</u>

The units in issue as at June 30 for each class:

	2013 (Units)	2012	2013 (Rupees in '000)	2012
Type 'A' Units	7,072,493	2,147,708	337,120	83,686
Type 'B' Units	-	7,215,444	-	281,151
	<u>7,072,493</u>	<u>9,363,152</u>	<u>337,120</u>	<u>364,837</u>

In accordance with clause 6.2.1.2 of the offering document, the Management Company had issued type 'B' units to the core investors. The Management Company offered a special rebate on the management fee to type 'B' units. The management discontinued such practice from June 11, 2012 in compliance with the Circular 20 of 2012 issued by the SECP prohibiting the sharing of management fee in any form with unit holders.

17 REVERSAL OF PROVISIONING AGAINST NON-PERFORMING PLACEMENTS

On August 26, 2008 the Fund had invested an amount of Rs. 50 million in letter of placement with Saudi Pak Leasing Company Limited (SPLCL) out of which Rs. 19 million was repaid by the borrower on various dates. Owing to continuous defaults in repayment of remaining principal by SPLCL, the Fund had recognised a full provision against the outstanding principal amounting to Rs. 31 million in light of the provisioning policy of the Fund duly approved by the Board of Directors of the Management Company.

On December 28, 2011 KASB Funds Limited (KFL), being the management company entered into a settlement agreement with SPLCL as per which SPLCL agreed to discharge its liability to the extent of Rs. 127.5 million against an amount of Rs. 36.8 due to the Fund and an amount of Rs. 102 million due to KASB Income Opportunity Fund (KIOF), a fund under the common management.

Central Depository Company (CDC) being the trustee of the funds, vide its letter no. CDC/T&C-UI/DH/0215/2011 dated July 15, 2011 conveyed its no objection to the SECP at their request. Subsequently the SECP vide its letter no. SCD/AMCW/MF/DD-ZRK/KLF/340/2011 dated July 26, 2011 conveyed its no-objection to the settlement proposal which was subsequently finalised.

As per the agreement SPLCL, amongst transfer of other assets, agreed to pay Rs. 23.085 million in cash to both the funds. Out of this amount Rs. 3.085 million was paid as a down payment within fifteen days from the date of signing of the agreement, Rs. 1 million each in January and February 2012 and the remainder as monthly instalments amounting to Rs. 750,000 each. Out of the initial down payment Rs. 1,516,900 was deemed payable against the amount due to the Fund. The subsequent payments have been equally distributed between the Fund and KIOF.

During the year ended June 30, 2012 the Fund had received cash amounting to Rs. 3.64 million and shares of Silk Bank Limited, NIB Bank Limited and SME Leasing Limited, amounting to Rs. 6.15 million as per the agreement and an addendum dated February 13, 2012. The Fund recognised a reversal of earlier provision to the extent of Rs. 9.79 million in respect of the above.

During the year ended June 30, 2013 the Fund has received cash amounting to Rs 4.5 million as per the settlement agreement. As per the settlement agreement and the second addendum dated September 25, 2012 the Fund has also received 1,333,333 shares of Burj Bank Limited. This being an unlisted security was deemed as a prohibited investment as per the NBFC regulations and the Fund's constitutive document. However, as mentioned above, the settlement received no- objection from both the SECP and the trustee. Furthermore, the State Bank of Pakistan vide its letter no BPRD (RPD-01)/2013-866 dated January 22, 2013 also conveyed its no-objection to CDC permitting the unblocking of the said number of shares and their subsequent transfer to the CDC account of the Fund held by the trustee. As mentioned in note 5.5 these shares have been recorded at Rs. 8.01 per share being the break up value as per the latest audited financial statements of the bank, in accordance with Regulation 66 (j) of the Non Banking Finance Companies and Notified Entities Regulations, 2008.

During the year the Fund has written off an amount of Rs 2.653 million which was already provided for in prior years as being the unreceived amount from SPLCL. According to the settlement agreement an amount of Rs 3.375 million is expected to be received in cash during the forthcoming period. This will be reversed accordingly on receipt.

18 AUDITORS' REMUNERATION

	2013 (Rupees in '000)	2012
Audit fee	300	275
Half yearly review	110	80
Other certifications and services	85	60
Out of pocket expense	53	44
	<u>548</u>	<u>459</u>

19 EARNINGS PER UNIT

Earnings per Unit (EPU) has not been disclosed as in the opinion of the management, determination of weighted average number of units for calculating EPU is not practicable.

20 TAXATION

The income of the Fund is exempt from Income Tax as per clause 99 of Part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. The Fund has not recorded a provision for taxation in respect of income relating to the current year as subsequent to the year end the Management Company has distributed the required minimum percentage of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders as detailed in note 26.

21 FINANCIAL INSTRUMENTS BY CATEGORY

---- As at June 30, 2013 ----			
Available for Sale	Financial assets at fair value through profit or loss	Loans and receivables	
----- Rupees in '000 -----			
Assets			
Balances with banks	-	-	57,906
Investments	30,958	234,661	-
Receivable against lending under margin trading system	-	-	21
Certificates of investment	-	-	-
Receivable against sale of investments	-	-	2,798
Dividend and income receivable	-	-	1,266
Other assets	-	-	21,267
Deposits and prepayments	-	-	3,083
	30,958	234,661	86,341

---- As at June 30, 2013 ----			
	Liabilities at fair value through profit or loss	Other financial liabilities	
----- Rupees in '000 -----			
Liabilities			
Payable against purchase of investments	-	-	12,201
Payable to KASB Funds Limited - Management Company	-	-	732
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	-	59
Accrued expenses and other liabilities	-	-	869
	-	-	13,861

---- As at June 30, 2012 ----			
Available for Sale	Financial assets at fair value through profit or loss	Loans and receivables	
----- Rupees in '000 -----			
Assets			
Balances with banks	-	-	115,743
Investments	29,999	214,389	-
Receivable against lending under margin trading system	-	-	3,632
Certificates of investment	-	-	28,845
Receivable against sale of investments	-	-	412
Dividend and income receivable	-	-	1,679
Other assets	-	-	-
Deposits and prepayments	-	-	3,056
	29,999	214,389	153,367

---- As at June 30, 2012 ----			
	Liabilities at fair value through profit or loss	Other financial liabilities	
----- Rupees in '000 -----			
Liabilities			
Payable against purchase of investments	-	-	29,611
Payable to KASB Funds Limited - Management Company	-	-	969
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	-	63
Accrued expenses and other liabilities	-	-	1,643
	-	-	32,286

22 TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

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

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

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

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

	Note	2013	2012
		(Rupees in '000)	
22.1 Transactions with related parties / connected persons during the year			
KASB Funds Limited			
Remuneration for the year		9,323	10,297
Sindh Sales Tax on remuneration		1,514	1,347
Federal Excise Duty on remuneration		55	-
KASB Bank Limited			
Bank charges		5	9
Profit on bank deposit	22.4	5,395	12,235
Additional units: Nil units (2012: 35,514 units)		-	1,299
KASB Securities Limited			
Brokerage expense	22.3	218	118
KASB Islamic Income Opportunity Fund			
Purchase of sukuk certificates: Nil units (2012: 7,678 units)		-	27,530
Crosby Phoenix Fund			
Purchase of JSCL TFCs: 2500 units (2012: Nil units)		12,517	-
Central Depository Company of Pakistan Limited - Trustee			
Remuneration for the year		748	700
CDS charges		69	40
KASB Modaraba			
Purchase of Certificates of Musharika: 900,000 units (2012: Nil units)		90,000	-
Maturities of Certificates of Musharika: 900,000 units (2012: Nil units)		90,000	-
Income on Certificates of Musharika		2,275	-
22.2 Balances with related parties / connected persons at year end:			
KASB Funds Limited - Management Company			
Management fee payable		568	835
Sindh Sales Tax on remuneration of management company		99	134
FED on remuneration of management company		55	-
Sales load payable		10	-
KASB Bank Limited			
Bank balance		57,891	115,743
Profit receivable on bank deposits		742	1,525
Units held: 6,473,552 units (2012: 6,473,552 units)		315,506	252,243
KASB Securities Limited			
Brokerage payable		30	27
Central Depository Company of Pakistan Limited - Trustee			
Remuneration payable		59	63
CDS Charges payable		-	3
Security deposit		100	100

- 22.3** The amount disclosed represents the amount of brokerage paid to connected person and not the purchase or sale values of securities transacted through them. The purchase or sale values have not been treated as transactions with connected persons as the ultimate counter parties are not connected persons.
- 22.4** The rate of return on this deposit is 8.5% per annum (2012: 10.5% per annum).

23 FINANCIAL RISK MANAGEMENT

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

The Fund primarily invests in fixed income instruments, money, stock and debt market instruments and government securities with an objective of optimizing the return to the unit holders.

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

- Market risk
- Credit risk and
- Liquidity risk

23.1 Market risk

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

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

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

23.1.1 Currency risk

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

23.1.2 Interest rate risk

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

The Fund manages fair value risk by investing primarily in fixed and floating rate debt securities preferably with no cap and floor to insulate the Fund from fair value interest rate risk.

As at June 30, 2013, the investment in debt securities exposed to interest rate risk is detailed in Notes 5.2, 5.3 and 5.4.

a) Sensitivity analysis for variable rate instruments

In case of 100 basis points increase / decrease in KIBOR on 30 June 2013, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 0.04 million (2012: Rs. 0.01 million).

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 2013 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates. The fluctuation in interest rate of 100 basis points is reasonably possible in the current economic environment.

b) Sensitivity analysis for fixed rate instruments

Presently, the Fund does not hold any fixed rate instrument and is not exposed to fair value interest rate risk.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date.

----- As at June 30, 2013 -----					
Effective yield / interest rate	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
	Upto three months	More than three months and up-to one year	More than one year		
On-balance sheet financial instruments					
----- Rupees in '000-----					
Financial Assets					
Balances with banks	57,906	-	-	-	57,906
Investments	-	6,239	-	259,380	265,619
Receivable against lending under margin trading system	-	-	-	21	21
Certificates of investment	-	-	-	-	-
Receivable against sale of investments	-	-	-	2,798	2,798
Dividend and income receivable	-	-	-	1,266	1,266
Other assets	-	-	-	21,267	21,267
Deposits and prepayments	-	-	-	3,083	3,083
Preliminary expenses and floatation costs	-	-	-	-	-
	57,906	6,239	-	287,815	351,960
Financial Liabilities					
Payable against purchase of investments	-	-	-	12,201	12,201
Payable to KASB Funds Limited - Management Company	-	-	-	732	732
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	-	-	59	59
Accrued expenses and other liabilities	-	-	-	869	869
	-	-	-	13,861	13,861
On-balance sheet gap	57,906	6,239	-	273,954	338,099

----- As at June 30, 2012 -----					
Effective yield / interest rate	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
	Upto three months	More than three months and up-to one year	More than one year		
On-balance sheet financial instruments					
----- Rupees in '000-----					
Financial Assets					
Balances with banks	115,743	-	-	-	115,743
Investments	-	-	-	244,388	244,388
Receivable against lending under margin trading system	-	-	-	3,632	3,632
Certificates of investment	-	-	-	28,845	28,845
Receivable against sale of investments	-	-	-	412	412
Dividend and income receivable	-	-	-	1,679	1,679
Other assets	-	-	-	-	-
Deposits and prepayments	-	-	-	3,056	3,056
Preliminary expenses and floatation costs	-	-	-	321	321
	115,743	-	-	282,333	398,076
Financial Liabilities					
Payable against purchase of investments	-	-	-	29,611	29,611
Payable to KASB Funds Limited - Management Company	-	-	-	969	969
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	-	-	63	63
Accrued expenses and other liabilities	-	-	-	1,643	1,643
	-	-	-	32,286	32,286
On-balance sheet gap	115,743	-	-	250,047	365,790

23.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as 'at fair value through profit or loss'. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks prescribed in the Trust Deed. The NBFC Regulations also limit individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 25% of the net assets or index weight of securities whichever is higher, subject to maximum of 35% of net assets.

In case of 5% increase / decrease in the KSE 100 index on June 30, 2013, net income for the year would increase / (decrease) by Rs 12.57 million (2012: Rs 12.48 million) and net assets of the Fund would increase / (decrease) by the same amount as a result of gains / (losses) on equity securities classified as 'at fair value though profit or loss'.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 Index, having regard to the historical volatility of the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE 100 Index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2013 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of the KSE 100 Index.

23.2 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It principally arises from balances with banks, receivable from sale of investment, dividend and profit receivables and deposits with central clearing companies. The credit exposures arising from investment in debt securities is stated in note 5.2 5.3 and 5.4 to these financial statements.

Credit risk management

It is the Fund's policy to enter into financial contracts with reputable, diverse and creditworthy counterparties and wherever possible or deemed necessary obtain collaterals in accordance with internal risk management policies and investment guidelines designed for credit risk management. However, for testing an investment for impairment the management does not consider the value of collaterals or other credit enhancements and follows the guidelines provided by the SECP in terms of Circular 1 of 2009 and other clarification circulars issued by the SECP and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company. The Investment Committee closely monitors the creditworthiness of the Fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

Exposure to credit risk

The Fund's maximum credit exposure, without taking into account collateral and other credit enhancement, at the balance sheet date is represented by the respective carrying amount of relevant financial assets i.e. balances with bank, deposits with central clearing companies, placements, certificates of investments and dividend and profit receivable in the Statement of Assets and Liabilities. The credit exposure arises from investments detailed in note 5.2, 5.3 and 5.4 to these financial statements.

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

Balances with bank

As at June 30, 2013, the Fund kept surplus liquidity with bank having following credit ratings. The rating to respective bank is assigned by reputable credit rating agencies. The rating of the banks is monitored by the Fund Manager and Investment Committee.

Bank balance by rating category	2013	2012
AA+	0.01%	0%
A	0.02%	0%
BBB	99.97%	100%
	<u>100%</u>	<u>100%</u>

Investment in debt securities

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments and purchase of certificate of investments or by making placements with financial institutions having sound credit rating. Where the investment is considered doubtful / becomes non-performing, a provision is recognised as per the criteria specified in accordance with the provisioning policy of the Fund approved by the Board of Directors of the Management Company. The management does not take into account the collateral value while considering investment for impairment testing. Hence the collateral held is assumed to have zero financial effect in mitigating credit risk. The management regards the credit worthiness of the borrower more important than the value of collateral and would be used as force majeure in extremely difficult situation where recovery appears to be unlikely from customary measures like restructuring or negotiations.

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

Debt Securities by rating category	2013	2012
AA-	14,763	-
Non-performing (rated D)	18,937	100.00

Deposits and prepayments

Deposits are placed with National Clearing Company of Pakistan Limited (NCCPL) and Central Depository Company of Pakistan Limited (CDC) for the purpose of affecting transaction and settlement of listed securities. It is expected that all securities deposited with NCCPL and CDC will be clearly identified as being assets of the Fund, hence management believes that the Fund is not materially exposed to a credit risk with respect to such parties.

Concentration of credit risk

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

Past due and impaired assets

None of the above financial assets were considered to be past due or impaired in 2013 and 2012 except for the exposures and the provisions there against as detailed in note 5. The management has not quantified the value of collaterals held against debt securities as management does not incorporate collaterals or other credit enhancements into its credit risk management nor does it consider the value of collaterals while testing investments for impairment and follows the circulars issued by the SECP for the purpose of making provision against non performing exposures and provisioning policy of the Fund duly approved by the Board of Directors of the Management Company.

23.3 Liquidity risk

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

Management of liquidity risk

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units as and when due, without incurring undue losses or risking damage to the Fund's reputation. For the purpose of making redemptions, the Fund has the ability to borrow in the short term. However, such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to 15% 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.

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

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

-----As at June 30, 2013-----				
	Up to three months	More than three months and upto one	More than one year	Total
----- (Rupees in '000) -----				
Payable against purchase of investments	12,201	-	-	12,201
Payable to KASB Funds Limited - Management Company	732	-	-	732
Payable to Central Depository Company of Pakistan Limited - Trustee	59	-	-	59
Accrued expenses and other liabilities	869	-	-	869
	<u>13,861</u>	<u>-</u>	<u>-</u>	<u>13,861</u>
-----As at June 30, 2012-----				
	Up to three months	More than three months and upto one	More than one year	Total
----- (Rupees in '000) -----				
Payable against purchase of investments	29,611	-	-	29,611
Payable to KASB Funds Limited - Management Company	969	-	-	969
Payable to Central Depository Company of Pakistan Limited - Trustee	63	-	-	63
Accrued expenses and other liabilities	1,643	-	-	1,643
	<u>32,286</u>	<u>-</u>	<u>-</u>	<u>32,286</u>

24 UNIT HOLDERS' FUND RISK MANAGEMENT

The unit holders' fund is represented by the net assets attributable to unit holders / redeemable units. The amount of net assets attributable to unit holders can change significantly on a daily basis as the Fund is subject to daily issuance and redemptions at the discretion of unit holders. The Fund's objective when managing the unit holders' fund is to safeguard the Fund's ability to continue as a going concern in order to provide returns for the benefits of the unit holders, to maintain a strong base of assets to support the development of the investment activities of the Fund and to meet unexpected losses or opportunities. As required under the NBFC Regulations, every open end scheme shall maintain minimum fund size (i.e. net assets of the Fund) of Rs 100 million at all times during the life of scheme. In order to comply with the requirement and to maintain or adjust the Unit Holders' Fund, the Fund's policy is to perform the following:

- Monitors the level of daily issuance and redemptions relative to the liquid assets and adjusts the amount of distributions the Fund pays to unit holders;
- Redeem and issue units in accordance with the constitutive documents of the Fund, which include the ability to restrict redemptions and require certain minimum holdings and issuance; and
- The Fund Manager / Investment Committee members and the Chief Executive Officer critically track the movement of 'Assets Under Management'. The Board of Directors is updated regarding key performance indicators e.g. yield and movement of NAV and total Fund size at the end of each quarter.

The Fund has maintained and complied with the requirement of minimum fund size during the current year.

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

According to the amendments to International Financial Reporting Standard 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, whether directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2) ; and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

Investments carried at fair value are categorised as follows:

----- As at June 30, 2013 -----				
	Level 1	Level 2	Level 3	Total
----- (Rupees in '000) -----				
Financial assets classified as 'fair value through profit or loss'				
Investment in equity securities - listed	221,239	-	-	221,239
Investment in term finance and sukuk certificates	-	-	13,422	13,422
Financial assets classified as 'available for sale'				
Investment in equity securities - unlisted	-	10,680	-	10,680
Investment in term finance and sukuk certificates	-	-	20,278	20,278
----- As at June 30, 2012 -----				
	Level 1	Level 2	Level 3	Total
----- (Rupees in '000) -----				
Financial assets classified as 'fair value through profit or loss'				
Investment in equity securities - listed	214,389	-	-	214,389
Investment in term finance and sukuk certificates	-	-	-	-
Financial assets classified as 'available for sale'				
Investment in equity securities - unlisted	-	-	-	-
Investment in term finance and sukuk certificates	-	-	29,999	29,999

26 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company has approved a final dividend distribution of Rs. 10.5 per unit for the year ended June 30, 2013 amounting to Rs. 74.26 million in their meeting held on July 4, 2013. The financial statements for the year ended June 30, 2013 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending June 30, 2014.

27 DETAILS OF PATTERN OF UNITHOLDING

----- As at June 30, 2013 -----			
Category	Number of unit holders	Investment amount	Percentage of investment
Individuals	7	5,948	1.76
Associated companies	1	308,569	91.54
Banks / Financial Institutions	-	-	-
Others	1	22,603	6.70
	<u>9</u>	<u>337,120</u>	<u>100.00</u>
----- As at June 30, 2012 -----			
Category	Number of unit holders	Investment amount	Percentage of investment
Individuals	7	6,864	1.88
Associated companies	1	252,243	69.14
Banks / Financial Institutions	1	87,270	23.92
Others	1	18,460	5.06
	<u>10</u>	<u>364,837</u>	<u>100.00</u>

28 LIST OF TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID**2013**

1	Pearl Securities Limited	11.59%
2	KASB Securities Limited	9.42%
3	Arif Habib Limited	7.63%
4	Foundation Securities Limited	7.75%
5	Standard Capital Securities (Private) Limited	6.46%
6	M.M. Securities (PVT.) Ltd.	6.39%
7	Habib Metropolitan Finance Services Limited	6.34%
8	IGI Finex Securities Limited	6.30%
9	Al habib Capital Market (Private) Limited	5.95%
10	Fortune Securities Ltd.	5.15%

2012

1	Foundation Securities Limited	15.34%
2	Pearl Securities Limited	13.88%
3	Fortune Securities Limited	12.32%
4	KASB Securities Limited	8.97%
5	Habib Metropolitan Finance Services Limited	7.98%
6	Invest & Finance Securities Limited	6.37%
7	Invisor Securities (Private) Limited	6.04%
8	Arif Habib Limited	5.82%
9	Al habib Capital Market (Private) Limited	4.09%
10	Standard Capital Securities (Private) Limited	3.58%

29 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 60th, 61st, 62nd, 63rd, 64th, 65th, 66th, and 67th Board meetings were held on July 05, 2012, August 29, 2012, September 14, 2012, October 04, 2012, October 24, 2012, February 21, 2013, April 08, 2013, and April 29, 2013, respectively. Information in respect of attendance by the Directors in the meetings is given above:

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Robert C. Richard Owen	8	6	2	61st and 67th meeting
Mr. Muzaffar Ali Shah Bukhari	8	7	1	66th meeting
Mr. Qaisar P. Mufti	8	8	-	
Mr. Amer Maqbool	8	8	-	

30 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Name of Member	Designation	Qualification	Experience in years
1 Amer Maqbool	Chief Executive Officer	MBA	17
2 Hussain Jaffer Ali Khoja	Head of Investments	ACCA	10
3 Irfan Nepal	Fund Manager	B.Com	19
4 Saqib Shah	Fund Manager	MBA	10
5 Mohsin Raza Wasaya	Fund Manager	B.Com	5
6 Syed Adnan Abdali	Chief Financial Officer	ACMA	9
7 Adnan Akhtar Mannan	Compliance Manager	ACCA	10

Mr. Irfan Nepal is the Manager of the Fund. He is also the Fund Manager of Crosby Dragon Fund.

31 CORRESPONDING FIGURES

Corresponding figures have been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year. No significant rearrangements or reclassifications were made in these financial statements.

32 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 27 2013 by the Board of Directors of the Management Company.

33 GENERAL

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

**For KASB Funds Limited
(Management Company)**

Chief Executive Officer

Director