

**QUARTERLY REPORT
SEPTEMBER 30, 2011**

NATIONAL ASSET MANAGEMENT COMPANY LIMITED



NAMCO BALANCED FUND

VISION

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

MISSION

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



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ORGANIZATION

Management Company

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

Board of Directors

LT. GEN. (RETD.) MUHAMMED HAMID KHAN	Chairman
MR. MUBARIK ALI	CEO/Director
JUSTICE (RETD.) M. JAVED BUTTAR	Director
MR. SHAFIQ A. KHAN	Director
MR. ASEER AHMED KHAN	Director

CFO & Company Secretary

Mr. Muhammad Faraz

Audit Committee

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

Auditors

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

Legal Advisors

KMS Law Associates
207, Beaumont Plaza, Karachi.

Bankers

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

Registrar

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



REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

NAMCO Balanced Fund

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

Market Review

During the 1QFY12, stock market depicted volatile and dull behavior with relatively low volumes. Fluid domestic political situation, devastation of floods in Sindh, tensions over Pak-US relations, deteriorating law and order situation, global equity sell off related to the US debt standoff, and foreign portfolio outflows grapple the market. Result season during the quarter failed to keep the investor upbeat as expected result announcements by the key companies did not improve investors' confidence in the market.

KSE-100 index lost 750 point during the 1QFY12 to stand at the level of 11,761.97 points. Average daily volumes stood at 47.92 million shares, while market capitalization during the period decreased by Rs. 195 billion to stand at Rs. 3,090 billion.

During the period under review, the net foreign investor's portfolio investments in the Karachi Stock Market showed the outflow of USD 45.67 million. Economic indicators painted a mixed picture during the quarter, current account showed the deficit of USD 1.21 billion compared to the deficit of USD 0.597 billion during the same period last year. On the other side improvement was seen on workers' remittances which stood at USD 3.297 billion compared to USD 2.646 billion in same period last year. However, relatively comfortable balance of payment situation and buildup in foreign exchange reserves lead stability to the exchange rate. Inflationary pressure during the quarter eased off from 12.4% to 10.5% (much of which is supported by the change in CPI base year).

In Monetary Policy Announcement on July 30, 2011, State Bank of Pakistan reduced the Policy/ Discount Rate by 50 bps to 13.50%. The T-Bills auctions bid pattern during the quarter 2011 is similar to the trend observed in the earlier three months that suggests the market continued to prefer six months and one year T-Bills over three month papers.

Fund Performance

For the period ended September 30, 2011, your Fund earned gross revenue of Rs. 31.635 million. This comprised of realized capital gain of Rs. 6.88 million, unrealized loss of Rs. 6.97 million, dividend income of Rs. 2.95 million, income on bank deposits of Rs. 7.20 million, income from Certificate of Investments of Rs. 1.325 million, income from TBills of Rs. 1.39 million, income from Certificates of Musharaka of Rs. 0.56 million and gain on revaluation of Sukuk of Rs. 7.5 million. Impairment loss on financial asset classified as 'available for sale' amounts to Rs. 3.53 million. Operating expenses during the same period were Rs. 8.017 million. The major constituents of the expenses include remuneration to Management Company amounting to Rs. 6.57 million, securities transaction costs amounting to Rs. 0.711 million and legal and professional charges amounting to Rs. 0.119 million. Earning per certificate for the period under review worked out to Re. 0.24. Net asset value per certificate on September 30, 2011 stood at Rs. 7.90.

Future Outlook

We expect the momentum of the stock market to improve on the back of some attractive valuation in banking and oils sector scrips. While with declining interest rates in the market, money market placements dose not



seems as attractive as the valuations in the stock market. However, we maintain our cautious approach and remain invested in stocks, which have better yield based on attractive valuations.

Management Company Rating

JCR-VIS Credit Rating Company Limited has reaffirmed the management quality rating of AM3 minus for National Asset Management Company Limited (NAMCO), the Management Company of NBF. The AM3 minus rating is categorized as "Good Quality Management", which reflects NAMCO's capability to meet high quality objectives in its management functions. The Fund has been assigned the ranking of MFR 3 Star by JCR-VIS Credit Rating Company Limited which represents 'Average Performance' of the Fund.

Acknowledgements

The Board wishes to express its appreciation for the continued cooperation, support and the guidance of Securities & Exchange Commission of Pakistan, Karachi Stock Exchange, National Clearing Company Limited, Trustee of the Fund as well as the brokers of the company. The Board also appreciates the management team and the staff members for their commitment and dedicated efforts for achieving these result under such testing times.

October 29, 2011

Mr. Mubarik Ali
Chief Executive



**NAMCO BALANCED FUND
CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES
AS AT SEPTEMBER 30, 2011**

	Note	Unaudited September 30 2011	Audited June 30 2011
----- Rupees -----			
ASSETS			
Current assets			
Balances with banks		145,101,000	171,524,224
Investments	4	660,045,091	597,936,509
Receivable against sale of investments		-	955,937
Dividend and other receivables	5	5,819,148	3,984,993
Security deposits	6	2,675,000	2,675,000
Total assets		<u>813,640,239</u>	<u>777,076,663</u>
LIABILITIES			
Current liabilities			
Payable to National Assets Management Company Limited - Management Company		3,850,642	3,734,815
Payable to Trustee		48,964	49,869
Payable to Securities and Exchange Commission of Pakistan		807,178	642,864
Payable against purchase of investments		12,753,821	-
Accrued expenses	7	1,170,243	951,121
Unclaimed dividend		5,490,781	5,490,781
Total liabilities		<u>24,121,629</u>	<u>10,869,450</u>
NET ASSETS		<u><u>789,518,610</u></u>	<u><u>766,207,213</u></u>
CERTIFICATE CAPITAL AND RESERVES			
Certificate capital		1,000,000,000	1,000,000,000
Unrealised appreciation on re-measurement of investments classified as 'available for sale' - net		7,969,815	8,276,697
(Accumulated loss) / unappropriated profit		(218,451,205)	(242,069,484)
TOTAL CERTIFICATE HOLDERS' FUNDS		<u><u>789,518,610</u></u>	<u><u>766,207,213</u></u>
NET ASSETS VALUE PER CERTIFICATE - RUPEES		<u><u>7.90</u></u>	<u><u>7.66</u></u>
COMMITMENTS			

The annexed notes 1 to 8 form an integral part of these financial statements.

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

Chief Executive

Director



NAMCO BALANCED FUND
CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	Unaudited September 2011	Unaudited September 30 2010
	-----Rupees-----	
INCOME		
Capital gain on sale of investments - net	6,876,032	11,286,796
Dividend income	2,949,677	3,886,196
Unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss' - net	6,974,364	(4,535,025)
Unrealised gain - letter of rights	-	2,769
Impairment loss on financial assets classified as 'available for sale'	(3,530,543)	(3,488,300)
Profit on balances with banks	7,205,432	8,132,969
Profit on Certificates of Musharaka	560,903	670,466
Profit on Certificates of Investment	1,325,370	1,600,548
Profit on Sukuk Bonds	383,285	-
Gain / (Loss) on revaluation of TFCs & Sukuks	7,500,000	(653,974)
Profit on TDR, Tbills & PIBs	1,391,161	1,039,056
	31,635,681	17,941,501
OPERATING EXPENSES		
Fee to National Asset Management Company Limited	6,574,446	5,247,852
Fee to MCBFSL - Trustee	154,676	163,081
Annual fee - Securities Exchange Commission of Pakistan	164,314	148,689
Central Depository Company of Pakistan Limited	95,922	86,279
Securities transaction costs	711,398	292,451
Auditors' remuneration	132,329	107,123
Annual fee	61,341	58,476
Bank charges	3,250	738
Legal and professional charges	119,726	366,188
	8,017,402	6,470,877
Profit /(Loss) before taxation	23,618,279	11,470,624
Taxation	-	-
Profit /(Loss) after taxation	23,618,279	11,470,624
(Loss) / earnings per certificate (Rupees)		
With net unrealized diminution on remeasurement of investments	0.24	0.11
Without net unrealized diminution on remeasurement of investments	0.17	0.16

The annexed notes 1 to 8 form an integral part of these financial statements.

For National Asset Management Company Limited
(Management Company)

Chief Executive

Director



**NAMCO BALANCED FUND
CONDENSED INTERIM DISTRIBUTION STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2011**

	Unaudited September 30 2011	Unaudited September 30 2010
	-----Rupees-----	
Unappropriated profit brought forward	(242,069,484)	(328,036,400)
Profit/(Loss) after taxation for the year	23,618,279	11,470,624
(Accumulated loss) / unappropriated profit carried forward	<u>(218,451,205)</u>	<u>(316,565,776)</u>

The annexed notes 1 to 8 form an integral part of these financial statements.

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

Chief Executive

Director



NAMCO BALANCED FUND
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	Certificate capital	Unrealised appreciation / (diminution) on re-measurement of investments classified as available for sale - net	(Accumulated loss) / unappropriated profit	Total
	----- Rupees -----			
Balance as at July 01, 2010	1,000,000,000	6,196,630	(328,036,400)	678,160,230
Profit after taxation for the Quarter ended September 30, 2010	-	-	11,470,624	11,470,624
Unrealised appreciation on re-measurement of investments classified as 'available for sale' - net	-	3,557,071 (2,119,205)	-	3,557,071 (2,119,205)
Balance as at September 30, 2010	<u>1,000,000,000</u>	<u>7,634,496</u>	<u>(316,565,776)</u>	<u>691,068,720</u>
Balance as at July 01, 2011	1,000,000,000	8,276,697	(242,069,484)	766,207,213
Profit after taxation for the Quarter ended September 30, 2011	-	-	23,618,279	23,618,279
		3,530,543		3,530,543
Unrealised diminution on re-measurement of investments classified as 'available for sale' - net	-	(3,837,425)		- (3,837,425)
Balance as at September 30, 2011	<u>1,000,000,000</u>	<u>7,969,815</u>	<u>(218,451,205)</u>	<u>789,518,610</u>

The annexed notes 1 to 8 form an integral part of these financial statements.

For National Asset Management Company Limited
(Management Company)

Chief Executive

Director



**NAMCO BALANCED FUND
CONDENSED INTERIM CASH FLOW STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2011**

	Unaudited September 30 2011	Unaudited September 30 2010
	-----Rupees-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Gain /(Loss) before taxation	23,618,279	11,470,624
Adjustments for non-cash charges and other items:		
Fee to National Asset Management Company Limited - Management Company	6,574,446	5,247,852
Fee to Trustee	154,676	163,081
Dividend income	(2,949,677)	(3,886,196)
Unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss' - net	(6,974,364)	4,535,025
Unrealised diminution/Appreciation on Letter of rights	-	(2,769)
Operating cash (outflow) / inflow before working capital changes	<u>20,423,360</u>	<u>17,527,617</u>
Decrease / (increase) in assets		
Investments - net	(55,441,099)	5,894,326
Receivable against sale of investments	955,937	-
Prepayments and security deposits	-	(100,000)
Dividend & Other receivables	(1,776,137)	288,088
	(56,261,299)	6,082,414
(Decrease) / increase in liabilities		
Payable to Securities and Exchange Commission of Pakistan	164,314	148,689
Payable against purchase of investments	12,753,821	2,666,597
Accrued expenses	219,122	508,296
Current portion of preliminary expenses	-	(1,689,691)
Unclaimed Dividend	-	(190,980)
	13,137,257	1,442,911
Fee paid to the Management Company	(6,458,619)	(3,552,226)
Fee paid to the trustee	(155,581)	(162,981)
Preliminary expenses and floatation costs paid to Management Company	-	(1,801,986)
Net cash used in operating activities	<u>(29,314,882)</u>	<u>19,535,749</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received	2,891,658	2,290,345
Net cash inflow from investing activities	<u>2,891,658</u>	<u>2,290,345</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	-
Net cash used in financing activities	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	(26,423,224)	21,826,094
Cash and cash equivalents at the beginning of the year	<u>171,524,224</u>	<u>126,687,979</u>
Cash and cash equivalents at the end of the year	<u><u>145,101,000</u></u>	<u><u>148,514,073</u></u>

The annexed notes 1 to 8 form an integral part of these financial statements.

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

Chief Executive

Director

NAMCO Balanced Fund
CONDENSED INTERIM NOTES TO THE FINANCIAL STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

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

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

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

2.4.2 Impairment of investment (refer note 3.4)

2.4.3 Provision for taxation (refer note 3.7)

2.4.4 Other assets

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

2.5 Standards, Interpretations and Amendments not yet effective

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

- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after January 1, 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in

accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Fund.

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Fund's financial statements.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Fund.
- Improvements to IFRSs 2010 – In May 2010 the IASB issued improvements to IFRSs 2010 which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programs to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Fund.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Fund.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in income statement, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in income statement is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statements of the Fund.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to income statement

in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of annual published financial statements of Fund for the year ended June 30, 2011.

3.1 Investments

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

Financial assets at fair value through profit or loss

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

Held to maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

Subsequent measurement

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

a) Basis of valuation of debt securities

- Investment in term finance certificates and sukus are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1/2009 dated 06 January 2009. Under the said directive, investment in term finance certificates and sukus bonds are valued on the basis of traded, thinly traded and non traded securities. Accordingly, traded investment in debt securities have been valued at the rates determined and announced by Mutual Funds Association of Pakistan (MUFAP) based on the methodology prescribed in the said circular.
- Fair value of the investments in Federal Government securities comprising treasury bills is determined by reference to the quotation obtained from the PKRV rate sheet on the Reuters page.

b) Basis of valuation of equity securities

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

Date of Recognition

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

Derecognition

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

3.2 Derivative Financial Instruments

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

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

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

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

3.4 Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that the financial asset or a group of financial assets is impaired. The carrying value of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Provision for impairment losses are recognised in the income statement in case of held for trading financial assets. If any such evidence exists for available for sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is reclassified from the statement of comprehensive Income to the income statement.

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

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

3.5 Financial instruments

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

3.6 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.
- Return on bank balances are recognised at effective profit rates based on a time proportion basis.
- Interest income from reverse repurchase transactions and continuous funding system lending

arrangements, returns on certificates of investment, placements, commercial papers, certificates of musharika, term deposits and investments in debt securities are recognised at rate of return implicit in the instrument on a time proportionate basis.

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

3.7 Taxation

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

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

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

3.8 Offsetting of financial assets and liabilities

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

3.9 Provision

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

3.10 Preliminary expenses and floatation costs

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

3.11 Cash and cash equivalents

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

3.12 Distributions

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

3.13 Liabilities

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

4 INVESTMENTS

'Financial assets at fair value through profit and loss' - held for trading

		Unaudited 30th Sep 2011	Audited 30th June 2011
- Quoted equity securities - regular market trade	4.1	414,500,734	427,106,423
- Derivative financial instruments			-

Available for sale

- Quoted equity securities	4.2	35,930,919	57,312,288
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Loans and receivables

- Fixed income and other debt securities	4.5	59,500,000	64,500,000
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Held to maturity

	4.6	150,113,438	49,017,798
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		660,045,091	597,936,509
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4.1 Investments classified as 'financial assets at fair value through profit or loss - held for trading'

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

Name of investee	Number of shares			Balance as at 30 September 2011		Percentage in relation to		
	As at 1 July 2011	Purchases during the year	Bonus / rights issue	Sales during the year	Carrying cost	Market value	Investee paid-up capital	Total investments
	1,161,968	-	-	1,161,968	-	-	0.00%	0.00%
EQUITY INVESTMENT								
B.R.R. Guardian Modaraba	1,161,968	-	-	1,161,968	-	-	0.00%	0.00%
FINANCIAL SERVICES								
First National Equities Limited	133,695	-	-	-	389,052	296,802	0.04%	0.23%
	133,695	-	-	-	389,052	296,802		0.04%
NON LIFE INSURANCE								
Adamjee Insurance Company Limited	-	100,000	-	-	5,232,569	5,352,000	0.68%	0.90%
	-	100,000	-	-	5,232,569	5,352,000		0.68%
PERSONAL GOODS								
Azgard Nine Limited	722,990	-	-	492,990	1,269,600.00	1,145,400	0.15%	0.17%
Latif Jute Mills Limited	85,000	-	-	-	572,900	603,500	0.03%	0.09%
Nishat Mills Limited	510,000	110,000	-	520,000	4,865,428	4,809,000	0.61%	0.73%
	1,317,990	110,000	-	1,012,990	6,707,928	6,557,900		(150,028)
FOOD PRODUCER								
Punjab Oils Mills	-	500,000	-	-	20,000,000	19,500,000	0.03%	3.26%
CONSTRUCTION & MATERIALS								
Attock Cement Pakistan Limited	237,280	-	-	53,810	8,903,799	9,911,049	1.26%	1.50%
D.G. Khan Cement Limited	255,612	-	-	25,612	5,287,700	4,731,100	0.96%	0.72%
Lucky Cement Limited	65,000	120,864	-	85,864	7,439,793	7,552,000	0.96%	1.14%
Pioneer Cement Limited	315,868	207,889	-	501	2,633,276	2,548,257	0.32%	0.39%
	873,760	328,753	-	1,65,787	24,264,568	24,742,406		477,838
INDUSTRIAL METALS AND MINING								
Crescent Steel & Allied Products Limited	157,982	198,920	-	77,755	7,420,975	6,677,196	0.85%	1.01%
	157,982	198,920	-	77,755	7,420,975	6,677,196		(743,779)
AUTOMOBILE & PARTS								
Pakistan Suzuki Motors Company Limited	89,031	-	-	89,031	-	-	0.00%	0.00%
	89,031	-	-	89,031	-	-		-
OIL & GAS								
Attock Petroleum Limited	4,000	24,000	-	13,000	5,543,050	5,967,750	0.76%	0.90%
Oil & Gas Development Corporation Limited	15,000	20,000	-	35,000	2,756,207	2,762,700	0.00%	0.00%
Pakistan Oil Fields Limited	32,340	73,000	-	97,840	7,702,906	7,582,800	0.35%	0.42%
Pakistan Petroleum Limited	47,500	40,000	-	47,500	42,005,700	42,005,700	0.96%	1.15%
Pakistan State Oil Company Limited	129,525	37,975	-	2,500	58,193,531	58,318,950	5.32%	6.36%
	228,365	194,975	-	195,840	58,193,531	58,318,950		125,419
GAS WATER & MULTI-UTILITIES								
Sui Northern Gas Company Limited	630,026	8,774	-	-	12,705,856	12,776,000	1.62%	1.94%
	630,026	8,774	-	-	12,705,856	12,776,000		70,144
REFINERIES								
Attock Refinery Limited	35,000	27,500	-	42,500	2,426,406	2,222,000	0.28%	0.34%
	35,000	27,500	-	42,500	2,426,406	2,222,000		(204,406)
					2,426,406	2,222,000		(204,406)

Name of investee	Number of shares			Holding as at 30 June 2011	Balance as at 30 September 2011		Percentage in relation to		
	As at 1 July 2010	Purchases during the year	Bonus / rights issue		Carrying cost	Market value	Market value as a percentage of net assets	Investee paid-up capital	Total investments
BANKS									
Askari Commercial Bank Limited	400,000	544,114	-	944,114	9,643,294	8,770,819	1.11%	0.13%	1.33%
Bank Al-Falah Limited	3,022,690	468,176	-	2,783,676	27,275,295	31,399,865	3.98%	0.32%	4.76%
Bank of Punjab Limited	-	2,280,501	-	2,280,501	14,431,393	14,275,936	1.81%	0.00%	2.16%
Habib Bank Limited	70,048	22,914	-	21,777	2,567,812	2,599,303	0.33%	0.00%	0.39%
MCB Bank Limited	51,500	30,000	-	30,000	5,306,180	5,198,100	0.66%	0.00%	0.79%
National Bank of Pakistan	50,000	115,000	-	-	5,439,500	4,278,500	0.00%	0.00%	0.00%
SILK Bank Limited	2,150,000	-	-	2,150,000	1,454,885	1,413,290	0.18%	0.08%	0.65%
United Bank Limited	33,500	-	-	23,500	66,118,359	67,935,813	0.00%	0.00%	0.21%
	5,777,738	3,460,705	-	8,233,568		67,935,813			1,817,454
CHEMICALS									
Arif Habib Corporation Limited	180,000	-	-	180,000	-	-	0.00%	0.00%	0.00%
Engro Corporation	185,000	32,500	-	22,500	3,126,828	3,226,275	0.41%	0.01%	0.49%
Fatima Fertilizer Company Limited	-	200,000	-	200,000	-	-	0.00%	0.00%	0.00%
Fauji Fertilizer Bin Qasim Limited	567,015	1,242,985	-	705,000	32,305,588	41,369,400	5.24%	0.08%	6.27%
Fauji Fertilizer Company Limited	-	87,500	-	50,000	7,955,083	8,095,000	1.03%	0.00%	1.23%
LOTTE Pakistan PTA Limited	2,400,000	575,000	-	2,925,000	39,141,452	34,690,500	4.39%	0.19%	5.26%
	3,332,015	2,137,985	-	3,702,500	82,528,951	87,381,175			4,852,224
ELECTRICITY									
Hub Power Company Limited	220,000	72,282	-	231,081	8,868,194	9,589,862	1.21%	0.02%	1.45%
Kot Addu Power Company Limited	151,389	55,000	-	20,000	841,334	902,000	0.11%	0.00%	0.14%
Nishat Chumian Power Limited	3,414,900	54,589	-	3,301,691	45,293,446	47,115,132	5.97%	0.90%	7.14%
Nishat Power Limited	4,460,000	25,622	-	4,310,622	66,535,201	65,133,498	8.25%	1.22%	9.87%
	8,246,289	207,493	-	7,863,394	121,538,175	122,740,492			1,202,317
	21,983,859	7,275,105	-	23,150,330	407,526,370	414,500,734			6,974,364
4.2 Investments classified as 'available for sale'	Unless stated otherwise, the holdings are in ordinary shares / certificates of Rs 10 each.								
Name of investee	Number of shares			Holding as at 30 September 2011	Balance as at 30 September 2011		Percentage in relation to		Total investments
	As at 1 July 2011	Purchases during the year	Bonus / rights issue		Carrying cost	Market value	Market value as a percentage of net assets	Investee paid-up capital	
FINANCIAL SERVICES									
First National Equities Limited	741,441	-	-	741,441	2,157,593	1,645,999	0.21%	1.29%	0.25%
SME Leasing Limited	457,761	-	-	457,761	4,348,730	1,602,164	0.21%	1.43%	0.24%
	1,199,202	-	-	1,199,202	6,506,323	3,248,163			
BANKS									
Bank AlFalah Limited	596,925	319,399	-	916,324	8,895,871	10,336,135	3.73%	0.10%	1.57%
United Bank Limited	250,000	-	-	81,471	5,139,049	4,899,666	3.73%	0.01%	0.74%
	846,925	319,399	-	997,795	14,034,920	15,235,801			1,200,881
CHEMICALS									
Fatima Fertilizer Company Limited	700,000	-	-	-	-	-	0.06%	0.00%	0.00%
ELECTRICITY									
Hub Power Company Limited	30,000	-	-	-	-	-	0.00%	0.00%	0.00%
Kot Addu Power Company Limited	30,000	-	-	30,000	1,278,300	1,353,000	0.17%	0.00%	0.20%
Nishat Chumian Power Limited	1,021,931	-	-	1,021,931	14,020,893	14,582,955	1.85%	0.28%	2.21%
Nishat Power Limited	100,000	-	-	100,000	1,544,000	1,511,000	0.19%	0.03%	0.23%
	1,181,931	-	-	1,151,931	16,843,193	17,446,955			603,762
	3,928,058	319,399	-	3,348,928	37,384,436	35,930,919			(1,453,517)



	Unaudited 30th Sep 2011	Audited 30th June 2011
	-----Rupees-----	
4.3 Net unrealised diminution on re-measurement of investments classified as 'financial assets through profit or loss' - net		
Market value of securities	414,500,734	427,106,423
Less: carrying cost of securities	407,526,370	474,161,203
	<u>6,974,364</u>	<u>(47,054,780)</u>
4.4 Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'available for sale' - net		
Market value of securities	35,930,919	57,312,288
Less: carrying value of securities	37,384,436	61,648,309
	<u>(1,453,517)</u>	<u>(4,336,021)</u>
4.5 Loans and receivables		
Certificates of Musharaka	16,205,200	19,000,000
Certificates of Investment	43,294,800	45,500,000
	<u>59,500,000</u>	<u>64,500,000</u>
4.6 Held to maturity		
Sukuk Bonds	7,460,938	-
PIBs	95,752,500	-
Treasury Bills	46,900,000	49,017,798
	<u>150,113,438</u>	<u>49,017,798</u>
5 DIVIDEND AND OTHER RECEIVABLES		
Dividend receivable	461,000	402,982
Profit receivable on Certificates of Musharaka	92,410	135,864
Profit receivable on Sukuk Bonds	297,347	-
Profit receivable on Certificates of Investments	713,429	1,453,280
Profit receivable on TBills & PIBs	1,703,479	-
Profit receivable on balances with banks	2,551,483	1,992,867
	<u>5,819,148</u>	<u>3,984,993</u>
6 PREPAYMENTS AND SECURITY DEPOSITS		
Security Deposits		
- National Clearing Company of Pakistan Limited	2,500,000	2,500,000
- Central Depository Company of Pakistan Limited	175,000	175,000
	<u>2,675,000</u>	<u>2,675,000</u>
7 ACCRUED EXPENSES		
Brokerage payable	476,458	499,391
Auditors' remuneration	457,329	325,000
Legal and professional charges	73,028	55,302
Printing cost payable	133,200	41,200
Withholding tax payable	30,228	30,228
	<u>1,170,243</u>	<u>951,121</u>



8 TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Among others, connected persons include National Asset Management Company Limited being the Management Company, MCB Financial Services Limited being the trustee of the Fund, First National Equities Limited being the associates of the Management Company and directors and officers of the Management Company.

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

Details of transactions and balances with connected persons are as follows:

	Un-audited Sep 30, 2011	Un-audited Sep 30, 2010
	----- Rupees -----	
8.1 Transactions during the period		
National Asset Management Company Limited - Management Company		
Management fee	6,574,446	5,247,852
Certificates issued [No. of certificates 200 (2010: 41,970)]	2,000	419,700
First National Equities Limited		
Brokerage	125,043	75,484
Purchase transactions of marketable securities	79,966,818	38,890,528
Sale transactions of marketable securities	39,035,920	48,110,482
Certificate issued (No. of Certificate 1 (2010: Nil))	10	
First Pakistan Securities		
Brokerage	-	-
Purchase transactions of marketable securities	-	-
Switch Securities Limited		
Brokerage	-	-
Purchase transactions of marketable securities	-	-
Sale transactions of marketable securities	-	15
MCB Financial Services Limited - Trustee		
Trustee fee	154,676	-
First Dawood Investment Bank Limited - Retiring Trustee		
Trustee fee	-	163,081
Executives of the Management Company		
Certificates issued [No. of certificates Nil (2010: Nil)]	-	-
	Un-audited Sep 30, 2011	Audited June 30, 2011
	----- Rupees -----	
8.2 Transactions outstanding at the period end		
National Asset Management Company Limited - Management Company		
Management fee payable	2,048,656	1,932,829
Balance payable in respect of preliminary expenses and floatation costs	1,801,986	1,801,986
Certificates in issue [No. of certificates 12,116,501 (2010: 10,849,891)]	121,165,010	121,163,010
First National Equities Limited		
Brokerage payable	137,823	178,276
Certificates in issue [No. of certificates 453,012 (2010: 452,000)]	4,530,120	4,530,110
First Pakistan Securities		
Brokerage payable	-	-
Certificates in issue [(No. of certificates 1,512,000 (2010: 1,512,000)]	15,120,000	15,120,000
Switch Securities Limited		
Brokerage payable	-	-
Certificates in issue [(No. of certificates 2,000,500 (2010: 2,000,000)]	20,005,000	20,000,000
First Dawood Investment Bank Limited - Retiring Trustee		
Trustee fee payable	-	-
Certificates in issue [No. of certificates Nil (2010: Nil)]	-	-
Executives of the Management Company		
Certificates in issue [No. of certificates 1,000 (2010: 28,500)]	10,000	5,890,000

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

Chief Executive

Director



NATIONAL ASSET MANAGEMENT COMPANY LTD

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