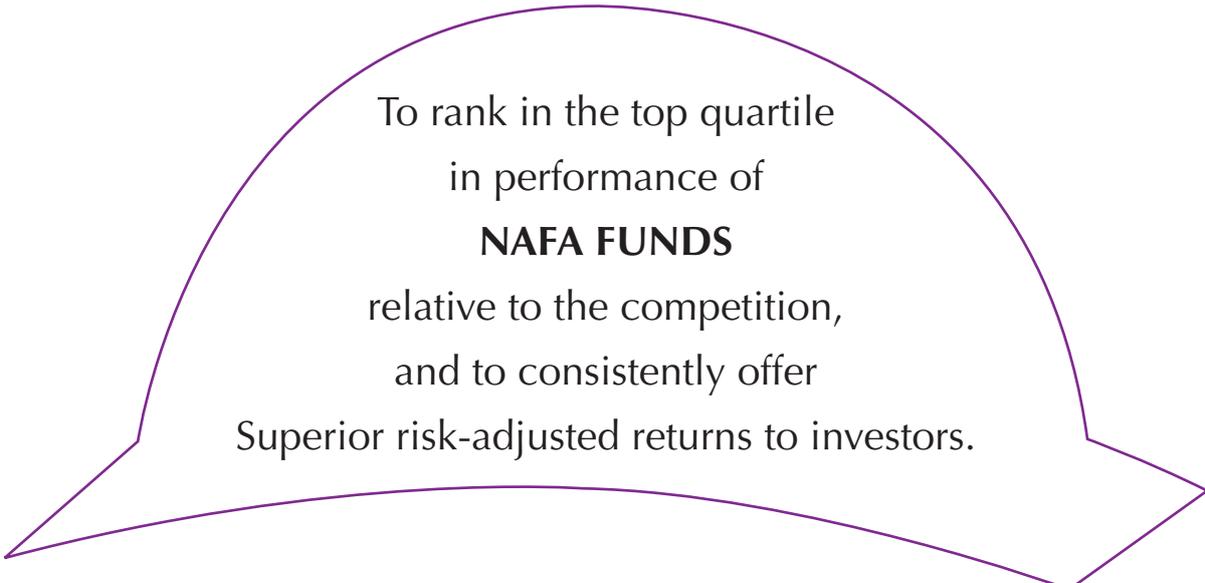


MISSION STATEMENT



To rank in the top quartile
in performance of
NAFA FUNDS
relative to the competition,
and to consistently offer
Superior risk-adjusted returns to investors.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

FUND'S INFORMATION

Management Company

NBP Fullerton Asset Management Limited – Management Company

Board of Directors of the Management Company

Mr. Shahid Anwar Khan	Chairman
Syed Ahmed Iqbal Ashraf	Director
Mr. Wah Geok Sum	Director
Mr. Patrick Pang Chin Hwang	Director
Mr. Shehryar Faruque	Director
Mr. Kamal Amir Chinoy	Director
Dr. Asif A. Brohi	Director
Dr. Amjad Waheed	Chief Executive Officer

Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

Audit & Risk Committee

Mr. Patrick Pang Chin Hwang	Chairman
Mr. Shehryar Faruque	Member
Syed Ahmed Iqbal Ashraf	Member

Trustee

Central Depository Company of Pakistan Limited (CDC)
CDC House, 99-B, Block "B" S.M.C.H.S.,
Main Shahra-e-Faisal, Karachi.

Bankers to the Fund

Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Dawood Islamic Bank
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
National Bank of Pakistan
NIB Bank Limited
Soneri Bank Limited
The Bank of Khyber
United Bank Limited
Meezan Bank Ltd.
Al-Baraka Islamic Bank
Bank Islami Pakistan Ltd

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

Auditors

A.F. Ferguson & Co. Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road,
P.O.Box 4716
Karachi.

Legal Advisor

M/s Jooma Law Associates
205, E.I. Lines, Dr. Daudpota Road,
Karachi.

Head Office:

9th Floor, Adamjee House,
I.I. Chundrigar Road,
Karachi

Lahore Office:

House # 10 - A, Block -S, Gulberg - II, Lahore.
UAN: (+92-42) 111-111-NFA (632)
Fax No: (+92-42) 35760373

Islamabad Office:

Plot No. 395, 396
Industrial Area, 1-9/3 Islamabad.
UAN: 051-111-111-632
Phone: 051-2514987
Fax: 051-4859031

Peshawar Office:

1st Floor, Haji Tehmas Centre,
Near KFC, Tehkal Payan
University Road, Peshawar.
Phone: 92-91-5711784, 5711782
Fax: 92-91-5211780

Multan Office:

NBP Corporate Branch
3rd Floor, Park Lane Tower, Near Shahjahan Banquet Hall,
Officers Colony, Khanewal Road. Multan.
Tel : 92-061-6214070
Fax: 92-061-6214062
UAN: 92-061-111-111-632

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

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NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Fourth Annual Report of NAFA Islamic Aggressive Income Fund (formerly: NAFA Islamic Income Fund) for the year ended June 30, 2011.

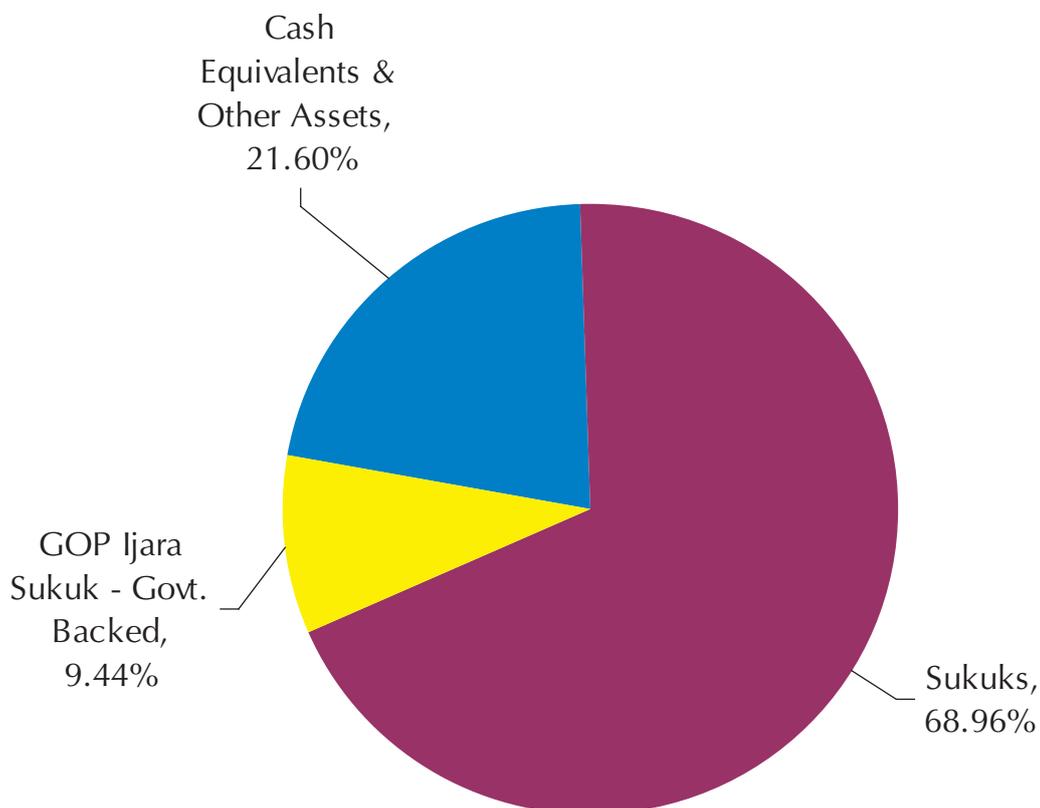
Fund's Performance

The size of NAFA Islamic Aggressive Income Fund (Formerly; NAFA Islamic Income Fund) has reduced from Rs. 202 million to Rs. 178 million during the period, i.e. a decline of 11.88%. During the said period, the unit price of the Fund has increased from Rs. 6.6205 (distribution adjusted) on June 30, 2010 to Rs.7.2189 (Ex-Div) on June 30, 2011, thus showing an annualized return of 9.04% as compared to its Benchmark (Average 3-Month deposit rate of Islamic Banks) annualized return of 7.07% for the same period.

There continues to be a marginal improvement in market's demand for debt securities. Many of the non-performing securities have been restructured within this fiscal year. The coupon rates of all Sukuks in your Fund are floating and linked to KIBOR, which reduces pricing risk.

The Fund has earned a total income of Rs.35.34 million during the year. After deducting total expenses of Rs.6.37 million, the net income is Rs.28.97 million.

The asset allocation of NAFA Islamic Aggressive Income Fund as on June 30, 2011 is as follows:



NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

Income Distribution

In addition to interim distribution of 2.50%, the Board of Directors of the Management Company has also approved a final distribution of 13.25%, translating into total distribution of 15.75% of opening ex-NAV (12.2050% of the par value). After final distribution, the net asset value per unit will be Rs.7.2189 on June 30, 2011.

Taxation

As the above distribution is more than 90% of the income earned during the year, excluding realized and unrealized capital gains on investments, the Fund is not subject to tax under Clause 99 of the Part I of the Second Schedule of the Income Tax Ordinance, 2001.

Auditors

The present auditors, Messrs A. F. Ferguson & Co., Chartered Accountants, retire. In their place, the Board has approved the appointment of Messrs KPMG Taseer Hadi & Co., Chartered Accountants for the year ending June 30, 2012.

Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held five meetings during the current financial year. The attendance of all directors is disclosed in the note 25 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 24 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 21 to these financial statements.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

Acknowledgement

The Board takes this opportunity to thank its valued unit-holders for their confidence and trust in the Management Company, and providing the opportunity to serve them. It also offers its sincere gratitude to the Securities & Exchange Commission of Pakistan and State Bank of Pakistan for their patronage and guidance.

The Board also wishes to place on record its appreciation for the hard work, dedication and commitment shown by the staff, the Trustee and the Shariah and Technical Advisors.

On behalf of the Board of
NBP Fullerton Asset Management Limited

Dr. Amjad Waheed, CFA
Chief Executive

Shahid Anwar Khan
Chairman

Date: September 29, 2011
Place: Karachi.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

TRUSTEE REPORT TO THE UNIT HOLDERS NAFA ISLAMIC AGGRESSIVE INCOME 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

NAFA Islamic Aggressive Income Fund (the Fund), an open-end scheme was established under a trust deed dated August 20, 2007, executed between NBP Fullerton Asset Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2011 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 directives of the Securities and Exchange Commission of Pakistan issued vide Circulars # 1 of 2009 and 3 of 2010, which require that the debt securities shall only be reclassified as performing on receipt of all arrears i.e. principal as well as interest for the next two installments. The sukuk certificates of Maple Leaf Cement Factory Limited (MLCFL) and Kohat Cement Company Limited (KCCL) were classified as performing in September 2010 and June 2010 respectively based on their restructured plans approved in March 2010 and February 2010 respectively.

The Management Company while complying the same has reclassified these sukuk certificates as performing, however, has not accrued the mark - up till October 13, 2010 for MLCFL and June 19, 2010 for KCCL. Thereafter the Management Company started accruing the mark up completely from October 14, 2010 for MLCFL and June 20, 2010 for KCCL. The Management Company has informed us that the same has been done on prudence basis, considering the underlying risk of realisability of the deferred mark-up which will be received in future periods. Moreover, it would be pertinent to note that subsequent to the year end MLCFL and KCCL have shown their inability to fulfill obligation with respect to coupon payment of mentioned sukuk certificates.

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

Karachi, October 21, 2011

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

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

NAFA Islamic Aggressive Income Fund (formerly; NAFA Islamic Income Fund) (the Fund) is an open end mutual fund and is listed at the Lahore Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Fund and has appointed the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Company Secretary of NAFA and other necessary personnel to manage its affairs.

The Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors. At present the Board consists of seven non-executive directors including two independent directors. The Management Company is not listed on any stock exchange and therefore does not have minority interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred during the year in the Board of the Management Company due to resignation of Mr. Gerard Lee How Cheng and Mr. Qamar Hussain was filled by Mr. Choy Peng Wah and Syed Iqbal Ashraf on November 15, 2010 and March 25, 2011. Further, the casual vacancy due to resignation of Mr. Choy Peng Wah was filled by Mr. Wah Geok Sum on February 18, 2011.
5. The Management Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the directors and distributed to employees of the Management Company.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

6. The Board has developed a vision/mission statement overall corporate strategy and significant policies of the Fund. A complete record of the particulars along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter during the year. 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 meeting were appropriately recorded and circulated.
9. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justification for non arm's length transactions if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. All the members of Board are well aware of operations of the Fund and Management Company, therefore no orientation courses were arranged during the year.
11. The Board has approved the appointment of Head of Internal Audit and his terms of employment.
12. Directors' Report 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 CEO and CFO before approval of the Board.
14. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 21 to the financial statements "Transactions with Connected Persons".
15. The Management Company has complied with the corporate and financial reporting requirements of the Code with respect to the Fund.
16. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the chairman of the Committee.
17. The meetings of the Audit Committee were held at least once every quarter prior to approval of the interim and final results of the Fund as required by the Code. Terms of Reference of the Audit Committee have been prepared and advised to the Committee for compliance.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

18. There exists an effective internal audit function within the Management Company. The Management Company has appointed the Head of Internal Audit, who is considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
19. The Statutory Auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse 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 Institute of Chartered Accountants of Pakistan.
20. 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.
21. We confirm that all other material principles contained in the Code have been complied with.

Dated: September 29, 2011
Karachi

Dr. Amjad Waheed, CFA
Chief Executive Officer

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

FUND MANAGER REPORT

NAFA Islamic Aggressive Income Fund (Formerly; NAFA Islamic Income Fund)

NAFA Islamic Aggressive Income Fund (Formerly; NAFA Islamic Income Fund) (NIAIF) is an open-end Shariah Compliant Aggressive Income Scheme.

Investment Objective of the Fund

The objective of NIAIF is to seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in Shariah Compliant money market & debt securities having good credit rating and liquidity.

Benchmark

Average 3-month deposit rate of Islamic banks

Fund's Performance Review

This is the fourth Annual report since the launch of the Fund on October 29, 2007. The Fund size as on June 30, 2011 is Rs. 178 million during the period, i.e. a decline of 11.88%. The Fund's annualized return since inception is 1.25%. During the same period the benchmark return has been 6.40%. The Fund has achieved its objectives by posting annualized return of 9.04% during FY 2010-11. During the same period the benchmark return has been 7.07%.

Economic situation did not improve considerably due to fiscal imbalances, circular debt, law and order situation and power shortages. Your Fund is invested in sukuks of Cement, Fertilizer and Consumer Electronics sub-sectors. Around 9% is allocated to the Government Ijara sukuks and 15% in bank deposits, combined these provide diversification and liquidity to the portfolio.

The Yield-to-Maturity of the sukuk portfolio of your Fund is around 25.3% p.a. while its weighted average time to maturity is 3.23 years. The weighted average maturity of your Fund is 2.53 years. Hence, for investors with an investment horizon of three to four years, the Fund offers an attractive opportunity to earn handsome returns. However, since there are sukuks in the portfolio and their prices may go up and down; therefore only long-term investors are advised to invest in this Fund.

Asset Allocation (% of NAV)	30-Jun-11	30-Jun-10
Sukuks	68.96%	82.78%
GOP Ijara Sukuks - Govt. Backed	9.45%	2.51%
Cash Equivalents	14.65%	11.73%
Other Net Assets	6.94%	2.98%
Total	100.00%	100.00%

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

Details of Non-Compliant Investments

Excess Exposure				
Particulars	Exposure Type	% of Net Assets	Limit	Excess Exposure
Kohat Cement Sukuk	Per Party	36.16%	15.00%	21.16%
Construction and Material	Sector	45.48%	35.00%	10.48%

Distribution for the Financial Year 2011

Period	Dividend as a % of Par Value (Rs. 10)	Cumulative Dividend Price per unit (Rs)	Ex -dividend Price per unit (Rs)
Jan 1 – Mar 31, 11	1.9370%	8.0243	7.8306
Apr 1- Jun 30, 11	10.268%	8.2457	7.2189

During the period there has been no significant change in the state of affairs of the Fund, other than stated above. NAFA Islamic Aggressive Income Fund does not have any soft commission arrangement with any broker in the industry.

Following is the unit holder pattern of NAFA Islamic Aggressive Income Fund by the size of unit holdings as of June 30, 2011.

Size of Unit Holding (Units)	# of Unit Holders
1 - 1000	27
1001 - 5000	66
5001 - 10000	21
10001 - 50000	33
50001 - 100000	3
100001 - 500000	2
500001 - 1000000	0
1000001 - 5000000	0
5000001 - 10000000	1
10000001 - 100000000	1
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STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

NAFA Islamic Aggressive Income Fund (the Fund) has fully complied with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for its operations, investments and placements made during the year ended June 30, 2011. This has been duly confirmed by the Shariah Advisor of the Fund.

Dated : September 29, 2011
Karachi

Dr. Amjad Waheed, CFA
Chief Executive Officer

Report of the Shar'iah Advisor – NAFA Islamic Aggressive Income Fund

August 12, 2011/Ramadan 11, 1432 A.H

Alhamdulillah, the period from July 1, 2010 to June 30, 2011 was the fourth year of the operations of NAFA Islamic Aggressive Income Fund (NIAIF). This report is being issued in accordance with clause 5.D.3 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shar'iah Compliance of the Fund's activity.

We have prescribed the criteria and procedures to be followed in ensuring Shar'iah Compliance in every investment.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure Shar'iah compliance with the Shar'iah policies & guidelines. Our responsibility is to express an opinion, based on our review, to the extent where such compliance can be objectively verified. A review is limited primarily to inquiries of the management company's personnel and review of various documents prepared by the management company to comply with the prescribed criteria.

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of NIAIF in light of Shar'iah guidelines.
- ii. All the provisions of the scheme and investments made on account of NIAIF by NAFA are Shar'iah Compliant and are in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operations of NIAIF for the period ended June 30, 2011 have been in compliance with Shar'iah principles.

May Allah bless us with best Tawfeeq to accomplish His cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

Bilal Ahmed Qazi
Shar'iah Advisor

For and on behalf of Meezan bank Limited
Shar'iah Technical Services and Support Provider

INDEPENDENT ASSURANCE REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

We have performed an independent assurance engagement of NAFA Islamic Aggressive Income Fund (the Fund) to express an opinion on the annexed Statement of compliance with the Shariah principles (the 'Statement') for the year ended June 30, 2011. Our engagement was carried out as required under clause 5.D.3 of the Trust Deed of the Fund.

Management Company's responsibility

Management Company of the Fund is responsible for the preparation of the annexed statement (the subject matter) and for compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor. This responsibility includes designing, implementing and maintaining internal control to ensure that operations of the Fund and its investment and placements have been made in compliance with the Shariah principles.

Responsibility of independent assurance providers

Our responsibility is to express our conclusion on the Statement based on our independent assurance engagement, performed in accordance with the International Standards on Assurance Engagement (ISAE 3000) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. This Standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance whether the annexed statement reflects the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor (Criteria).

The procedures selected depend on our judgement, including the assessment of the risks of material non-compliances with the Shariah principles. In making those risk assessments, we have considered internal controls relevant to the Fund's compliance with the principles in order to design procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Fund was not materially non-compliant with the principles. Our engagement was not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Amongst others, our scope included procedures to:

- Check compliance of specific guidelines relating to charity, maintaining bank accounts and for making investments of the Fund.
- Check that the Shariah Advisor has certified that operations of the Fund, its investments and placements have been in compliance with the Shariah principles.

Conclusion

In our opinion, the annexed statement, in all material respects, present fairly the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for the year ended June 30, 2011.

Chartered Accountants
Karachi
Dated: October 03, 2011

REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE 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 **NBP Fullerton Asset Management Limited** (the Management Company) for and on behalf of **NAFA Islamic Aggressive Income Fund** (the Fund) to comply with the Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange (Guarantee) Limited where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of 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.

Sub-regulation (xiii a) 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 requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were 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, 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, 2011.

Chartered Accountants
Karachi
Dated: October 03, 2011

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **NAFA Islamic Aggressive Income Fund (formerly NAFA Islamic Income Fund)** which comprise the statement of assets and liabilities as at June 30, 2011, and 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.

Auditor's 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.

Opinion

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

Other matters

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.

Chartered Accountants
Engagement Partner: **Rashid A. Jafer**
Dated: October 03, 2011
Karachi

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2011

	Note	2011 -----Rupees in '000-----	2010 -----Rupees in '000-----
ASSETS			
Balances with banks	4	26,141	23,983
Investments	5	139,904	172,558
Profit receivable	6	11,668	3,857
Advances, deposits, prepayments and other receivables	7	2,633	2,768
Preliminary expenses and floatation costs	8	660	1,160
Total assets		181,006	204,326
LIABILITIES			
Payable to the Management Company	9	333	222
Payable to the Trustee	10	71	60
Payable to the Securities and Exchange Commission of Pakistan	11	140	212
Accrued expenses and other liabilities	12	2,026	1,522
Total liabilities		2,570	2,016
NET ASSETS		178,436	202,310
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		178,436	202,310
CONTINGENCIES AND COMMITMENTS			
	13	-----Number of units-----	
Number of units in issue		21,639,887	22,607,915
		-----Rupees-----	
NET ASSET VALUE PER UNIT	14	8.2457	8.9486

The annexed notes 1 to 31 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 -----Rupees in '000-----	2010
INCOME			
Gain / (loss) on sale of investments - net		569	(1,690)
Income from sukuk bonds		28,645	25,229
Profit on bank deposits		2,395	6,437
Net unrealised appreciation in the value of investments carried 'at fair value through profit or loss'		1	-
Total Income		<u>31,610</u>	<u>29,976</u>
EXPENSES			
Remuneration of the Management Company	9.1	3,726	4,232
Remuneration of the Trustee	10.1	650	746
Annual fee - Securities and Exchange Commission of Pakistan	11.1	140	212
Securities transaction cost		5	19
Settlement and bank charges		76	212
Annual listing fee		30	45
Auditors' remuneration	15	353	372
Amortisation of preliminary expenses and floatation costs	8	500	500
Printing and related cost		-	339
Legal, professional and other expenses		95	391
Rating Fee		200	-
Impairment (reversed) / charged on investments classified as 'available for sale'	5.5	(7,355)	44,987
Total Expenses		<u>(1,580)</u>	<u>52,055</u>
		<u>33,190</u>	<u>(22,079)</u>
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(3,626)	52,833
Provision for Workers' Welfare Fund	16	(591)	(630)
Net income for the year before taxation		<u>28,973</u>	<u>30,124</u>
Taxation	17	-	-
Net income for the year after taxation		<u>28,973</u>	<u>30,124</u>
Earnings per unit	18		

The annexed notes 1 to 31 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		-----Rupees in '000-----	
Net income for the year after taxation		28,973	30,124
Other comprehensive income / (loss)			
Net unrealised diminution in the market value of investments classified as 'available for sale'	5.3	(16,748)	(21,497)
Total comprehensive income for the year		<u>12,225</u>	<u>8,627</u>

The annexed notes 1 to 31 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	-----Rupees in '000-----	
Undistributed income / accumulated (loss) brought forward	15,303	(15,029)
Final distribution for the year ended June 30, 2010: 11.994% (June 30, 2009: Nil) (Date of distribution: July 5, 2010)		
- Bonus units	(16,294)	-
- Cash distribution	(10,822)	-
Net income for the year	28,973	30,124
Interim distribution for the period ended March 31, 2011: 1.937% (June 30, 2010: Nil) (Date of distribution: April 19, 2011)		
- Bonus units	(2,762)	-
- Cash distribution	(1,457)	-
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income / (losses) that form part of the unit holders' fund	10,415	208
Undistributed income carried forward	<u>23,356</u>	<u>15,303</u>

The annexed notes 1 to 31 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	-----Rupees in '000-----	
Net assets at the beginning of the year	202,310	517,111
Issue of 2,814,881 units (2010:7,490,958 units) - including bonus units 2,455,365 (2010: Nil)	2,835	64,859
Redemption of 3,782,909 units (2010: 39,854,580 units)	(30,281)	(335,454)
	174,864	246,516
Final distribution (bonus) for the year ended June 30, 2010	16,294	-
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		
- amount representing loss / (income) and capital losses / (gains) - transferred to Income Statement	3,626	(52,833)
- amount representing income and capital gains that form part of the unit holders' fund - transferred to Distribution Statement	(10,415)	(208)
	(6,789)	(53,041)
Net unrealised diminution during the year in the market value of investments classified as 'available for sale'	(16,748)	(21,497)
Gain / (loss) on sale of investments - net	569	(1,690)
Other net income for the year after taxation	28,404	31,814
	12,225	8,627
Less: Distributions made during the year		
Final distribution for the year ended June 30, 2010: 11.994% (June 30, 2009: Nil) (Date of distribution: July 05, 2010)		
- Bonus units	(16,294)	-
- Cash distribution	(10,822)	-
Interim distribution for the period ended March 31, 2011: 1.937% (June 30, 2010: Nil) (Date of distribution: April 19, 2011)		
- Bonus units	(2,762)	-
- Cash distribution	(1,457)	-
	(31,335)	-
Interim distribution: Issue of bonus units	2,762	-
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income / (losses) that form part of the Unit Holders' Fund	10,415	208
Net assets as at the end of the year	<u>178,436</u>	<u>202,310</u>

The annexed notes 1 to 31 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		-----Rupees in '000-----	
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the year before taxation		28,973	30,124
Adjustments			
Amortisation of preliminary expenses and floatation costs		500	500
(Reversal of) / impairment loss on sukuk bonds classified as 'available for sale' investments		(7,355)	44,987
Net unrealised appreciation in the value of investments carried 'at fair value through profit or loss'		(1)	-
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed		3,626	(52,833)
		<u>25,743</u>	<u>22,778</u>
(Increase) / decrease in assets			
Investments		23,262	201,249
Profit receivable		(7,811)	6,752
Advances, deposits, prepayments and other receivables		135	(70)
		<u>15,586</u>	<u>207,931</u>
Increase / (decrease) in liabilities			
Payable to Management Company		111	(949)
Payable to Trustee		11	(29)
Payable to Securities and Exchange Commission of Pakistan		(72)	(399)
Accrued expenses and other liabilities		504	1,026
		<u>554</u>	<u>(351)</u>
Net cash inflow from operating activities		<u>41,883</u>	<u>230,358</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Receipts from issue of units		2,835	64,859
Payments on redemption of units		(30,281)	(336,506)
Distributions paid		(12,279)	-
Net cash outflow on financing activities		<u>(39,725)</u>	<u>(271,647)</u>
Net increase / (decrease) in cash and cash equivalents during the year		<u>2,158</u>	<u>(41,289)</u>
Cash and cash equivalents at the beginning of the year		23,983	65,272
Cash and cash equivalents at the end of the year	4	<u><u>26,141</u></u>	<u><u>23,983</u></u>

The annexed notes 1 to 31 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Islamic Aggressive Income Fund (NIAIF / the Fund) (Formerly NAFA Islamic Income Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited (NAFA) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on August 20, 2007 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on September 03, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 9th floor, Adamjee House, I. I. Chundrigar Road, Karachi. The Management Company is a member of Mutual Funds Association of Pakistan (MUFAP).

The Fund is an open-ended mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering to the Fund. The Fund is listed on the Lahore Stock Exchange.

The Fund is categorised as an Open-End Shariah Compliant (Islamic) Aggressive Income Scheme as per criteria laid down by the Securities and Exchange Commission of Pakistan for categorisation of Collective Investment Schemes (CIS).

The core objective of the Fund is to provide preservation of capital and earn a reasonable rate of return by investing in Shariah compliant investments. The Fund comprises of investments of various investment horizons, with a significant amount invested in short term investments for the purpose of maintaining liquidity.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of AM2- (Positive outlook) to the Management Company. Based on the performance of the Fund for the year ended June 30, 2010, it has assigned stability rating of 'BBB(f)' for short term (tailoring 12 months) to the Fund.

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

The name of the Fund has been changed from NAFA Islamic Income Fund to NAFA Islamic Aggressive Income Fund with effect from December 14, 2010.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the year and are mandatory for accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or did 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, as adopted in Pakistan, that are not yet effective:

The following revised standard has been published and is mandatory for accounting periods beginning on or after July 1, 2011:

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the revised standard from July 1, 2011. The Fund is currently in the process of assessing the impact, if any, of the revised standard on the related party disclosures.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

There are other amendments to the standards, improvements to International Financial Reporting Standards 2010 and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 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 judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Fund's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgement was exercised in application of accounting policies principally relate to classification and valuation of investments (note 3.2 and 5).

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been carried at fair value.

2.6 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Fund's functional and presentation currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Cash and cash equivalents

Cash and cash equivalents include demand deposits with banks, other short term highly liquid investments with original maturities of three months or less which are subject to insignificant changes in value and bank overdrafts.

3.2 Financial assets

3.2.1 Classification

The Fund classifies its financial assets in the following categories: at fair value through profit or loss, available for sale and loans and receivables. 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.

Investments are categorised as follows:

a) Financial assets at fair value through profit or loss

Financial assets that are 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) Available for sale

These are non-derivative financial assets that are intended to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in prices. Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

c) Loans and receivables

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

3.2.2 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.

3.2.3 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.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

3.2.3.1 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

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. 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.

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.

Investments of the Fund in unquoted equity securities are carried at lower of investment price or their breakup value as per the latest audited financial statements.

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

Net gains and losses arising on changes in the fair value of available for sale financial assets are taken to the 'Statement of Comprehensive Income' until these are derecognised or impaired. At this time, the cumulative gains or losses previously recognised in the 'Statement of Comprehensive Income' are transferred to the income statement.

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

Gains or losses are also recognised in the 'Income Statement' when financial assets carried at amortised cost are derecognised or impaired, and through the amortisation process.

3.2.4 Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets 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 the 'Income Statement' is reclassified from 'Unit Holders' Fund' to 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 issued by SECP. Impairment losses recognised on debt securities can be reversed through the income statement.

As allowed under circular no. 13 of 2009 dated May 4, 2009 issued by 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 and disseminated by the Management Company in its website.

b) 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 SECP.

c) 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, among other indicators, as an indicator that the securities are 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.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

3.2.5 Derecognition

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

3.2.6 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.

3.3 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, cancelled or expired.

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 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 and the NBFC Regulations.

3.6 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 of that day. The offer price represents the Net Asset Value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the Management Company, Investment facilitators or distributors. Transaction costs are recorded as the income of the Fund.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption applications 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.

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

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

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

3.8 Provisions

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

3.9 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 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.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

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 it is probable that the related tax benefit will be realised. 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.

3.10 Proposed distributions

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

3.11 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.
- 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.
- Income on sukuk bonds is recognised on time proportion basis.
- Profit on bank deposits and placements is recognised on an accrual basis.
- Income on issue and redemption of units is recognised when units are issued and redeemed on the transaction date.

	Note	2011	2010
-----Rupees in '000-----			
4 BALANCES WITH BANKS			
Current accounts		7,269	6,239
Savings accounts	4.1	18,872	17,744
		<u>26,141</u>	<u>23,983</u>

4.1 These accounts carry profit at rates ranging from 5% to 12% (2010: 5% to 12.50%) per annum.

	Note	2011	2010
-----Rupees in '000-----			
5 INVESTMENTS			
Available for sale			
Sukuk and Ijara bonds	5.1	137,899	172,558
At fair value through profit or loss - held for trading			
Sukuk and Ijara bonds	5.2	2,005	-
		<u>139,904</u>	<u>172,558</u>

5.1 Sukuk and Ijara bonds - available for sale

Name of the investee company	Number of bonds				Market value	Market value as a percentage of net assets	Market value as a percentage of total investment	Percent-age issue size of sukuk held
	As at July 1, 2010	Purchases during the year	Sales during the year	As at June 30, 2011				
----- Rupees in '000 -----								
Engro Fertilizer Limited	11,000	-	5,600	5,400	27,000	15.13%	19.30%	0.90%
Kohat Cement Company Limited	20,000	-	-	20,000	64,531	36.16%	46.13%	4.00%
Maple Leaf Cement Factory Limited	5,312	-	-	5,312	16,636	9.32%	11.89%	0.33%
Maple Leaf Cement Factory Limited -Sukuk II (note 5.1.3.1)	199	-	-	199	-	-	-	0.33%
New Allied Electronics Industries (Private) Limited-1st issue (note 5.1.3.2)	352,000	-	-	352,000	-	-	-	18.33%
New Allied Electronics Industries (Private) Limited-2nd issue (note 5.1.3.3)	1,000	-	-	1,000	-	0.00%	0.00%	0.67%
Pak Elektron Limited	7,000	-	-	7,000	14,891	8.35%	10.64%	2.92%
GOP Ijara Sukuk - issue date 26.09.2008	50	-	-	50	5,026	2.82%	3.59%	0.08%
GOP Ijara Sukuk - issue date 15.11.2010	-	4,560	2,600	1,960	9,815	5.50%	7.02%	0.02%
Total - June 30,2011	396,561	4,560	8,200	392,921	137,899	77.28%	98.57%	27.58%

Carrying value of investments as at June 30, 2011

270,547

Impairment loss / (gain)

115,900

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

- 5.1.1 These carry a rate of return ranging from 13.1099% to 16.1462% (2010: 12.12% to 17.48%) per annum.
- 5.1.2 All sukuk bonds have a face value of Rs 5,000 each except sukuk bonds of New Allied Electronics (Private) Limited - 1st issue and Government of Pakistan Ijara bond (issue date 26.09.2008) which have a face value of Rs 312.5 and Rs 100,000 each respectively.
- 5.1.3 As at June 30, 2011, the Fund had not received redemption of principal and / or profit amounts on some of its investments, the details of which are as follows:
- 5.1.3.1 This represents 2nd issue of sukuk by Maple Leaf Cement Factory Limited under a restructuring agreement with a face value of Rs 995 thousand. As this issue represents overdue mark-up, the management has fully provided the amount of issue and has suspended income of Rs 36 thousand on this issue.
- 5.1.3.2 New Allied Electronics Industries (Private) Limited defaulted on the amount of principal and mark-up due on the scheduled redemption dates [i.e. October 25, 2008 (only principal), January 25, 2009, April 25, 2009, July 25, 2009 and October 25, 2009]. Hence, the Fund has provided for the amount of the Investment by 100% in accordance with the provisioning policy approved by the Board of Directors of the Management Company and Circular 1 of 2009.
- 5.1.3.3 This represents investment in privately placed sukuk bonds. On December 3, 2008, June 3, 2009, December 3, 2009, June 3, 2010, December 3, 2010 and June 3, 2011 i.e. the scheduled redemption date, principal redemptions of Rs. 2,500 thousand and profit redemption of Rs.1,855 thousand were not received by the Fund. Therefore, as a matter of prudence, the management has suspended income amounting to Rs.1,884 thousand and has recognised impairment losses amounting to Rs 4,905 thousand till June 30, 2011.
- 5.1.3.4 The sukuk bonds held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the user.
- 5.2 **Sukuk and Ijara bonds - At fair value through profit or loss - held for trading**

Name of the investee company	Number of bonds				Market value	Market value as a percentage of net assets	Market value as a percentage of total investment	Percent-age issue size of sukuk held
	As at July 1, 2010	Purchases during the year	Sales during the year	As at June 30, 2011				
----- Rupees in '000 -----								
GOP Ijara Sukuk - issue date 07.03.2011	-	400	-	400	2,005	1.12%	1.43%	0.00%
Total - June 30,2011	-	400	-	400	2,005	1.12%	1.43%	
					<u><u>2,004</u></u>			

5.2.1 These carry a rate of return 13.6750% per annum.

5.2.2 All sukuk bonds have a face value of Rs 5,000 each.

	Note	2011	2010
-----Rupees in '000-----			
5.3 Unrealised appreciation/(diminution) in value of investments classified as available for sale - net			
Market value of investments	5.1	137,899	172,558
Carrying value of investments		270,547	317,310
		(132,648)	(144,752)
Less: Provision against non-performing TFCs and sukuks		115,900	123,255
		(16,748)	(21,497)
5.4 Net unrealised appreciation in value of investments at 'fair value through profit or loss'			
Market value of investments	5.2	2,005	-
Carrying value of investments		2,004	-
		1	-
5.5 Movement in provision against debt securities			
Opening balance		123,255	78,268
Charge for the year		-	74,536
Less: Reversal of impairment loss		(7,355)	(29,549)
Reversal / charge for the year - net		(7,355)	44,987
Closing balance		115,900	123,255

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

	Note	2011	2010
-----Rupees in '000-----			
6	PROFIT RECEIVABLE		
	Profit on savings deposits	577	859
	Income accrued on sukuk bonds	42,380	28,538
	Less: suspended income	(31,289)	(25,540)
		<u>11,091</u>	<u>2,998</u>
		<u>11,668</u>	<u>3,857</u>
7	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
	Security deposits with:		
	- National Clearing Company of Pakistan Limited	2,500	2,500
	- Central Depository Company of Pakistan Limited	100	100
	Prepayments	-	50
	Advance Tax	33	33
	Receivable against transfer in of units	-	85
		<u>2,633</u>	<u>2,768</u>
8	PRELIMINARY EXPENSES AND FLOATATION COSTS		
	Balance as at the beginning of the year	8.1 1,160	1,660
	Less: Amortisation during the year	500	500
	Balance as at the end of the year	<u>660</u>	<u>1,160</u>

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from October 27, 2007 as per the requirements set out in the Trust Deed of the Fund.

	Note	2011	2010
-----Rupees in '000-----			
9	PAYABLE TO THE MANAGEMENT COMPANY		
	Management fee	9.1 294	216
	Others	39	6
		<u>333</u>	<u>222</u>
9.1	Under the provisions of the NBFC Regulations, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 1.50% per annum for the period from July 01, 2010 to July 04, 2010 and 2% per annum from July 05, 2010 to June 30, 2011. The remuneration is paid to the Management Company monthly in arrears.		

	Note	2011	2010
-----Rupees in '000-----			
10	PAYABLE TO THE TRUSTEE		
	Trustee fee	10.1 49	59
	CDS Charges	22	1
		<u>71</u>	<u>60</u>
10.1	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.		

Based on the Trust Deed, the tariff structure applicable to the Fund upto December 31, 2010 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher.
On an amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs. 1,000 million.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

The tariff structure revised and applicable to the Fund from January 01, 2011 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs 1 billion	0.17% p.a. of net assets subject to a minimum of Rs.0.6 million.
1 billion to 5 billion	Rs.1.7 million plus 0.085% p.a. of net assets exceeding Rs. 1 billion.
Over 5 billion	Rs.5.1 million plus 0.07% p.a. of net assets exceeding Rs. 5 billion.

The remuneration is paid to the trustee monthly in arrears.

	Note	2011	2010
-----Rupees in '000-----			
11 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN			
Annual Fee	11.1	<u>140</u>	<u>212</u>

11.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), an income scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund with effect from November 21, 2008.

	Note	2011	2010
-----Rupees in '000-----			
12 ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		252	230
Withholding tax payable		-	4
Bank charges payable		36	19
Payable to brokers		22	22
Charity payable	12.1	1	1
Provision for Workers' Welfare Fund	16	1,221	630
Printing charges payable		198	356
Others		296	260
		<u>2,026</u>	<u>1,522</u>

12.1 In accordance with the instructions of the Shariah Advisor, any income earned by the Fund from investments whereby the portion of the investment of the investee company has been made in Shariah non-compliant avenues, such proportion of income of the Fund from those investments should be given away for charitable purposes directly by the Fund. During the year, Rs.1 thousand (2010: Rs.3 thousand) has been given out to charitable institutions.

13 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments at the end of the year.

14 NET ASSET VALUE PER UNIT

The Net Asset Value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

	Note	2011	2010
-----Rupees in '000-----			
15 AUDITORS' REMUNERATION			
Audit fee		231	210
Half yearly review fee		92	85
Shariah Compliance Audit fee		-	38
Out of pocket expenses		30	39
		<u>353</u>	<u>372</u>

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

- 16 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) 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 Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

Subsequent to the year ended June 30, 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. This clarification was forwarded by Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on this clarification, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Notices of demand have also been issued to several other mutual funds and the matter has been taken up by the respective mutual funds with the FBR for their withdrawal on the basis of the above referred clarification of the Ministry.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs.1.221 million (including Rs. 0.591 million for the current year) in these financial statements.

17 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 90 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 has not recorded a tax liability in respect of income relating to the current year as 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.

18 EARNINGS PER UNIT

Earnings per unit (EPU) for the year ended June 30, 2011 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

19 COMPLIANCE WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

The Securities and Exchange Commission of Pakistan (SECP) 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 Management Company classified NAFA Islamic Aggressive Income Fund (the Fund) (Formerly NAFA Islamic Income Fund) as 'Shariah Compliant (Islamic) Scheme' and 'Aggressive Fixed Income Scheme' in accordance with the said circular. As at June 30, 2011, the Fund is compliant with all the requirements of the said circular except for clause 5(ii) which requires that rating of any security in the portfolio shall not be lower than investment grade.

Name of non-compliant investment	Type of investment	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
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----- Rupees in '000 -----

i) Investment in debt securities - (note 19)	a) New Allied Electronics -Sukuk - 1st issue	110,000	110,000	-	-	-
	b) New Allied Electronics -Sukuk - 2nd issue	4,905	4,905	-	-	-
	c) Maple Leaf Cement Factory Limited - Sukuk - 1st issue*	16,636	-	16,636	9.32%	9.19%
	d) Maple Leaf Cement Factory Limited - Sukuk - 2nd issue	995	995	-	-	-
	d) Kohat Cement Company Limited - Sukuk*	64,531	-	64,531	36.16%	35.65%

* Performing but below investment grade

- 19.1 At the time of purchase, the said sukuk were in compliance of the said circular (i.e. investment grade) and were subsequently downgraded due to default in payments of due principal and markup.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

20 FINANCIAL INSTRUMENTS BY CATEGORY

-----as on June 30, 2011-----

Assets	Loans and receivables	at fair value through profit or loss	Available for sale	Total
	----- Rupees in '000 -----			
Balances with banks	26,141			26,141
Investments	-	2,005	137,899	139,904
Profit receivable	11,668			11,668
Deposits and other receivables	2,600	-	-	2,600
	<u>40,409</u>	<u>2,005</u>	<u>137,899</u>	<u>180,313</u>

-----as on June 30, 2011-----

Liabilities	At fair value through profit or loss	Other financial liabilities	Total
	----- Rupees in '000 -----		
Payable to the Management Company	-	333	333
Payable to the Trustee	-	71	71
Accrued expenses and other liabilities	-	805	805
	<u>-</u>	<u>1,209</u>	<u>1,209</u>

-----as on June 30, 2010-----

Assets	Loans and receivables	at fair value through profit or loss	Available for sale	Total
	----- Rupees in '000 -----			
Balances with banks	23,983	-	-	23,983
Investments	-	-	172,558	172,558
Profit receivable	3,857			3,857
Deposits and other receivables	2,685	-	-	2,685
	<u>30,525</u>	<u>-</u>	<u>172,558</u>	<u>203,083</u>

-----as on June 30, 2010-----

Liabilities	At fair value through profit or loss	Other financial liabilities	Total
	----- Rupees in '000 -----		
Payable to the Management Company	-	222	222
Payable to the Trustee	-	60	60
Accrued expenses and other liabilities	-	888	888
	<u>-</u>	<u>1,170</u>	<u>1,170</u>

21 TRANSACTIONS WITH CONNECTED PERSONS

- 21.1 Connected persons include NBP Fullerton Asset Management Limited (NAFA) being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan (NBP) and Alexandra Fund Management Pte. Limited being the sponsors, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

- 21.2 On March 31, 2010, NIB Bank Limited sold out its shareholding of NAFA to NBP. Accordingly, thereafter NIB is no longer a connected person for the Management Company.
- 21.3 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 21.4 Remuneration and front-end load payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.
- 21.5 Remuneration payable to the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.

	For the year ended June 30, 2011	For the year ended June 30, 2010
	-----Rupees in '000-----	
21.6	Details of transactions with connected persons are as follows:	
	NBP Fullerton Asset Management Limited - Management Company	
	Management fee for the year	3,726
	Front end load for the year	17
	Central Depository Company of Pakistan Limited - Trustee	
	Remuneration	650
	CDS charges for the year	26
	National Bank of Pakistan - Sponsor	
	Cash dividend	10,448
	Payment received for the sale of sukuk bonds	28,727
	Alexandra Fund Management Pte. Limited - Sponsor	
	Bonus units issued (1,966,830 units; 2010: Nil unit)	-
	Employees of Management Company	
	Units issued / transferred in (14,018 units; 2010: 213,382 units)	112
	Units redeemed / transferred out (15,854 units; 2010: 380,416 units)	126
	Bonus units issued (1,774 units; 2010: Nil unit)	-
	NAFA Islamic Multi Asset Fund	
	Payment received for the sale of sukuk bonds	-
		21,175
	NAFA Multi Asset Fund	
	Units redeemed (Nil unit; 2010: 3,891,359 units)	-
	Payment received for the sale of sukuk bonds	-
		36,920
		134,475
21.7	2011	2010
	-----Rupees in '000-----	
	NBP Fullerton Asset Management Limited - Management Company	
	Management fee payable	294
	Others	39
	Central Depository Company of Pakistan Limited - Trustee	
	Remuneration payable	49
	CDS Charges	22
	Security deposits	100
	National Bank of Pakistan - Sponsor	
	Investment held by the Sponsor in the Fund (7,500,000 units; 2010: 7,500,000 units)	61,843
	Balance in current account	5
		67,115
		3,483
	Alexandra Fund Management Pte. Limited - Sponsor	
	Investment held by the Sponsor in the Fund (12,694,476 units; 2010:10,727,646 units)	104,675
		95,997

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

2011 2010
-----Rupees in '000-----

Employees of Management Company

Investment held by the executives in the Fund 81 89
(9,860 units; 2010: 9,981 units)

22 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of members of the investment committee of the Fund are as follow:

----- As at June 30, 2011 -----

S.No.	Name	Qualification	Experience in years
1	Dr. Amjad Waheed	MBA / Doctorate in Business Administration / CFA	23
2	Sajjad Anwar	CFA / MBA Finance	11
3	Tanvir Abid	CFA / MBA / FRM	12
4	Ahmed Nouman	CFA / EMBA	15
5	Usman Khan	Passed CFA / FRM	2.5

22.1 Usman Khan is the manager of the Fund. Other funds being managed by the Fund Manager are as follows:

- a) NAFA Riba Free Savings Fund
- b) NAFA Income Opportunity Fund (Formerly: NAFA Cash Fund)

23 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

		2011
S. No.	Particulars	Particulars
1	KASB Securities Limited	100.00%
		<u>100.00%</u>

		2010
S. No.	Particulars	Particulars
1	Alfalah Securities (Private) Limited	93.21%
2	KASB Securities Limited	6.79%
		<u>100.00%</u>

24 PATTERN OF UNIT HOLDING

Category	As at June 30, 2011		
	Number of unit holders	Investment amount	Percentage investment
			(Rupees in '000)
Individuals	145	7,904	4.43%
Associated companies / Directors	2	166,517	93.32%
Insurance companies	-	-	-
Bank / DFIs	-	-	-
NBFCs	-	-	-
Retirement funds	5	3,473	1.95%
Public Limited companies	2	542	0.30%
Others	-	-	-
	<u>154</u>	<u>178,436</u>	<u>100.00%</u>

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

PATTERN OF UNIT HOLDING

Category	As at June 30, 2010		
	Number of unit holders	Investment amount	Percentage investment
	(Rupees in '000)		
Individuals	218	17,536	8.68%
Associated companies / Directors	2	163,112	80.62%
Insurance companies	-	-	-
Bank / DFIs	1	13,423	6.63%
NBFCs	-	-	-
Retirement funds	6	5,923	2.93%
Public Limited companies	4	2,316	1.14%
Others	-	-	-
	231	202,310	100.00%

25 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 27th, 28th, 29th, 30th and 31st Board meetings were held on July 05, 2010, August 25, 2010, October 18, 2010, February 18, 2011 and April 19, 2011 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of Meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Qamar Hussain*	4	2	2	29th, 30th meeting
Mr. Shahid Anwar Khan	5	4	1	27th meeting
Dr. Asif A. Brohi*****	4	-	4	28th, 29th, 30th & 31st meeting
Mr. Shehryar Faruque	5	3	2	27th & 29th meeting
Mr. Kamal Amir Chinoy	5	3	2	27th & 30th meeting
Syed Iqbal Ashraf**	1	1	-	
Mr. Gerard Lee How Cheng***	3	2	1	29th meeting
Mr. Patrick Pang Chin Hwang	5	5	-	
Mr. Choy Peng Wah****	1	-	1	30th meeting
Mr. Wah Geok Sum*****	1	1	-	
Dr Amjad Waheed	5	5	-	

* Mr. Qamar Hussain resigned from the board with effect from March 25, 2011.

** Mr. Syed Iqbal Ashraf was co-opted on the board with effect from March 25, 2011.

*** Mr. Gerard Lee How Cheng resigned from the board with effect from November 15, 2010.

**** Mr. Choy Peng Wah was co-opted on the board with effect from November 15, 2010 & has resigned from the board with effect from February 18, 2011.

***** Mr. Wah Geok Sum was co-opted on the board with effect from February 18, 2011.

***** Dr. Asif A. Brohi was co-opted on the board with effect from August 9, 2010.

26 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

26.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

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

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

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

26.1.1 Currency risk

This 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 its operations are geographically restricted to Pakistan and all transactions are carried out in Pak Rupees.

26.1.2 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.

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing sukuks exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2011, 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 1.34 million (2010: Rs. 0.34 million).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2011, the Fund does not have any investment in fixed rate debt securities.

Yield / 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 and for off-balance sheet instruments is based on the settlement date.

----- As at June 30, 2011 -----

Effective Interest Rate (in percentage)	Total	Exposed to yield/interest rate risk			Not exposed to Yield / Interest risk
		Upto three months	Over three months and upto one year	Over one year	
----- (Rupees in '000) -----					

On-balance sheet financial instruments

Financial Assets

Balances with Banks	5.00 - 12.00	26,141	18,872	-	-	7,269
Investments	13.1099 - 16.1462	139,904	5,026	-	134,878	-
Profit receivable		11,668	-	-	-	11,668
Deposits and other receivables		2,600	-	-	-	2,600
		<u>180,313</u>	<u>23,898</u>	<u>-</u>	<u>134,878</u>	<u>21,537</u>

Financial Liabilities

Payable to the Management Company		333	-	-	-	333
Payable to the Trustee		71	-	-	-	71
Accrued expenses and other liabilities		805	-	-	-	805
		<u>1,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,209</u>

On-balance sheet gap

	<u>179,104</u>	<u>23,898</u>	<u>-</u>	<u>134,878</u>	<u>20,328</u>
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Off-balance sheet financial instruments

	-	-	-	-	-
--	---	---	---	---	---

Off-balance sheet gap

	-	-	-	-	-
--	---	---	---	---	---

----- As at June 30, 2010 -----

Effective Interest Rate (in percentage)	Total	Exposed to yield/interest rate risk			Not exposed to Yield / Interest risk
		Upto three months	Over three months and upto one year	Over one year	
----- (Rupees in '000) -----					

On-balance sheet financial instruments

Financial Assets						
Balances with Banks	5.00 - 12.50	23,983	17,744	-	-	6,239
Investments	12.12 - 17.48	172,558	-	-	172,558	-
Profit receivable		3,857	-	-	-	3,857
Deposits and other receivables		2,685	-	-	-	2,685
		<u>203,083</u>	<u>17,744</u>	<u>-</u>	<u>172,558</u>	<u>12,781</u>

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

Financial Liabilities

Payable to the Management Company	222	-	-	-	222
Payable to the Trustee	60	-	-	-	60
Accrued expenses and other liabilities	903	-	-	-	903
	1,185	-	-	-	1,185
On-balance sheet gap	201,898	17,744	-	172,558	11,596
Off-balance sheet financial instruments	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-

26.1.3 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 rate 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 instrument traded in the market. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2011.

26.2 Credit risk

Credit risk represents the risk of a loss if counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in debt securities. The Fund is also exposed to counterparty credit risks on loans and receivables, balances with banks, profit receivable, advances, deposits and prepayments and other receivable. The credit risk on liquid funds is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, The Fund's policy is to enter into financial instrument contracts by following internal guidelines such as approving counterparties, approving credit, obtaining adequate collateral and transacting through approved brokers.

The analysis below summarises the credit quality of the Fund's bank balances and investment in sukuk bonds as at June 30, 2011 and June 30, 2010:

Bank Balances by rating category	2011	2010
A1+	29.29%	13.07%
A2, A-2	68.54%	0.49%
A-1+	1.57%	16.90%
A1, A-1	0.60%	69.54%
Debt securities by rating category	2011	2010
AAA, AAA-, AAA+	12.04%	2.94%
AA, AA-, AA+	19.30%	31.24%
A, A-, A+	10.64%	12.66%
BB+, BBB, BBB+, BBB-	11.89%	0.00%
D	-	10.77%
Not Rated	46.13%	42.39%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2011 is the carrying amount of the financial assets. None of these assets are impaired except for assets as mentioned in note 5.1.3.

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 creditworthy counterparties thereby mitigating any significant concentration of credit risk.

26.3 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous.

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

The Fund is exposed to daily cash redemptions, if any, at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

The Fund has the ability to borrow in the short term to ensure settlement. However, during the current year, no borrowing was obtained by the Fund. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Funds. The facility would bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund also has the ability to withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any significant redemptions during the year.

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, 2011-----

Total	Upto three months	Over three months and upto one year	Over one year
-------	-------------------	-------------------------------------	---------------

------(Rupees in '000)-----

Liabilities

Payable to the Management Company	333	333	-	-
Payable to the Trustee	71	71	-	-
Accrued expenses and other liabilities	805	805	-	-
	1,209	1,209	-	-

-----As at June 30, 2010-----

Total	Upto three months	Over three months and upto one year	Over one year
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------(Rupees in '000)-----

Liabilities

Payable to the Management Company	222	222	-	-
Payable to the Trustee	60	60	-	-
Accrued expenses and other liabilities	903	903	-	-
	1,185	1,185	-	-

27 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 tradeable 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 value as the items are either short term in nature or periodically repriced.

According to 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);

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- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

	-----As at June 30, 2011-----			
	Level 1	Level 2	Level 3	Total
	------(Rupees in '000)-----			
Assets				
Investment in securities - available for sale	-	137,899	-	137,899
Investment in securities - held for trading	-	2,005	-	2,005

	-----As at June 30, 2010-----			
	Level 1	Level 2	Level 3	Total
	------(Rupees in '000)-----			
Assets				
Investment in securities - available for sale	5,081	148,188	19,289	172,558

28 UNIT HOLDERS' FUND RISK MANAGEMENT

The Unit holders' fund is represented by redeemable units. These units are entitled to distributions and to payment of a proportionate share, based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Fund's objectives when managing unit holders' funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets under management.

In accordance with the risk management policies stated in note 26, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

29 NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 4, 2011 approved a final distribution for the year ended June 30, 2011 at the rate of 10.2680% (2010: 11.994%). The financial statements of the Fund for the year ended June 30, 2011 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2012.

30 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 29, 2011.

31 GENERAL

31.1 Figures have been rounded off to the nearest thousand rupees.

31.2 The bifurcation of undistributed income into realised and unrealised income at the beginning and end of the year as required by the NBFC Regulations has not been disclosed as such bifurcation is not practicable.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC AGGRESSIVE INCOME FUND

(FORMERLY NAFA ISLAMIC INCOME FUND)

PERFORMANCE TABLE

Particulars	For the year ended June 30, 2011	For the year ended June 30, 2010	For the year ended June 30, 2009	For the period from September 17, 2007 to June 30, 2008
Net assets at the year / period ended (Rs '000)	178,436	202,310	517,111	881,198
Net income for the year / period ended (Rs '000)	28,973	30,124	761	52,848
Net Asset Value per unit at the year / period ended (Rs)	7.2189	7.7492	9.4069	10.0932
Offer Price per unit	7.2911	7.8267	9.5010	10.1967
Redemption Price per unit	7.2189	7.7492	9.4069	10.0932
Highest offer price per unit (Rs)	7.3253	8.3212	10.2404	10.0082
Lowest offer price per unit (Rs)	6.3825	6.1080	8.6724	9.6471
Highest redemption price per unit (Rs)	7.2528	8.2388	10.1390	9.9046
Lowest redemption price per unit (Rs)	6.3193	6.0475	8.5865	9.5407
Total return of the fund	9.04%	-4.87%	-4.41%	5.53%
Capital growth	-6.71%	-17.62%	-7.01%	0.93%
Income distribution	15.75%	12.75%	2.60%	4.60%
Distribution				
Interim distribution per unit	0.1937	-	0.2600	0.2000
Final distribution per unit	1.0268	1.1994	-	0.2600
Distribution Dates				
Interim	19-Apr-11	-	16-Oct-08	15-Apr-08
Final	4-Jul-11	5-Jul-10	-	3-Jul-08
Average annual return of the fund (launch date October 29, 2007)				
(Since inception to June 30, 2011)	1.25%			
(Since inception to June 30, 2010)		-1.52%		
(Since inception to June 30, 2009)			0.54%	
(Since inception to June 30, 2008)				8.37%
Portfolio Composition (Please see Fund Manager Report)				
Weighted average portfolio duration	2.53 years	66 days	2 years	2 years
Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up				

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