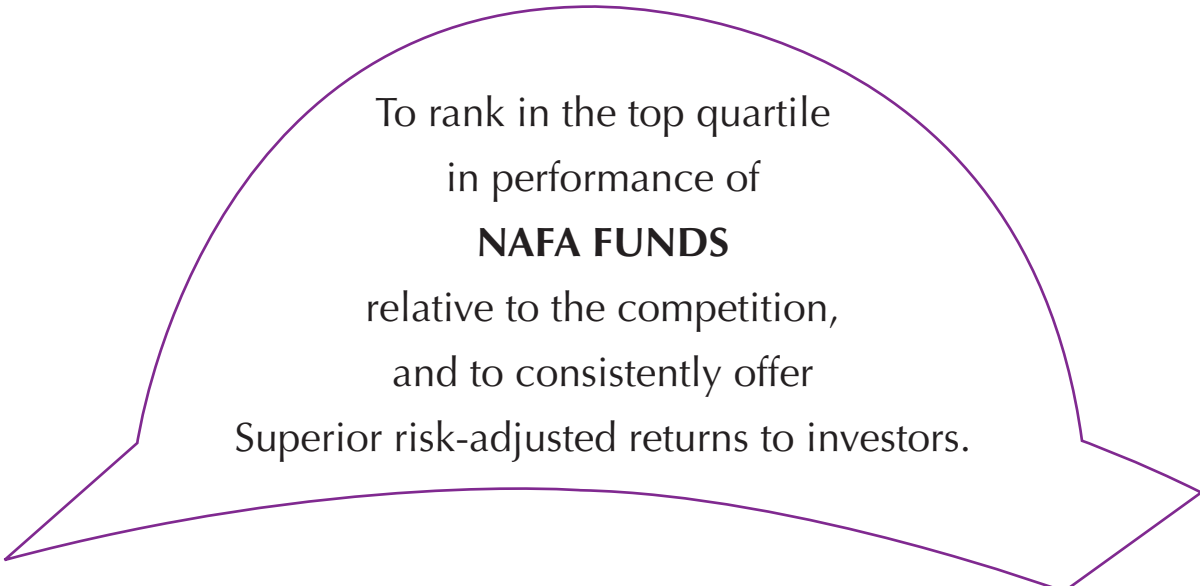


MISSION STATEMENT



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 INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash 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 Shakra-e-Faisal, Karachi.

Bankers to the Fund

Allied Bank Limited
Arif Habib Bank Limited
Askari Bank Limited
Atlas Bank Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
JS Bank Limited
KASB Bank Limited
MCB Bank Limited
My Bank Limited
National Bank of Pakistan
NIB Bank Limited
SILK Bank Limited
Soneri Bank Limited
Standard Chartered Bank (PAK) Limited
The Bank of Khyber
The Bank of Punjab
Royal Bank of Scotland Limited
United Bank Limited
Samba Bank Limited

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Auditors

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

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 INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

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NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

DIRECTORS' REPORT

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

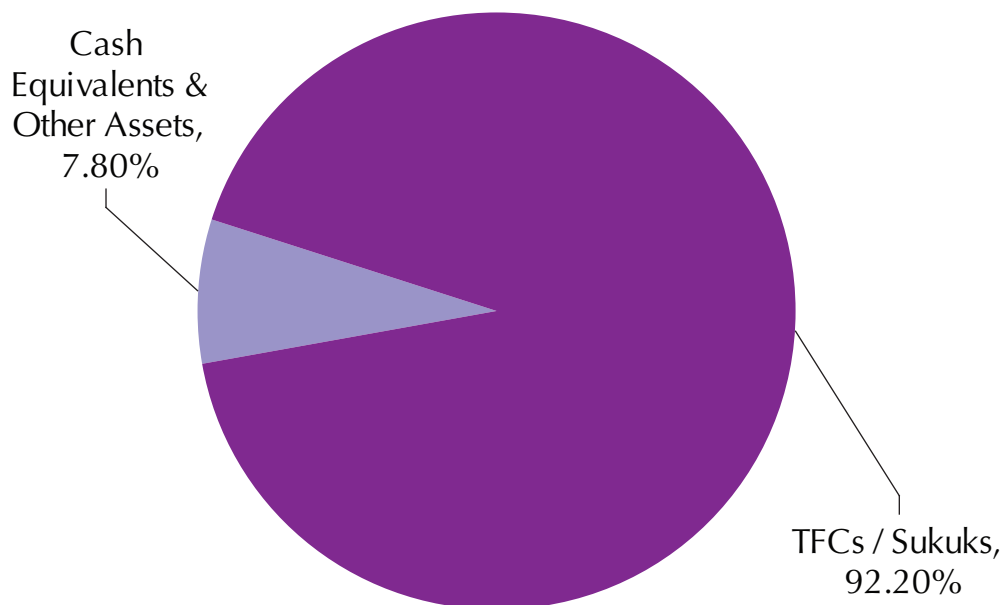
Fund's Performance

The size of NAFA Income Opportunity fund (Formerly; NAFA Cash Fund) has reduced from Rs. 3,915 million to Rs. 2,505 million during the period, i.e. a decline of 36.02%. During the said period, the unit price of the Fund has increased from Rs. 9.2087 (distribution adjusted) on June 30, 2010 to Rs. 9.7139 (Ex-Div) on June 30, 2011, thus showing an annualized return of 5.49% as compared to its Benchmark (6-Month KIBOR) annualized return of 13.26% 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 TFCs in your Fund are floating and linked to KIBOR, which reduces interest rate risk.

The Fund has earned a total income of Rs.330.53 million during the year. After deducting total expenses of Rs.154.46 million, the net income is Rs.176.07 million.

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



NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Income Distribution

In addition to interim distribution of 4%, the Board of Directors of the Management Company has also approved a final distribution of 3%, translating into total distribution of 7% of opening ex-NAV (6.9090% of the par value). After final distribution, the net asset value per unit will be Rs.9.7139 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 KPMG Taseer Hadi & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment.

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 24 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 23 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 20 to these financial statements.

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash 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 and the Trustee.

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 INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

TRUSTEE REPORT TO THE UNIT HOLDERS NAFA INCOME OPPORTUNITY 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 Income Opportunity Fund (the Fund), an open-end scheme was established under a trust deed dated February 11, 2006, 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

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

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 Income Opportunity Fund (Formerly, NAFA Cash 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 NBFI 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. Further, on August 09, 2010, Dr. Asif. A. Brohi Was appointed as a director.
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 INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash 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, in FY 2007-08.
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 20 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 INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash 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, 2010
Karachi

Dr. Amjad Waheed, CFA
Chief Executive Officer

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

FUND MANAGER REPORT

NAFA Income Opportunity Fund (Formerly; NAFA Cash Fund)

NAFA Income Opportunity Fund (NIOF) (Formerly; NAFA Cash Fund) is an open-end Income Scheme.

Investment Objective of the Fund

The objective of NIOF is to seek preservation of capital and earn a reasonable rate of return via investing in money market and debt securities with investment-grade rating, CFS and spread transactions.

Benchmark

6 Month - KIBOR

Fund's Performance Review

This is the Sixth Annual report since the launch of the Fund on April 22, 2006. The Fund size as on June 30, 2011 is Rs. 2.51 billion during the period, i.e. a decline of 36.0%. The Fund's annualized return since inception is 7.56%. During the same period the benchmark return has been 11.64%. The Fund's annual return during FY 2010-11 is 5.49%. During the same period the benchmark return has been 13.26%.

In the TFC market, liquidity improved in the banking sector TFCs and selected Chemicals and Telecom sector TFCs. Economic situation did not improve considerably due to fiscal imbalances, circular debt and power shortages. This led some TFCs/ Sukuks in your Fund to apply for second restructuring. During the year some of the TFCs/ Sukuks were restructured. Some of the TFCs/ Sukuks have been fully provided and others are at deep discount to the par values.

As of June 30, 2011, the annual Yield to Maturity of your Fund at year end FY11 is around 21.81% while that of TFC portfolio is 23.52%. The weighted average maturity of your Fund is 2.89 years. The asset allocation of NAFA Income Opportunity Fund on June 30, 2011 is as follows:

Asset Allocation (% of NAV)	30-Jun-11	30-Jun-10
TFCs / Sukuks	92.20%	78.73%
Cash Equivalents	1.24%	18.05%
Other Net Assets	6.56%	3.22%
Total	100.00%	100.00%

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Details of Non-Compliant Investments

Particulars	Type of Investment	Value of Investments before Provision	Provision held	Value of Investments after Provision	% of Net Assets	% of Gross Assets
AgriTech Limited	TFC	149,880,000	107,913,600	41,966,400	1.68%	1.40%
Azgard Nine Limited PPTFC	TFC	249,800,000	179,856,000	69,944,000	2.79%	2.34%
Kohat Cement Limited	Sukuk	241,500,000	80,172,204	* 161,327,796	6.44%	5.40%
Maple Leaf Cement Sukuk I	Sukuk	399,490,000	148,951,844	* 250,538,156	10.00%	8.39%
BRR Guardian Modaraba Sukuk	Sukuk	50,000,000	12,500,000	37,500,000	1.50%	1.26%
Saudi Pak Leasing	TFC	52,963,500	17,994,508	* 34,968,992	1.40%	1.17%
Eden Housing Sukuk II	Sukuk	32,775,000	10,008,108	22,766,892	0.91%	0.76%
PACE Pakistan Limited	TFC	149,820,000	49,064,402	* 100,755,598	4.02%	3.37%
Maple Leaf Cement Sukuk II	Sukuk	15,000,000	15,000,000	-	0.00%	0.00%
Gharibwal Cement Limited PPTFC	TFC	24,355,500	24,355,500	-	0.00%	0.00%
New Allied Electronics PPTFC	TFC	31,706,536	31,706,536	-	0.00%	0.00%
Dewan Cement Limited	TFC	150,000,000	150,000,000	-	0.00%	0.00%
New Allied Electronics Sukuk II	Sukuk	44,148,934	44,148,934	-	0.00%	0.00%
Total		1,591,439,470	871,671,636	719,767,834	28.73%	24.09%

* Book Value, performing but below investment grade

Excess / (Short) Exposures				
Particulars	Exposure Type	% of Net Assets	Limit	Excess/Short Exposure
Orix Leasing Pakistan PPTFC	Per Party	10.46%	10%	0.46%
Engro Chemical (Perpetual)	Per Party	11.63%	10%	1.63%
Pakistan Mobile Comm (L2)	Per Party	14.66%	10%	4.66%
Cash and Cash Equivalent	Cash Balance	1.24%	25%	-23.76%

Distribution for the Financial Year 2011

Interim Period / Quarter	Dividend as a % of Par Value (Rs.10)	Cumulative Dividend Price per unit (Rs)	Ex-dividend Price per unit (Rs)
Oct 1-Dec 31, 10	1.9740%	9.9966	9.7992
Jan 1- Mar 31, 11	1.9740%	10.3251	10.1277
Apr 1 - Jun 30, 11	2.961%	10.0100	9.7139

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

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

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Size of Unit Holding (Units)	# of Unit Holders
1 - 1000	226
1001 - 5000	275
5001 - 10000	67
10001 - 50000	109
50001 - 100000	31
100001 - 500000	34
500001 - 1000000	7
1000001 - 5000000	4
5000001 - 10000000	0
10000001 - 100000000	5
	758

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Review report to the Unit holders of NAFA Income Opportunity Fund (formerly NAFA Cash Fund) “the Fund” on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of NBP Fullerton Asset Management Limited, “the Management Company” of the Fund to comply with the Listing Regulation of Lahore Stock Exchange, where the Fund is listed.

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

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

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

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

Date: 29 September 2011

Karachi

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

Independent Auditors' Report to the Unit Holders

We have audited the accompanying financial statements of **NAFA Income Opportunity Fund [formerly NAFA Cash Fund]** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2011 and the income statement, statement of comprehensive income, cash flow statement, distribution statement and statement of movement in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund as at 30 June 2011 and of its financial performance and cash flows 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 accordance with the relevant provisions of the Trust Deed, Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The financial statements for the year ended 30 June 2010 was audited by another firm of Chartered Accountants who had expressed an unqualified opinion in their audit report dated 15 September 2010.

Date: September 29, 2011

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mohammad Nadeem

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Statement of Assets and Liabilities As at 30 June 2011

	Note	2011	2010
		(Rupees in '000)	
ASSETS			
Balances with banks	4	31,179	707,537
Investments	5	2,309,639	3,082,011
Profit receivable	6	179,347	138,780
Advance, deposits and other receivable	7	467,346	5,241
Preliminary expenses and floatation costs	8	-	403
Total assets		2,987,511	3,933,972
LIABILITIES			
Payable to the Management Company	9	3,312	4,352
Payable to the Trustee	10	256	406
Payable to the Securities and Exchange Commission of Pakistan	11	2,461	4,196
Payable on redemption of units	7.1	440,072	678
Accrued expenses and other liabilities	12	36,246	9,434
Total liabilities		482,347	19,066
NET ASSETS		2,505,164	3,914,906
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		2,505,164	3,914,906
CONTINGENCY AND COMMITMENT	13	(Number of units)	
Number of units in issue		250,266,672	396,678,456
		(Rupees)	
NET ASSET VALUE PER UNIT	14	10.0100	9.8692

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive Officer

Director

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Income Statement

For the year ended 30 June 2011

	Note	2011	2010
		(Rupees in '000)	
INCOME			
Gain / (loss) on sale of investments - net		12,814	(115)
Income from term finance certificates		385,066	580,895
Income from treasury bills		-	7,847
Profit on bank deposits- saving accounts		41,979	103,298
(Diminution) / appreciation on remeasurement of investments classified as financial assets 'at fair value through profit or loss' - net	5.4	(46,246)	23,569
Total income		393,613	715,494
EXPENSES			
Remuneration to the Management Company	9.1	49,228	83,921
Remuneration to the Trustee	10	3,992	6,595
Annual fee - Securities and Exchange Commission of Pakistan	11	2,461	4,196
Securities transaction cost		-	859
Settlement and bank charges		771	1,185
Annual listing fee		40	30
Auditors' remuneration	15	447	454
Provision against accrued profit	7.1	17,012	-
Printing charges		-	708
Fund rating fee		200	300
Legal fee		95	819
Amortisation of preliminary expenses and floatation costs	8	403	500
Provision for impairment against non-performing securities classified as available for sale		76,215	212,702
Other expenses		-	295
Total expenses		150,864	312,564
Net income from operating activities		242,749	402,930
Element of loss and capital losses included in prices of units issued less those in units redeemed - net		(63,084)	(109,287)
Provision for Workers' Welfare Fund	16	(3,593)	(8,636)
Net income before taxation		176,072	285,007
Taxation	17	-	-
Net income for the year		176,072	285,007
Earnings per unit	18		

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive Officer

Director

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Statement of Comprehensive Income For the year ended 30 June 2011

	Note	2011 (Rupees in '000)	2010
Net income for the year		176,072	285,007
Other comprehensive income			
Net unrealised diminution on re-measurement of investments classified as 'available for sale'	5.5	(80,935)	(81,438)
Reversal of diminution in the value of investments pertaining to impairment of non-performing assets		7,051	50,067
Total comprehensive income for the year		102,188	253,636

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive Officer

Director

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Distribution Statement

For the year ended 30 June 2011

	2011	2010
	(Rupees in '000)	
Undistributed income brought forward	198,814	290,606
Distributions:		
Final distribution for the year ended 30 June 2010: Nil (2009: 2.00%) (Date of distribution: 03 July 2009)		
- Cash distribution	-	(73,660)
- Bonus units	-	(78,184)
Interim distribution for the three months period ended 30 September 2010: Nil (2009: 1.979%) (Date of distribution: 28 October 2009)		
- Cash distribution	-	(64,874)
- Bonus units	-	(53,704)
Interim distribution for the six months period ended 31 December 2010: 1.974% (2009: 1.979%) (Date of distribution: 18 February 2011)		
- Cash distribution	(34,071)	(52,215)
- Bonus units	(22,272)	(37,437)
Interim distribution for the three months period ended 31 March 2011: 1.974% (2010: 1.979%) (Date of distribution: 19 April 2011)		
- Cash distribution	(32,140)	(48,805)
- Bonus units	(19,499)	(31,991)
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' funds	60,381	64,071
Net income for the year	176,072	285,007
Undistributed income carried forward	<u>327,285</u>	<u>198,814</u>

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive Officer

Director

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Statement of Movement in Unit Holders' Fund For the year ended 30 June 2011

	2011	2010
	(Rupees in '000)	
Net assets at beginning of the year	3,914,906	7,665,104
Issue of 5,248,668 units including bonus units (2010: 199,385,021 units)	10,582	1,794,173
Redemption of 151,660,452 units (2010: 561,938,097 units)	(1,519,385)	(5,667,740)
	(1,508,803)	(3,873,567)
Final distribution:		
Issue of bonus units for the year ended 30 June 2010: Nil (2009: 2.00%)	-	78,184
Interim distributions:		
Issue of bonus units for the three months period ended 30 September 2010: Nil (2009: 1.979%)	-	53,704
Issue of 2,272,866 bonus units for the six months period ended 31 December 2010: 1.974% (2009:1.979%)	22,272	37,437
Issue of 1,925,340 bonus units for the three months period ended 31 March 2011: 1.974% (2010: 1.979%)	19,499	31,991
Element of loss and capital losses included in prices of units issued less those in units redeemed - net		
- amount representing losses and capital losses transferred to Income Statement	63,084	109,287
- amount representing income and capital gains transferred to Distribution Statement	(60,381)	(64,071)
	2,703	45,216
Net unrealised diminution in the market value of investments classified as 'available for sale'	(80,935)	(81,438)
Reversal of diminution in the value of investments classified as 'available for sale' pertaining to impairment of non-performing assets	7,051	50,067
(Diminution) / appreciation on remeasurement of investments classified as financial assets 'at fair value through profit or loss' - net	(46,246)	23,569
Gain / (loss) on sale of investments - net	12,814	(115)
Other net income for the year	209,504	261,553
Distribution:		
Final distribution for the year ended 30 June 2010: Nil (2009: 2.00%)		
- Cash distribution	-	(73,660)
- Bonus units	-	(78,184)
Interim distribution for the three months period ended 30 September 2010: Nil (2009: 1.979%)		
- Cash distribution	-	(64,874)
- Bonus units	-	(53,704)
Interim distribution for the six months period ended 31 December 2010: 1.974% (2009: 1.979%)		
- Cash distribution	(34,071)	(52,215)
- Bonus units	(22,272)	(37,437)
Interim distribution for the three months period ended 31 March 2011: 1.974% (2010: 1.979%)		
- Cash distribution	(32,140)	(48,805)
- Bonus units	(19,499)	(31,991)
	68,090	(155,863)
Element of income and capital gains included in prices of units issued less those in units redeemed - net	60,381	64,071
Net assets at end of the year	2,505,164	3,914,906

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive Officer

Director

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Cash Flow Statement

For the year ended 30 June 2011

	Note	2011	2010
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		176,072	285,007
Adjustments for:			
Diminution / (appreciation) on remeasurement of investments classified as financial assets 'at fair value through profit or loss' - net		46,246	(23,569)
Provision for impairment against non-performing securities classified as available for sale		76,215	212,702
Provision for Workers' Welfare Fund		3,593	8,636
Amortisation of preliminary expenses and floatation costs		403	500
Element of loss and capital losses included in prices of units issued less those in units redeemed - net		<u>63,084</u>	<u>109,287</u>
		365,613	592,563
(Increase) / decrease in assets			
Investments		576,027	2,119,932
Loans and receivables		-	300,000
Dividend and profit receivable		(40,567)	244,026
Advance, deposits, and other receivable		<u>(462,105)</u>	<u>362</u>
		73,355	2,664,320
Increase / (decrease) in liabilities			
Payable to the Management Company		(1,040)	(7,350)
Payable to the Trustee		(150)	(338)
Payable to the Securities and Exchange Commission of Pakistan		(1,735)	(7,900)
Accrued expenses and other liabilities		<u>23,219</u>	<u>(1,706)</u>
		20,294	(17,294)
Net cash inflow from operating activities		<u>459,262</u>	<u>3,239,589</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Receipts from issue of units		10,582	1,794,173
Payments on redemption of units		(1,079,991)	(5,681,946)
Distributions paid		(66,211)	(239,554)
Net cash outflow on financing activities		<u>(1,135,620)</u>	<u>(4,127,327)</u>
Net decrease in cash and cash equivalents during the year		<u>(676,358)</u>	<u>(887,738)</u>
Cash and cash equivalents at beginning of the year		707,537	1,595,275
Cash and cash equivalents at end of the year	4	<u><u>31,179</u></u>	<u><u>707,537</u></u>

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive Officer

Director

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Notes to and forming part of the Financial Statements For the year ended 30 June 2011

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Income Opportunity Fund (formerly NAFA Cash Fund), ("the Fund"), was established under a Trust Deed executed between NBP Fullerton Asset Management Limited as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 11 February 2006 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 30 January 2006 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). During the year ended, the Trust Deed amended through first supplemental trust deed executed for the change of name and categorisation of the Fund as an Income Scheme as per the criteria for categorisation of open end collective investment scheme as specified by Securities and Exchange Commission of Pakistan (SECP) and other allied matters. Accordingly, w.e.f. 21 December 2010, the name of the fund has changed from NAFA Cash Fund to NAFA Income Opportunity Fund.

The management company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 9th Floor, Adamjee House, I.I.Chundrigar Road, Karachi. The Management Company is also the member of MUFAP.

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

The core objective of the Fund is to seek maximum preservation of capital and a reasonable rate of return by investing primarily in money market and debt securities having a good credit rating and liquidity subject to the guidelines prescribed by SECP.

The Pakistan Credit Rating Agency Limited has assigned an asset manager rating of AM2- to the Management Company and a stability rating of A(f) to the Fund.

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Fund's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest thousand rupees, except otherwise stated.

2.4 Accounting estimates and judgments

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

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

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

2.4.1 Classification and valuation of investments (refer note 3.1.1)

2.4.2 Impairment of investment (refer note 3.1.6)

2.4.3 Other assets

Judgement is involved in assessing the reliability of the assets balances.

2.5 Standards, Interpretations and Amendments not yet effective

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

- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after January 1, 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Fund.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Fund's financial statements.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Fund.
- Improvements to IFRSs 2010 – In May 2010 the IASB issued improvements to IFRSs 2010 which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programs to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Fund.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on investment in a joint venture. The amendments have no impact on financial statements of the Fund.

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- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statements of the Fund.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Fund.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the periods presented in these financial statements.

3.1 Financial Assets

3.1.1 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.

a) Loans and receivables

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

b) 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 prices are classified as held for trading in the financial assets 'at fair value through profit or loss' category.

c) 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 or (b) Financial assets at Fair value through profit or loss.

3.1.2 Regular way contracts

All regular purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

3.1.3 Initial recognition and measurement

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

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3.1.4 Subsequent measurement

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

a) Basis of valuation of debt securities

Investment in term finance certificates and sukus are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1/2009 dated 06 January 2009. Under the said directive, investment in term finance certificates and sukus bonds are valued on the basis of traded, thinly traded and non traded securities. Accordingly, traded investments in debt securities have been valued at the rates determined and announced by Mutual Funds Association of Pakistan (MUFAP) based on the methodology prescribed in the said circular.

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.

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

Net gains and losses arising on changes in fair value of available for sale financial assets are taken to the statement of comprehensive income until the available for sale financial assets are derecognised or impaired.

Loans and receivables are carried at amortised cost using the effective interest method.

Gain or loss is recognised in the income statement when financial assets carried at amortised cost are derecognised or impaired.

3.1.5 Spread transactions (Ready-future transactions)

Investment in such transactions involving purchase of an equity security in the ready market and simultaneous sale of the same security in the futures market. The security purchased in ready market is classified as "Investment at fair value through profit or loss" and carried on the statement of assets and liabilities at fair value till their eventual disposal, with the resulting gain / loss taken to the income statement. The forward sale of the security in the futures market is treated as a separate derivative transaction and is carried at fair value with the resulting gain / loss taken to the income statement in accordance with the requirements of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement".

3.1.6 Impairment

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

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

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

3.1.7 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.

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3.1.8 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Financial liabilities carried on the Statement of Assets and Liabilities include payable to the Management Company, payable to the Trustee, payable against redemption of units and accrued expenses and other liabilities.

3.1.9 Offsetting of financial assets and liabilities

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

3.2 Derivative Financial Instruments

Derivative instruments that are held by the Fund primarily comprise of futures contracts in the capital market and are classified in held for trading investments, subcategory under investment 'at fair value through profit or loss'. These are measured at initially and of each subsequent measurement at their fair values which is calculated as being the net difference between the contract price and the closing price reported on the primary exchange of the futures contract. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet. The resultant gains and losses are included in the income currently. All derivatives in a net receivables positions (positive fair values) and reported as financial asset held for trading. All derivatives in a net payable position (negative fair values) are reported as financial liabilities held for trading.

3.3 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.

3.4 Provision

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

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

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

3.6 Distributions

Distributions declared including the bonus units are recorded in the period in which they are approved. Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund requires that the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains / loss to the unit holders. The Management Company has distributed a sufficient accounting income of the Fund (including final distributions declared subsequent to reporting date refer note 28.1) for the year ended 30 June 2011 in order to comply with the above stated regulation.

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3.7 Issue and redemption of units

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

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.

3.8 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 unrealised gains / (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.

3.9 Revenue recognition

- Gains / losses arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- 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 term finance certificates, sukuk bonds, clean placements, certificates of investments and commercial papers is recognised at rate of return implicit in the instrument on a time proportion basis.
- Return on bank balances are recognised at effective profit rates based on a time proportion basis.

3.10 Cash and cash equivalents

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

3.11 Foreign currency translation

Transactions in foreign currencies are translated into Rupees at rates of exchange on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at the rates of exchange ruling on the balance sheet date. All other exchange differences are charged to income statement.

4 BALANCES WITH BANKS

		2011	2010
		(Rupees in '000)	
Current accounts		542	12,091
Savings accounts	4.1	<u>30,637</u>	<u>695,446</u>
		<u>31,179</u>	<u>707,537</u>

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

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5 INVESTMENTS

		2011	2010
(Rupees in '000)			
Financial assets 'at fair value through profit or loss' - held for trading			
Equity securities - listed	5.1	-	-
Term finance certificates	5.2	257,961	383,585
		<u>257,961</u>	<u>383,585</u>
Available for sale			
Term finance certificates - listed	5.3	579,835	612,021
Term finance certificates - unlisted	5.3	810,224	1,310,450
Sukuk bonds	5.3	661,619	775,955
		<u>2,051,678</u>	<u>2,698,426</u>
		<u><u>2,309,639</u></u>	<u><u>3,082,011</u></u>

5.1 Equity securities - listed

Name of the investee company	Number of shares					Value as at 30 June 2011	Investment as a percentage of		
	As at 01 July 2010	Purchases during the year	Bonus	Sales during the year	As at 30 June 2011		Net assets	Market value of total investments	Paid-up capital of investee company
Fully paid ordinary shares of Rs 10 each.									
Personal goods									
Azgard Nine Limited (Non-voting)	308	-	-	-	308	-	-	-	-
					<u>308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cost of investment as at 30 June 2011						13			
Provision as at 30 June 2011						<u>(13)</u>			
						<u>-</u>			

5.2 Term finance certificates - Financial assets 'at fair value through profit or loss' - held for trading

5.2.1 All term finance certificates and sukuk bonds have a face value of Rs 5,000 each except unlisted Term Finance Certificates issued by Orix Leasing Pakistan Limited on 15 January 2008 which has a face value of Rs 100,000.

Name of the investee company	As at 01 July 2010	Purchases during the year	Sales during the year	As at 30 June 2011	Market value as at 30 June 2011 (Refer note 5.4)	Market value as a percentage of net assets	Market value as a percentage of total investments	Percentage of issue size of debt security held
	-----Number of certificates-----				(Rupees in '000)			
Bank Alfalah Limited - II	128	-	-	128	643	0.03%	0.03%	0.05%
Escort Investment Bank Limited	10,000	-	-	10,000	14,655	0.58%	0.63%	10.00%
Gharibwal Cement Limited (note 5.2.3)	5,000	-	-	5,000	-			
Jahangir Siddiqui & Company Limited	18,000	-	-	18,000	90,909	3.63%	3.94%	9.00%
Orix Leasing Pakistan Limited	23,000	-	13,000	10,000	16,029	0.64%	0.69%	4.60%
Pace (Pakistan) Limited	30,000	-	-	30,000	100,756	4.02%	4.36%	10.00%
Saudi Pak Leasing Company Limited	15,000	-	-	15,000	34,969	1.40%	1.51%	10.00%
				<u>88,128</u>	<u>257,961</u>	<u>10.30%</u>	<u>11.17%</u>	
Carrying value of investments as at 30 June 2011					<u><u>304,207</u></u>			

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

5.2.2 Fair value of listed term finance certificates classified as investments at fair value through profit or loss is determined using rates notified by the Mutual Funds Association of Pakistan (MUFAP).

5.2.3 This represents investment of Rs. 24.985 million in privately placed term finance certificates. On 18 July 2009, the scheduled redemption date, principal redemption of Rs. 5 thousand and profit redemption of Rs. 2.291 million were not received by the Fund. The management has recognized full provision of Rs.24.985 million till 30 June 2010. During the year an amount of Rs. 0.629 million has been received by the Fund. The minimum amount of provision required as per SECP circular no. 01 of 2009 amounts to Rs. 24.356 million as at 30 June 2011 which has been maintained. The income suspended on these term finance certificates amounted to Rs.8.931 million. Therefore, these are stated at cost less provision.

5.3 Term finance certificates and sukuk bonds - Available for sale

Name of the investee company	As at 01 July 2010	Purchases during the year	Sales during the year	As at 30 June 2011	Market value / Carrying value as at 30 June 2011 (Refer note 5.5)	Market value as a percentage of net assets	Market value as a percentage of total investments	Percentage of issue size of debt security held
	-----Number of certificates-----				(Rupees in '000)			
Term finance certificate - listed								
Pakistan Mobile Communications (Private) Limited	78,000	-	-	78,000	367,162	14.66%	15.90%	9.18%
World Call Telecom Limited	45,000	-	-	45,000	146,885	5.86%	6.36%	5.63%
Allied Bank Limited	13,400	-	-	13,400	65,788	2.63%	2.85%	4.00%
				<u>136,400</u>	<u>579,835</u>	<u>23.15%</u>	<u>25.11%</u>	
Term finance certificate - unlisted								
Avari Hotels International	35,040	-	-	35,040	144,883	5.78%	6.27%	5.57%
Azgard Nine Limited (note 5.3.1)	50,000	-	-	50,000	69,944	2.79%	3.03%	10%
Dewan Cement Limited (note 5.3.2)	30,000	-	-	30,000	-	0.00%	0.00%	-
Engro Chemical Pakistan Limited	62,000	-	-	62,000	291,400	11.63%	12.62%	7.75%
First Dawood Investment Bank Limited	6,900	-	6,900	-	-	0.00%	0.00%	10.00%
New Allied Electronics Industries (Private) Limited (note 5.3.3)	15,000	-	-	15,000	-	0.00%	0.00%	-
Orix Leasing Pakistan Limited (note 5.2.1)	4,400	-	500	3,900	262,031	10.46%	11.35%	0.44%
Agriotech Limited (note 5.3.4)	30,000	-	-	30,000	41,966	1.68%	1.82%	10.00%
Pakistan Mobile Communication (Private) Limited	66,600	-	66,600	-	-	0.00%	0.00%	-
				<u>225,940</u>	<u>810,224</u>	<u>32.34%</u>	<u>35.08%</u>	
Sukuk bonds								
BRR Guardian Modaraba (note 5.3.5)	10,000	-	-	10,000	37,500	1.50%	1.62%	6.25%
Century Paper and Board Mills Limited	28,200	-	-	28,200	94,999	3.79%	4.11%	4.03%
Eden Builders Limited	7,956	-	-	7,956	26,698	1.07%	1.16%	1.59%
Eden Housing Limited (note 5.3.6)	-	9,200	-	9,200	22,767	0.91%	0.99%	-
Kohat Cement Company Limited	50,000	-	-	50,000	161,328	6.44%	6.98%	10.00%
Maple Leaf Cement Factory Limited (note 5.3.7)	80,000	-	-	80,000	250,538	10.00%	10.85%	5.00%
Maple Leaf Cement Factory Limited - II (note 5.3.8)	3,000	-	-	3,000	-	0.00%	0.00%	-
New Allied Electronics Industries (Private) Limited (note 5.3.9)	9,000	-	-	9,000	-	0.00%	0.00%	-
Orix Leasing Pakistan Limited	10,000	-	-	10,000	16,734	0.67%	0.72%	9.52%
Pak Elektron Limited	24,000	-	-	24,000	51,055	2.04%	2.21%	10.00%
				<u>231,356</u>	<u>661,619</u>	<u>26.41%</u>	<u>28.65%</u>	
				<u>593,696</u>	<u>2,051,678</u>	<u>81.90%</u>	<u>88.83%</u>	
Carrying value of investments as at 30 June 2011					<u>2,683,746</u>			

5.3.1 This represents investment in privately placed term finance certificates. On 04 June 2010, the scheduled redemption date, principal redemption of Rs 24.980 million and profit redemption of Rs. 18.260 million were not received by the Fund. The management has recognized provision for impairment of Rs.179.856 million till 30 June 2011. The minimum amount of provision required as per SECP circular no. 01 of 2009 amounts to Rs. 179.856 million. The income suspended on these term finance certificates amounted to Rs.55.836 million. Therefore, these are stated at cost less provision.

5.3.2 The Fund had advanced an amount of Rs 150 million in respect of Pre-IPO placement of Dewan Cement Limited (DCL) under an agreement, which required public offering to be completed within 270 days of the date of agreement (which was 09 January 2008). DCL failed to complete the public offering within the said time period and has also defaulted in payment of principal and profit. The management as recognised provision for impairment amounting to Rs.150 million till 30 June 2011. The minimum amount of provision required as per SECP circular no. 01 of 2009 also amounts to Rs. 150 million. The income suspended on these term finance certificates amounted to Rs.77.109 million. Therefore, these are stated at cost less provision.

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

- 5.3.3 This represents investment in privately placed term finance certificates. On 15 November 2008, the scheduled redemption date, principal redemption of Rs.6.250 million and profit redemption of Rs. 2.774 million were not received by the Fund. The management has recognised provision for impairment of Rs.31.707 million till 30 June 2011. The minimum amount of provision required as per SECP circular no. 01 of 2009 also amounts to Rs.31.707 million. The income suspended on these term finance certificates amounted to Rs.17.063 million. Therefore, these are stated at cost less provision.
- 5.3.4 This represents investment in privately placed term finance certificates. On 30 May 2010, the scheduled redemption date, principal redemption of Rs.14.988 million and profit redemption of Rs. 10.524 million were not received by the Fund. The management has recognised provision for impairment of Rs.107.914 million till 30 June 2011. The minimum amount of provision required as per SECP circular no. 01 of 2009 amounts to Rs.107.914 million. The income suspended on these term finance certificates amounted to Rs.34.360 million. Therefore, these are stated at cost less provision.
- 5.3.5 This represents investment in privately placed sukuk bonds on 07 January 2011 i.e. the scheduled redemption date, principal redemption of Rs.5 million and profit redemption of Rs.3.441 million were not received by the Fund. The management has recognized provision for impairment amounting to Rs.12.5 million till 30 June 2011. The minimum amount of provision required as per SECP circular no. 01 of 2009 amounts to Rs.12.50 million. The income suspended on these term finance certificates amounted to Rs.6.713 million. Therefore, these are stated at cost less provision.
- 5.3.6 This represents investment in privately placed sukuk bonds issue with a term of Five years. On 31 March 2011 and 29 June 2011 i.e. the scheduled redemption date, principal redemption of Rs. 0.863 million were not received by the Fund. The management has recognized provision for impairment amounting to Rs. 10.008 million till 30 June 2011. The minimum amount of provision required as per SECP circular no. 01 of 2009 amounts to Rs. 10.008 million. The income suspended on these term finance certificates amounted to Rs. 1.352 million. Therefore, these are stated at cost less provision.
- 5.3.7 This represents investment in privately placed Sukuk Certificates issued with a term of six years. During the year ended, the status of these Sukuk Certificates initially has been changed from non-performing to performing based on compliance with restricted terms and installments recognised on due dates. Therefore, provision for impairment made upto 30 June 2010 amounting to Rs. 109.33 million has been reversed. These have been valued at rate quoted by the MUFAP as at 30 June 2011 and income thereon has been recognised accordingly in accordance with the requirements of Circular No.1 and Circular 3 issued by SECP. The unrealised loss of Rs. 148.95 million due to marked to MUFAP's rate has been taken to statement of comprehensive income based on its categorisation as performing.
- The circular no.1 of 2009 dated 6 January 2009 requires that all non performing debt securities whether secured or unsecured shall be provided for in accordance with the criteria specified in Annexure - II of the said circular from the day of classification as non-performing. On 19 September 2011, the sukuk issued by Maple Leaf – I has been reclassified by MUFAP as non-performing due to default made by it on repayment of installment on due date. However, the Management Company considers that provision and reclassification are required to be made on the day when it has been reclassified as non-performing by MUFAP i.e.19 September 2011. As a result, the effect of such subsequent defaults has not been recorded/ reflected in these financial statements for the year ended 30 June 2011.
- 5.3.8 This represent investment in Maple Leaf privately placed sukuk bonds II. The coupon payment on Maple Leaf Sukuk II was due on 29 June 2011 which was not received by the Fund. Therefore as a matter of prudence, the management has recognised provision for impairment amounting to Rs. 15 million till 30 June 2011. The minimum amount of provision required as per SECP circular no. 01 of 2009 amounts to Rs. 15 million. The income suspended on these bonds amounted to Rs. 0.549 million. Therefore, these are stated at cost less provision.
- 5.3.9 This represents investment in privately placed sukuk bonds on 03 December 2008 i.e. the scheduled redemption date, profit redemption of Rs. 3.415 million was not received by the Fund the management has recognized provision for impairment amounting to Rs. 44.149 million till 30 June 2011. The minimum amount of provision required as per SECP circular no. 01 of 2009 also amounts to Rs. 44.149 million. The income suspended on these term finance certificates amounted to Rs. 18.917 million. Therefore, these are stated at cost less provision.

5.4 (Diminution) / appreciation on remeasurement of investments classified as financial assets 'at fair value through profit or loss' - net	2011 (Rupees in '000)	2010
Market value of investments	257,961	383,585
Less: carrying value of investments	(304,207)	(360,016)
Unrealised (diminution) / appreciation in value of investment	(46,246)	23,569
Provision as at 1 July	24,985	24,985
Received during the year	(629)	-
Provision against non-performing TFCs	(24,356)	24,985
	(70,602)	48,554

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Provision against non-performing TFCs amounting to Rs.24.985 million has been reclassified to (Diminution) / appreciation on remeasurement of investments classified as financial assets 'at fair value through profit or loss' - net for comparison purposes.

5.5 Unrealised diminution / (appreciation) in value of investments classified as available for sale - net	2011	2010
	(Rupees in '000)	
Market value of investments	2,051,678	2,698,426
Less: Carrying of investments	(2,683,746)	3,254,515
Unrealised (diminution) / appreciation in value of investment	<u>(632,068)</u>	<u>(556,089)</u>
Provision against non-performing TFCs and sukuks	5.5.1 551,133	474,651
	<u>(80,935)</u>	<u>(81,438)</u>
5.5.1 Movement in provision against debt securities		
Opening balance	475,280	262,578
Add: Charge for the year	190,369	286,575
Less: Reversal during the year	(114,516)	(73,873)
Closing balance	<u>551,133</u>	<u>475,280</u>
6 PROFIT RECEIVABLE		
Profit on savings account	51,044	43,407
Provision against accrued profit	7.1 (17,012)	-
	<u>34,032</u>	<u>43,407</u>
Income accrued on term finance certificates and sukuk bonds - net	145,315	95,373
	<u>179,347</u>	<u>138,780</u>
7 ADVANCE, DEPOSITS AND OTHER RECEIVABLE		
Security deposits with:	2,500	3,625
- National Clearing Company of Pakistan Limited	100	100
- Central Depository Company of Pakistan Limited	1,521	1,516
Advance tax	7.1 463,225	-
Receivable from KASB Bank Limited	<u>467,346</u>	<u>5,241</u>

7.1 This represents receivable of Rs. 463.225 million on account of deposit account maintained with KASB Bank ("the Bank").

The Fund claims profit at the rate 13 percent on its Mahana Khazana account maintained with the Bank, since 23 June 2008 to 10 February 2011 (the date at which the Bank settled the transaction). Whereas, the Bank did not credit/ pay the due mark up at the agreed rate, as the Bank did not get expected profit on in its in unit of the Fund for the same period. Based on said presumption, the bank credited profit at the rate of 5 percent per annum, whereas, no guarantee/ commitment was given to the Bank by the Fund in respect of rate of return. In view of above dispute, the Fund, on a prudent basis, accrued the mark up for the said period at 8 percent per annum, a minimum rate which the Bank offered to all its corporate customers via its website . Subsequent to falling the matter into a dispute, the management has been engaged in continuous efforts for recovery of profit at the rate of 13 percent and had several meeting with the official of the Bank.

On 10 February 2011, the Fund requested to the Bank to withdraw its entire deposit. The bank has also on the same date filed for the redemption of their entire investment in the Fund. The Bank declined to honour the Fund's withdrawal request linking it with paying their redemption amount before releasing the Fund's deposit. On 01 April 2011, the Bank unilaterally set off the redemption value of the Bank's investment in the Fund with the Fund's deposit with the Bank and credited the amount of Rs 187.008 million (principal plus profit of Rs. 24.64 million at the rate of around 5 percent) after making an adjustment of Rs 463.225 million on account of redemption of its units. The Fund accepted the amount under protest, being part payment of total amount receivable and referred this case to the Banking Mohtasib for resolution while claiming profit at the rate of 13 percent. The management, at parallel, continued its negotiation with the Bank through the Trustee. The Trustee, vide its letter CDC/T&C-U1/DH/0105/2011 dated 7 April 2011 informed to the Fund that the Bank offered the rate of 7 percent from retrospective affect to settle the transaction. The Trustee advised to the management to meet with the Bank officials once again on this issue and try to recover the profit at better rate. In the absence of any positive gesture from the Bank, the management requested to Banking Mohtasib for early resolution. As at 30, June 2011, the profit on savings account includes profitreceivable from the bank at the rate of 8 percent on saving account amounting to Rs. 50.871 million representing the difference of 8 pevent and 5 percent.

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(Formerly; NAFA Cash Fund)

The Management Company is making every efforts for recovery of profit at the rate higher than 7 percent. In this regard, the management has filed a recovery suit against the Bank with the Sindh High Court.

The Securities and Exchange Commission of Pakistan (SECP) vide its Order SCD-SD (Enf.) / KHI/ NFAML/ 2011/182 dated 12 August 2011 under section 282J (1) and 282J (2) of the Companies Ordinance, 1984 ("the Ordinance) for violation of Regulation 38 (a) and 38(b) of the NBFC Regulations of 2008 requires the Management Company to make the loss of Rs.19 million good to the Fund's unit holders by way of submitting a detailed plan within 21 days from the date of the issuance of this order. SECP also imposed a penalty amounting to Rs. 1 million on the Management Company.

Unexpectedly, the Management Company received above order while the management is pursuing this case with the Banking Mohtasib and the High Court for the benefits of the unit holders. Therefore, the Management Company is unable to understand as to how SECP without having final discussion with the Management, issued such an order, which required compensation to the Fund and penalized the Management Company. Moreover, the Management is of the view that the regulators' second-guessing of decisions of the management based on the hindsight information would be detrimental to the business.

The Management Company filed an appeal with the Appellate Bench of SECP on 26 August 2011. The Appellate Bench conducted the hearing on 5 September 2011. The Appellate Bench has suspended the said order till final order is issued. The Management Company is confident that the appeal will be decided in its favor.

8 PRELIMINARY EXPENSES AND FLOATATION COSTS

		2011	2010
		(Rupees in '000)	
Opening balance			
Less: amortisation during the year	8.1	403	903
Balance as at 30 June		<u>403</u>	<u>500</u>
		<u>-</u>	<u>403</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 22 April 2006 as per the requirements set out in the Trust Deed of the Fund.

9 PAYABLE TO THE MANAGEMENT COMPANY

Management fee	9.1	3,282	4,861
Legal charges		30	-
Other		-	(509)
		<u>3,312</u>	<u>4,352</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. Currently, Management fee is currently being calculated at the rate of one and a half percent per annum of the average annual net assets of the Fund and is paid to the Management Company monthly in arrears.

10 PAYABLE TO THE TRUSTEE

Upto 31 December 2010, the Trustee was entitled to a monthly remuneration for services rendered to the Fund under the provision of the Trust Deed, calculated at the rate 0.2% per annum on amount upto Rs. 1 billion of the assets of the Fund or Rs. 0.7 million, whichever is higher, and Rs.2 million plus 0.1% per annum of net assets exceeding Rs. 1 billion when daily average net assets of the Fund exceeds Rs. 1 billion.

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

From 1 January 2011, the tariff structure applicable to the Fund is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.6 million or 0.17% p.a. of NAV, whichever is higher
On an amount Rs 1,000 million to 5,000 million	Rs 1.7 million plus 0.085% p.a. of NAV exceeding Rs 1,000 million
On an amount exceeding Rs 5,000 million	Rs 5.1 million plus 0.07% p.a. of NAV exceeding Rs 5,000 million

11 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - ANNUAL FEE

Under the provisions of the NBFC Regulations, an income scheme is required to pay an annual fee to SECP at an amount equal to 0.075 percent of the average annual net assets of the fund.

12 ACCRUED EXPENSES AND OTHER LIABILITIES

	2011	2010
	(Rupees in '000)	
Auditors' remuneration	315	315
Settlement charges payable	42	30
Payable to brokers	-	53
Printing charges	194	375
Worker's Welfare Fund	16 12,230	8,636
Contingent load	7.1 23,161	-
Others	304	25
	<u>36,246</u>	<u>9,434</u>

13 CONTINGENCY AND COMMITMENT

There was no contingency and commitment outstanding as at 30 June 2011.

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.

15 AUDITORS' REMUNERATION

Audit fee	290	290
Half yearly review	116	115
Out of pocket expenses	41	49
	<u>447</u>	<u>454</u>

16 PROVISION FOR WORKERS' WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. The Central Depository Company of Pakistan on behalf of funds under its trusteeship along with a few Collective Investment Schemes (CISs) filed a petition before the Honourable High Court of Sindh on the ground that the CIS (mutual funds) are not establishments and as a result not liable to pay contribution to WWF.

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

Subsequently, the Ministry of Labour and Manpower (the Ministry) vide its letter dated 8 July 2010 issued advice and clarifications which stated that WWF Ordinance 1971 does Establishment Ordinance, 1969 is not applicable to any public listed company and any organized financial institutions including Mutual Funds because they are ruled and governed by separate laws. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income on Mutual Fund(s), the product being sold, is exempted under the law *ibid*".

Further, the Secretary (Income Tax Policy) Federal Board of Revenue (FBR) issued a letter dated 6 October 2010 to the Members (Domestic Operation) North and South FBR. In the letter reference was made to the clarification issued by the Ministry of Labour and Manpower stating that mutual funds are a product and their income are exempted under the law *ibid*. The Secretary (Income Tax Policy) Federal Board of Revenue directed that the Ministry's letter may be circulated amongst field formations for necessary action. Following the issuance of FBR Letter, show cause notice which had been issued by taxation office for two mutual funds for payment of levy under WWF has been withdrawn. However, there have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds and that MUFAP has requested Member Policy Direct Taxes for withdrawal of such show cause notices issued to such mutual funds. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter 4 January 2011 has cancelled ab-initio clarificatory letter dated 6 October 2010 on applicability of WWF on mutual funds. On 14 December 2010, the Ministry filed its response to the constitutional petition pending in the Court. As per the legal counsel who is handling the case, there is contradiction between the above earlier letter and clarification of the Ministry and the response filed by the Ministry before Honourable High Court of Sindh.

Recently, the Lahore High Court in a petition filed by an industrial establishment has declared the amendment introduced in the WWF Ordinance through Finance Act, 2006 and 2008 as unconstitutional and have therefore stroke them down. The Management Company is evaluating the implications of the above developments.

In view of above stated facts and considering the uncertainty on the applicability of WWF to mutual funds due to show cause notices issued to a number of mutual funds, the management company as a matter of abundant caution has decided to continue to maintain the provision for WWF for the year ended 30 June 2011.

17 TAXATION

Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 provides exemption from tax to any income derived by a Mutual Fund, if not less than ninety percent of its accounting income of a year as reduced by capital gains whether realize or unrealized is distributed among the unit holders. The management company has distributed a sufficient accounting income of Fund (including final distributions subsequent to reporting date refer note 28) for the year ended 30 June 2011 which meets the requirement of above stated clause. Accordingly no tax provision has been made in these financial statements for the year ended 30 June 2011.

18 EARNINGS PER UNIT

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

19 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 30 June 2011			Total
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	
-----Rupees in '000-----				
Assets				
Balances with banks	31,179	-	-	31,179
Investments	-	257,961	2,051,678	2,309,639
Profit receivable	179,347	-	-	179,347
Deposits and other receivable	465,825	-	-	465,825
	<u>676,351</u>	<u>257,961</u>	<u>2,051,678</u>	<u>2,985,990</u>

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

	As at 30 June 2011		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities	-----Rupees in '000-----		
Payable to the Management Company	-	3,312	3,312
Payable to the Trustee	-	256	256
Payable on redemption of units	-	440,072	440,072
Accrued expenses and other liabilities	-	24,016	24,016
	<u>-</u>	<u>467,656</u>	<u>467,656</u>

	As at 30 June 2011			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
Assets	-----Rupees in '000-----			
Balances with banks	707,537	-	-	707,537
Investments	-	383,585	2,698,426	3,082,011
Loans and receivables	-	-	-	-
Profit receivable	138,780	-	-	138,780
Deposits and other receivable	3,725	-	-	3,725
	<u>850,042</u>	<u>383,585</u>	<u>2,698,426</u>	<u>3,932,053</u>

	As at 30 June 2011		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities	-----Rupees in '000-----		
Payable to the Management Company	-	4,352	4,352
Payable to the Trustee	-	406	406
Payable on redemption of units	-	678	678
Accrued expenses and other liabilities	-	798	798
	<u>-</u>	<u>6,234</u>	<u>6,234</u>

20 TRANSACTIONS WITH CONNECTED PERSONS

20.1 Connected persons include NBP Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan 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.

20.2 The transactions with connected persons are at contracted rates and terms determined in accordance with market rates.

20.3 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.

20.4 Remuneration to the Trustee is determined in accordance with the provisions of the Trust Deed.

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

	For the year ended 30 June 2011	For the year ended 30 June 2010
	(Rupees in '000)	
20.5 Details of the transactions with connected persons are as follows:		
NBP Fullerton Asset Management Limited - Management Company		
Management fee expense for the year	49,228	83,921
NAFA Provident Fund Trust		
Units redeemed / transferred out (7,536 units; 2010: 271,158 units)	74	2,700
Bonus units issued (149 units; 2010: 16,171 units)	-	-
National Bank of Pakistan - Sponsor		
Cash dividend	1,422	2,859
Alexandra Fund Management Pte. Limited - Sponsor		
Units redeemed / transferred out (4,741,247 units; 2010: 3,917,459 units)	47,000	40,000
Bonus units issued (495,765 units; 2010: 1,450,449 units)	-	-
NBP Employees Pension Fund		
Bonus units issued (2,091,421 units; 2010: 3,979,889 units)	-	-
NBP Endowment Fund Student Loan Scheme		
Units redeemed / transferred out (15,626,470 units; 2010: 5,946,658 units)	159,000	60,000
Units issued (Nil units; 2010: 3,931,214 units)	-	39,000
Bonus units issued (952,798 units; 2010: 2,607,477 units)	-	-
NBP Employees Benevolent Fund Trust		
Units redeemed / transferred out (Nil units; 2010: 1,085,013 units)	-	10,880
Bonus units issued (72 units; 2010: 43,874 units)	-	-
Spouse of Chief Executive		
Units redeemed / transferred out (Nil units; 2010: 20,486 units)	-	206
Bonus units issued (Nil units; 2010: 406 units)	-	-
Employees of Management Company		
Units issued / transferred in (Nil units; 2010: 2,160,117 units)	-	21,753
Units redeemed / transferred out (2,057 units; 2010: 2,482,305 units)	20	25,013
Bonus units issued (149 units; 2010: 15,972 units)	-	-
Central Depository Company of Pakistan Ltd. - Trustee		
Remuneration	3,992	6,595
	As at 30 June 2011	As at 30 June 2010
	(Rupees in '000)	

20.6 Balances at year end

NBP Fullerton Asset Management Limited - Management Company		
Management fee payable	3,282	4,861
Legal charges payable	30	-
Other receivable from the management company	-	(509)
NAFA Employees Provident Fund Trust		
Investment held by NAFA Provident Fund Trust (Nil units; 2010: 7,387 units)	-	73

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

As at
June 30,
2011

As at
June 30,
2010

(Rupees in '000)

National Bank of Pakistan - Sponsor

Investment held by the sponsor in the Fund (3,601,691 units;
2010: 3,601,691 units)
Balances in current account

36,053
521

35,546
12,069

Alexandra Fund Management Pte. Limited - Sponsor

Investment held by the Sponsor in the Fund
(778,389 units; 2010: 5,489,678 units)

7,792

54,179

Employees of Management Company

Investment held in the Fund (4 units; 2010: 2,131 units)

-

21

Central Depository Company of Pakistan Ltd. - Trustee

Remuneration payable
Security deposit

256
100

406
100

NBP Employees Pension Fund

Investment held in the Fund (54,340,058 units; 2010: 52,248,637 units)

543,944

515,652

NBP Endowment Fund Student Loan Scheme

Investment held in the Fund (17,552,762 units; 2010: 32,226,433 units)

175,703

318,049

NBP Employees Benevolent Fund Trust

Investment held in the Fund (1,872 units; 2010: 1,800 units)

19

18

21 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	Qualification	Experience in years
1. Dr. Amjad Waheed	MBA/ Doctorate in Business Administration / CFA	23
2. Sajjad Anwar	MBA Finance, CFA	11
3. Tanveer Abid	MBA, CFA	12
4. Usman Khan	Passed CFA Level 3	2.5
5. Ahmed Nouman	EMBA, CFA	15

21.1 Usman Khan is the fund manager of the NAFA Income Opportunity Fund.

22 BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2011
1. Alfalah Securities (Private) Limited	89.03%
2. JS Global Capital Limited	10.97%

	2010
1. KASB Securities	37.93%
2. Alfalah Securities (Private) Limited	30.23%
3. Global Securities Pakistan Limited	9.84%
4. JS Global Capital Limited	8.96%
5. Invisor Securities	3.93%
6. IGI Finex Securities	3.68%
7. Atlas Capital Markets	3.07%
8. BMA Capital Management Limited	2.30%
9. First Capital Equities Limited	0.06%

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

23 PATTERN OF UNIT HOLDING

Category	As at 30 June 2011		
	Number of unit holders	Investment amount	Percentage investment
	(Rupees in '000)		
Individuals	688	104,814	4.18%
Associated companies / Directors	2	43,844	1.75%
Insurance companies	2	131	0.01%
Bank / DFIs	3	1,489,169	59.44%
NBFCs	-	-	0.00%
Retirement funds	26	639,199	25.52%
Public limited companies	12	25,767	1.03%
Others	25	202,240	8.07%
	758	2,505,164	100%

Category	As at 30 June 2011		
	Number of unit holders	Investment amount	Percentage investment
	(Rupees in '000)		
Individuals	970	272,654	6.96%
Associated companies / Directors	3	89,797	2.29%
Insurance companies	5	12,423	0.32%
Bank / DFIs	5	2,342,848	59.84%
NBFCs	-	-	0.00%
Retirement funds	35	993,706	25.40%
Public limited companies	17	61,201	1.56%
Others	33	142,277	3.63%
	1,068	3,914,906	100.00%

24 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 27th, 28th, 29th, 30th and 31st Board meetings were held on 05 July 2010, 25 August 2010, 18 October 2010, 18 February 2011 and 19 April 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	0	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	0	
Mr. Gerard Lee How Cheng***	3	2	1	29th meeting
Mr. Patrick Pang Chin Hwang	5	5	0	
Mr. Choy Peng Wah****	1	0	1	30th meeting
Mr. Wah Geok Sum*****	1	1	0	
Dr Amjad Waheed	5	5	0	

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

- * Mr. Qamar Hussain retired from the board with effect from 25 March 2011.
- ** Mr. Syed Iqbal Ashraf was co-opted on the board with effect from 25 March 2011.
- *** Mr. Gerard Lee How Cheng retired from the board with effect from 15 November 2010.
- **** Mr. Choy Peng Wah was co-opted on the board with effect from 05 November 2010 & has retired from the board with effect from 18 February 2011.
- ***** Mr. Wah Geok Sum was co-opted on the board with effect from 18 February 2011.
- ***** Dr. Asif A. Brohi was co-opted on the board with effect from 09 August 2010.

25 NON-COMPLIANCE WITH THE CIRCULAR AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

As at 30 June 2011, the Fund is compliant with all the requirements of The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009, except for clause 9 (iii) which requires that at least 25% net assets shall be invested in cash and near cash instruments which include cash in bank account (excluding TDRs), treasury bills not exceeding 90 days maturity and clause 9 (v) which requires that the rating of any security in the portfolio shall not be lower than investment grade:

Category of non-compliant investment	Type of investment / name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
----- Rupees in '000' -----						
Balances with the banks*	Cash and near cash instruments	31,179	-	31,179	1.24%	1.04%
Investment in Debt securities**	Azgard Nine Limited	249,800	179,856	69,944	2.79%	2.34%
	Agritech Limited	149,880	107,914	41,966	1.68%	1.40%
	B.R.R Guardian Modaraba Sukuk	50,000	12,500	37,500	1.50%	1.26%
	Dewan Cement Limited - TFC	150,000	150,000	-	0.00%	0.00%
	Eden Housing Ltd. Sukuk II	32,775	10,008	22,767	0.91%	0.76%
	Gharibwal Cement Limited - TFC	24,356	24,356	-	0.00%	0.00%
	Kohat Cement Company Limited - Sukuk ***	241,500	-	161,328	6.44%	5.40%
	Maple Leaf Cement Factory Limited - Sukuk I ***	399,490	-	250,538	10.00%	8.39%
	Maple Leaf Cement Factory Limited - Sukuk II	15,000	15,000	-	0.00%	0.00%
	New Allied Electronics Industries (Private) Limited - PPTFC	31,707	31,707	-	0.00%	0.00%
	New Allied Electronics Industries (Private) Limited - Sukuk II	44,149	44,149	-	0.00%	0.00%
	PACE Pakistan Limited ***	149,820	-	100,756	4.02%	3.37%
Saudi Pak Leasing Company Limited ***	52,964	-	34,969	1.40%	1.17%	

- * Investment in cash and near cash is less than 25% of net assets.
- ** At the time of purchase, the TFCs and sukuku were in compliance with the aforementioned circular. However, subsequently due to defaults these were downgraded to non investment grade.
- *** Book Value, performing but without investment grade.

26 FINANCIAL RISK MANAGEMENT

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

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

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

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

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, secured privately placed instruments, spread transactions, continuous funding system transactions and investments in other money market instruments (including the clean placements). Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to market risk, credit risk, liquidity risk and operational risk.

26.1 Market risk

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

Management of market risk

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Board of Directors and regulations laid down by SECP.

26.2 Currency risk

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

26.3 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 term finance certificates and sukuk bonds exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on 30 June 2010, 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 17.015 million (2010: Rs 6.266 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Further, in case of variable instruments, the sensitivity analysis has been performed from the last repricing date. Accordingly, the sensitivity analysis prepared as of 30 June 2011 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

(b) Sensitivity analysis for fixed rate instruments

Presently, the Fund holds no fixed rate instruments.

Yield / interest rate sensitivity position for on balance sheet financial instruments based on the earlier of contractual repricing or maturity date and for off balance sheet instruments based on settlement date is as follows:

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

30 June 2011

Yield / interest rate	Total	Exposed to yield / interest rate risk			Not exposed to yield / interest rate 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% - 12%	31,179	30,637	-	-	542
Investments	7.58% - 16.70%	2,309,639	489,619	1,647,843	-	172,177
Profit receivable		179,347	-	-	-	179,347
Deposits and receivable		465,825	-	-	-	465,825
		2,985,990	520,256	1,647,843	-	817,891
Financial liabilities						
Accrued expenses and other liabilities		24,016	-	-	-	24,016
Payable against redemption of units		440,072	-	-	-	440,072
Payable to the Management Company		3,312	-	-	-	3,312
Payable to the Trustee		256	-	-	-	256
		467,656	-	-	-	467,656
On-balance sheet gap		2,518,334	520,256	1,647,843	-	350,235
Off-balance sheet financial instruments		-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-

30 June 2010

Yield / interest rate	Total	Exposed to yield / interest rate risk			Not exposed to yield / interest rate 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%- 12%	707,537	695,446	-	-	12,091
Investments	12.96% - 16.98%	3,082,011	995,633	1,516,102	-	570,276
Profit receivable		138,780	-	-	-	138,780
Deposits and receivable		3,725	-	-	-	3,725
		3,932,053	1,691,079	1,516,102	-	724,872
Financial liabilities						
Accrued expenses and other liabilities		798	-	-	-	798
Payable against redemption of units		678	-	-	-	678
Payable to the Management Company		4,352	-	-	-	4,352
Payable to the Trustee		406	-	-	-	406
		6,234	-	-	-	6,234
On-balance sheet gap		3,925,819	1,691,079	1,516,102	-	718,638
Off-balance sheet financial instruments		-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-

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26.4 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at 30 June 2011, other than one fully impaired security as detailed in note 5.1.

26.5 Credit risk

Credit risk arising from the inability of the counterparties to fulfill their obligations in respect of financial instrument contracts, is generally limited to the principal amount and accrued income thereon.

Management of credit risk

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

Concentration of the credit risk

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

The analysis below summarises the credit quality of the Fund's financial assets as at 30 June 2011 and 30 June 2010.

	2011	2010
	(Rupees in '000)	
Balances with banks		
A	31,169	707,527
P-1	<u>10</u>	<u>10</u>
	<u>31,179</u>	<u>707,537</u>
Investments - Term finance certificates and sukuk bonds		
AA+, AA, AA-	743,534	506,362
A+, A, A-	846,337	1,995,667
BBB+, BBB, BBB-	-	42,949
BB+, BB, BB-	250,538	-
B+, B, B-	-	40,924
CCC	-	24,484
D	307,902	280,000
Non-rated	161,328	191,625
	<u>2,309,639</u>	<u>3,082,011</u>

The maximum exposure to credit risk before any credit enhancement as at 30 June 2011 is the carrying amount of the financial assets.

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

26.6 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

Management of liquidity risk

The Fund is exposed to daily cash redemptions 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 damages 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. 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 Fund. The facility would bear interest at commercial rates.

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

Maturity analysis for financial liabilities

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

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

	30 June 2011			
	Total	Upto three months	Over three months and upto one year	Over one year
	------(Rupees in '000)-----			
Liabilities				
Payable to the Management Company	3,312	3,312	-	-
Payable to the Trustee	256	256	-	-
Payable on redemption of units	440,072	440,072	-	-
Accrued expenses and other liabilities	24,016	24,016	-	-
	467,656	467,656	-	-
	------(Rupees in '000)-----			
	30 June 2010			
	Total	Upto three months	Over three months and upto one year	Over one year
	------(Rupees in '000)-----			
Liabilities				
Payable to the Management Company	4,352	4,352	-	-
Payable to the Trustee	406	406	-	-
Payable on redemption of units	678	678	-	-
Accrued expenses and other liabilities	798	798	-	-
	6,234	6,234	-	-

NAFA INCOME OPPORTUNITY FUND

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26.7 Operational risks

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

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

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

26.8 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

ASSETS	As at 30 June 2011			
	Level 1	Level 2	Level 3	Level 4
	------(Rupees in '000)-----			
Investment in securities - at fair value through profit or loss	-	257,961	-	257,961
Investment in securities - available for sale	-	1,879,501	172,177	2,051,678

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

ASSETS	As at 30 June 2010			
	Level 1	Level 2	Level 3	Level 4
	------(Rupees in '000)-----			
Investment in securities - at fair value through profit or loss	-	383,585	-	383,585
Investment in securities - available for sale	-	2,128,150	570,276	2,698,426

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

	30 June 2011 (Rupees in '000)
Balance as at 01 July 2010	570,276
Provision made during the year	(398,099)
Balance as at 30 June 2011	172,177

27 UNIT HOLDERS' FUND RISK MANAGEMENT

The Fund is an open end collective investment scheme. The unit holders' fund of the open end schemes is represented by net assets attributable to unit holders. The risk in case of open end scheme is the risk that the amount of net assets attributable to unit holders can change significantly on daily basis as the Fund is subject to daily issuance and redemption of Units at the discretion of the unit holders and occurrence of the unexpected losses in investment portfolio which may causes adverse effects on the Fund's continuation as going concern.

The Fund's objective when managing net assets attributable to unit holders is to safe guard the Funds ability to continue as going concern so that it can continue to provide optimum returns to its unit holders and to ensure reasonable safety of Unit Holders' Fund. In order to maintain or adjust the capital structure, the Fund policy is to perform the following:

- Monitors the level of daily issuance and redemptions relative to liquid assets;
- Redeem and issue unit in accordance with the constitutive documents of the Fund, which include the ability to restrict redemptions as allowed under rules and regulations; and
- Monitor portfolio allocations and return on net assets and where required make necessary

The Fund Manager / IC members and the Chief Executive of the Management Company critically monitor capital of the Fund on the basis of the value of net assets attributable to the unit holders and track the movement of "Assets under Management" as well returns earned on the net assets to maintain investors confidence and achieve future growth in business. Further the Board of Directors is updated about the Fund yield and movement of NAV and total size at the end of each quarter.

In accordance with the NBFC Regulations, the Fund is required to distribute at least ninety percent of its income from sources other than capital gain as reduced by such expenses as are chargeable to the Fund. (Refer note 3.6).

The Fund is not exposed externally impose minimum capital maintenance requirements.

28 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

- 28.1 The board of directors of the Management Company in their meeting held on 04 July 2011 have proposed a final distribution at the rate of 2.961%. The financial statements of the fund for the year ended 30 June 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 ended 30 June 2012.

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29 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.

30 GENERAL

- 30.1 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 Officer

Director

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash 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 year ended June 30, 2008	For the year ended June 30, 2007	For the period from February 11, 2006 to June 30, 2006
Net assets (Rs. '000')	2,505,164	3,914,906	7,665,104	24,043,799	18,248,177	3,874,369
Net Income (Rs. '000')	176,072	285,007	138,143	2,184,127	1,773,340	72,844
Net Asset Value per units (Rs.)	9.7139	9.8692	9.8959	10.0410	10.0273	10.0016
Offer price per unit	9.7139	9.8692	9.8959	10.0410	10.0273	10.0016
Redemption price per unit	9.7139	9.8692	9.8959	10.0410	10.0273	10.0016
Highest offer price per unit (Rs.)	10.2445	9.9065	9.6888	9.8221	10.0273	10.0016
Lowest offer price per unit (Rs.)	9.0655	9.2502	9.0403	9.0583	8.9543	9.8163
Highest redemption price per unit (Rs.)	10.2445	9.9065	9.6888	9.8221	10.0273	10.0016
Lowest redemption price per unit (Rs.)	9.0655	9.2502	9.0403	9.0583	8.9543	9.8163
Total return of the fund	5.49%	5.81%	5.49%	9.83%	10.76%	1.92%
Capital growth	-1.51%	-0.19%	-1.36%	0.13%	0.26%	0.02%
Income distribution	7.00%	6.00%	6.85%	9.70%	10.50%	1.90%
Interim distribution per unit	0.3948	0.5937	0.4850	0.2356	-	-
Final distribution per unit	0.2961	-	0.2000	0.7359	1.05	0.19
Distribution dates						
Interim	18-Feb-11 & 19-Apr-11	28-Oct-09, 17-Feb-10 & 29-Apr-10	16-Oct-08 & 17-Apr-09	15-Apr-08	-	-
Final	4-Jul-11	-	3-Jul-09	3-Jul-08	5-Jul-07	4-Jul-06
Average annual return (launch date 22-04-2006)						
(Since inception to June 30, 2011)	7.56%					
(Since inception to June 30, 2010)		8.06%				
(Since inception to June 30, 2009)			8.78%			
(Since inception to June 30, 2008)				10.31%		
(Since inception to June 30, 2007)					10.80%	
(Since inception to June 30, 2006)						10.00%
Portfolio Composition (Please see Fund Manager Report)						
Weighted average portfolio duration	2.89 Years	68 Days	2 Years	2 Years	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."

NAFA INCOME OPPORTUNITY FUND

(Formerly; NAFA Cash Fund)

BLANK