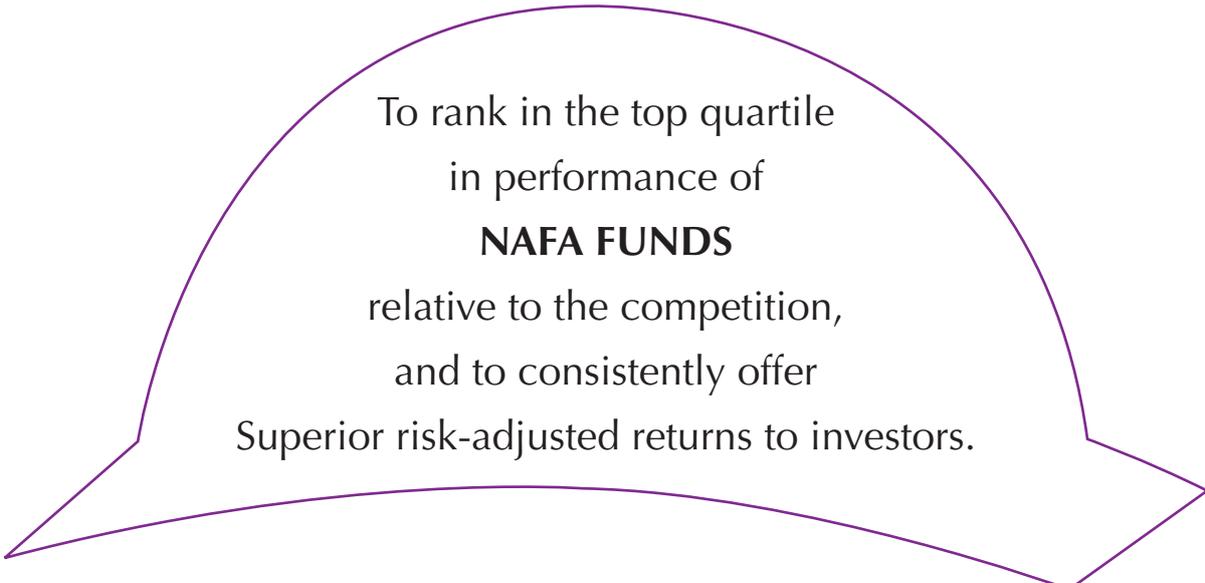


## MISSION STATEMENT



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

## FUND'S INFORMATION

### Management Company

NBP Fullerton Asset Management Limited – Management Company

### Board of Directors of the Management Company

Mr. Shahid Anwar Khan	Chairman
Mr. Amir Shehzad	Director
Mr. Wah Geok Sum	Director
Mr. Koh Boon San	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. Koh Boon San	Chairman
Mr. Shehryar Faruque	Member
Mr. Amir Shehzad	Member

### Trustee

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

### Bankers to the Fund

Allied Bank Limited  
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

## **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  
UAN: 021-111-111-NFA (632)  
Toll Free: 0800-20001  
Fax: 021-32467605

## **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

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# NAFA INCOME OPPORTUNITY FUND

## DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Seventh Annual Report of **NAFA Income Opportunity Fund** for the year ended June 30, 2012.

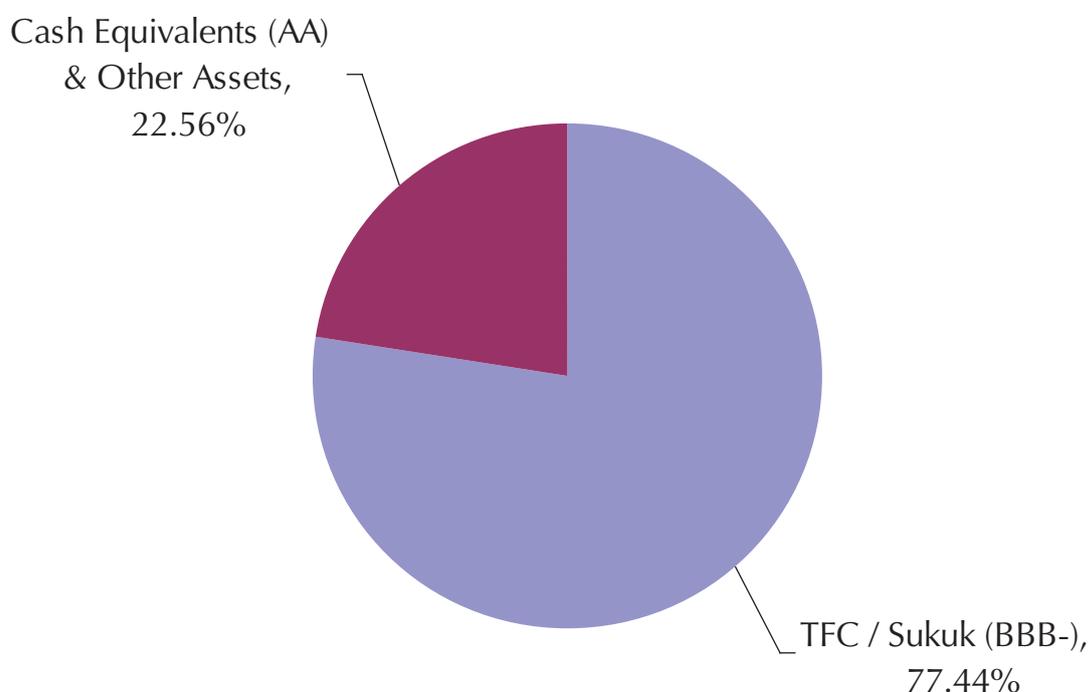
### Fund's Performance

The size of NAFA Income Opportunity fund has reduced from Rs. 2,505 million to Rs. 1,546 million during the period, i.e. a decline of 38.28%. During the said period, the unit price of the Fund has decreased from Rs. 9.7139 (Ex-Div) on June 30, 2011 to Rs. 9.6618 on June 30, 2012, thus showing an annualized return of -0.57% as compared to its Benchmark (6-Month KIBOR) annualized return of 12.37% for the same period. The subdued performance of the Fund is due to heavy provisioning in few TFCs.

All TFCs/Sukuks in the Fund are floating rate linked to KIBOR. The Fund has been awarded stability rating of BBB+(f) by PACRA. The Fund is categorized as an Income Scheme. With some letup in inflationary pressures and improved external accounts, SBP slashed the Policy Rate during FY12 by 2% to 12%.

The Fund has earned a total income of Rs.256.02 million during the year. After accounting for total expenses of Rs.500.48 million, the net loss is Rs.244.46 million.

The asset allocation of NAFA Income Opportunity Fund as on June 30, 2012 is as follows:



# NAFA INCOME OPPORTUNITY FUND

## Income Distribution

Due to net loss for the year, no distribution has been made.

## Taxation

On account of net loss, no provision for taxation was made in the financial statements of the Fund.

## Auditors

The present auditors, KPMG Taseer Hadi & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2013.

## 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 Financial Reporting 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 22 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 21 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 18 to these financial statements.

# NAFA INCOME OPPORTUNITY 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

Chief Executive

Director

Date: September 11, 2012  
Place: Karachi.

# NAFA INCOME OPPORTUNITY 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

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Income Opportunity Fund (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 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.

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

Karachi: October 10, 2012

# NAFA INCOME OPPORTUNITY FUND

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE NAFA INCOME OPPORTUNITY FUND FOR THE YEAR ENDED JUNE 30, 2012

This statement is being presented by the Board of Directors of NBP Fullerton Asset Management Limited (Company), the Management Company of **NAFA Income Opportunity Fund** (the Fund) to comply with the Best Practices of Code of Corporate Governance (CCG) contained in Regulation No. 35, Chapter XI of Listing Regulations of Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

NBP Fullerton Asset Management Limited, though an un-listed Public Limited Company complies with the CCG as the Fund under its management is listed on Lahore Stock Exchange.

The Company has applied the principles contained in the CCG in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board of Directors. The Company, being an un-listed company, does not have any minority interest. At present the Board includes:

Category	Names
Independent Directors	1. Mr. Kamal Amir Chinoy 2. Mr. Shehryar Faruque
Executive Directors	Dr. Amjad Waheed (Chief Executive Officer)
Non- Executive Directors	1. Shahid Anwar Khan (Chairman) 2. Dr. Asif.A Brohi 3. Mr. Amir Shahzad 4. Mr. Wah Geok Sum 5. Mr. Koh Boon San

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

2. The directors have confirmed that none of them is serving as a director on more than ten listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable). However, the requirement of serving as a director of seven listed companies is applicable from the date of next elections of directors.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred on the board on August 27, 2011 and March 31, 2012 during the year. First casual vacancy was filled up by the director within 24 days and the second casual vacancy was filled up by the director on the same day.
5. Subsequent to year end, the Management Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.

# NAFA INCOME OPPORTUNITY FUND

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board. There is no other executive-director of the Company besides CEO.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. In order to apprise the directors on their duties and responsibilities and requirements of CCG, the code requires company to conduct formal orientation for directors. The board did not arrange director training /education program required under the code as all the directors meet the exemption criteria of minimum fourteen years of education and fifteen years of experience. The directors are conversant with the relevant laws applicable to the company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the Units of the Fund other than that disclosed in note 20 to the financial statements " Transactions with Connected Persons".
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the committee is a non-independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The revised terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed an HR Committee. It comprises of four members, of who are non-executive directors and the chairman of the committee is a non-independent director.
18. The board has set up an effective internal audit function.

# NAFA INCOME OPPORTUNITY 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 (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
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. There was no 'closed period' prior to the announcement of interim/final results.
22. Material / price sensitive information has been disseminated amongst all market participants at once through stock exchange.
23. We confirm that all other material principles contained in the CCG have been complied with.

Karachi  
September 11, 2012

For and behalf of the board

Dr. Amjad Waheed  
Chief Executive Officer

# NAFA INCOME OPPORTUNITY FUND

## FUND MANAGER REPORT

### NAFA Income Opportunity Fund

NAFA Income Opportunity Fund (NIOF) 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 Performance Review

This is the Seventh Annual report since the launch of the Fund on April 22, 2006. The Fund size declined by 38.28% during FY12 and stands at Rs 1.55 billion as on June 30, 2012. The Fund's annualized return since inception is 6.21% versus the benchmark return of 11.76%. During FY12 the Net Asset Value of the Fund declined by 0.57%. During the same period the benchmark posted annualized return of 12.37%.

The key factor responsible for the subdued performance of the Fund was provisioning for some TFC holdings during the year. Resultantly, difference between the Face Value of TFC Portfolio (Rs 2.35 billion) and market/ book value (Rs 1.12 billion) is Rs 1.23 billion. This substantial marked-down value of TFC portfolio of the Fund offers potential for healthy recovery going forward. However, the TFC portfolio is exposed to downward risks in case of further deterioration of the economy. As of June 30, 2012, the annual Yield to Maturity of your Fund at year end FY12 is around 21.29% while that of TFC portfolio is 25.11%. The weighted average maturity of your Fund is 2.06 years.

### Asset Allocation of Fund (% of NAV)

Particulars	30-Jun-12	30-Jun-11
TFC / Sukuk	77.44%	92.20%
Cash Equivalentents & Other Assets	22.56%	7.80%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

# NAFA INCOME OPPORTUNITY FUND

We have witnessed few fresh issues of the corporate bonds. Trading activity remained limited to high rated issuers, mainly belonging to Financial sector. Inflation as measured by CPI stood at 11% for FY12 as against 13.66% during the preceding year. With this letup in inflation and to spur private sector investment, SBP reduced the Discount Rate from 14% to 12%. Correspondingly, the market interest rates (6-Months KIBOR) declined to 12.06% from 13.78% during the year.

## 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	Yield to Maturity per annum
BRR Guardian Modaraba***	SUKUK	48,281,250	12,070,312	36,210,938	2.34%	1.79%	25.98%
Escort Investment Bank Limited***	TFC	12,489,900	3,280,397	9,209,503	0.60%	0.45%	18.00%
Kohat Cement Limited (Sukuk)***	SUKUK	75,500,000	19,789,229	55,710,771	3.60%	2.75%	21.02%
Eden Housing (Sukuk II)	SUKUK	26,737,500	9,320,987	17,416,513	1.13%	0.86%	52.50%
Maple Leaf Cement (Sukuk I)	SUKUK	399,150,000	179,617,500	219,532,500	14.20%	10.84%	37.90%
Pak Elektron Limited (Sukuk)	SUKUK	51,428,571	14,857,148	36,571,423	2.37%	1.81%	18.78%
Saudi Pak Leasing	TFC	49,728,675	16,895,467	32,833,208	2.12%	1.62%	20.81%
World Call Telecom Limited	TFC	128,494,292	32,123,573	96,370,719	6.24%	4.76%	61.00%
Agritech Limited I	TFC	149,860,200	149,860,200	-	-	-	-
Agritech Limited V	TFC	32,320,000	32,320,000	-	-	-	-
Azgard Nine Limited (PPTFC)	TFC	249,800,000	249,800,000	-	-	-	-
Dewan Cement Limited	TFC	150,000,000	150,000,000	-	-	-	-
Gharibwal Cement Limited (PPTFC)	TFC	24,355,500	24,355,500	-	-	-	-
Maple Leaf Cement (Sukuk II)	SUKUK	15,000,000	15,000,000	-	-	-	-
New Allied Electronics (PPTFC)	TFC	31,706,536	31,706,536	-	-	-	-
New Allied Electronics (Sukuk II)	SUKUK	44,148,934	44,148,934	-	-	-	-
PACE Pakistan Limited	TFC	149,820,000	149,820,000	-	-	-	-
<b>Total</b>		<b>1,638,821,358</b>	<b>1,134,965,783</b>	<b>503,855,575</b>	<b>32.60%</b>	<b>24.88%</b>	

\*\*\*Book Value, performing but below authorized minimum credit rating grade

## Excess / (Short) exposures

Particulars	Exposure Type	% of Net Assets	Limit	Excess / (Shortfall)
Engro Fertilizer Limited (PPTFC)	Per Party	11.01%	10.00%	1.01%
Maple Leaf Cement (Sukuk I)	Per Party	14.20%	10.00%	4.20%
Pakistan Mobile Communication (Listed II)	Per Party	10.86%	10.00%	0.86%
Cash and Cash Equivalents	Cash Balance	16.85%	25.00%	(8.15)%

## Unit Holding Pattern of NAFA Income Opportunity Fund as on 30th June 2012

Size of Unit Holding (Units)	# of Unit Holders
1 - 1000	213
1001 - 5000	224
5001 - 10000	35
10001 - 50000	66
50001 - 100000	18
100001 - 500000	22
500001 - 1000000	4
1000001 - 5000000	3
5000001 - 10000000	-
10000001 - 100000000	3
100000001 - 1000000000	-
	<b>588</b>

# NAFA INCOME OPPORTUNITY FUND

## During the period under question:

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.

## Workers' Welfare Fund (WWF)

The scheme has maintained provisions against Workers' Welfare Fund's liability to the tune of Rs. 12,230,020/-. If the same were not made the NAV per unit/ FY 2012 return of scheme would be higher by Rs. 0.0765/ 0.79%. For details investors are advised to read note 15 of the latest Financial Statement of the Scheme for the year ended June 30, 2012.

# NAFA INCOME OPPORTUNITY FUND

## **Review Report to the Unit Holders of NAFA Income Opportunity 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”) 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. 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 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 any special review of the internal controls system to enable us to express an opinion as to whether the Board’s statement on internal controls covers all controls and the effectiveness of such internal controls.

Further Listing Regulations of 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: 11 September 2012**

**Karachi**

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

# NAFA INCOME OPPORTUNITY FUND

## Independent Auditors' Report to the Unit Holders

### *Report on the Financial Statements*

We have audited the accompanying financial statements of **NAFA Income Opportunity Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2012 and the income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in Unit Holders' Fund for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 our judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation 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 Fund'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

## *Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2012 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

## *Report on Other Legal and Regulatory Requirements*

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: September 11, 2012

Karachi

KPMG Taseer Hadi & Co.

Chartered Accountants

Muhammad Nadeem

# NAFA INCOME OPPORTUNITY FUND

## Statement of Assets and Liabilities As at 30 June 2012

	Note	2012	2011
		(Rupees in '000)	
<b>ASSETS</b>			
Balances with banks	4	261,841	31,179
Investments	5	1,196,892	2,309,639
Profit receivable	6	102,073	179,347
Advance, deposits and other receivable	7	464,857	467,346
<b>Total assets</b>		<b>2,025,663</b>	<b>2,987,511</b>
<b>LIABILITIES</b>			
Payable to the NBP Fullerton Asset Management Limited - Management Company	8	2,190	3,312
Payable to the Central Depository Company of Pakistan Limited - Trustee	9	177	256
Payable to the Securities and Exchange Commission of Pakistan	10	1,504	2,461
Payable on redemption of units	7.1	440,064	440,072
Accrued expenses and other liabilities	11	36,196	36,246
<b>Total liabilities</b>		<b>480,131</b>	<b>482,347</b>
<b>NET ASSETS</b>		<b>1,545,532</b>	<b>2,505,164</b>
<b>UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>		<b>1,545,532</b>	<b>2,505,164</b>
<b>CONTINGENCY AND COMMITMENT</b>	12	(Number of units)	
Number of units in issue		159,963,866	250,266,672
		(Rupees)	
<b>NET ASSETS VALUE PER UNIT</b>	13	<b>9.6618</b>	<b>10.0100</b>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## Income Statement For the year ended 30 June 2012

	Note	2012 (Rupees in '000)	2011
<b>INCOME</b>			
Capital gain on sale of investments - net		4,745	12,814
Income from term finance certificates		241,691	385,066
Income from treasury bills		333	-
Profit on saving accounts		10,987	41,979
Reversal of appreciation on maturity of investment classified as financial assets at fair value through profit or loss - net		(446)	-
Unrealised diminution on remeasurement of investments classified as financial assets at fair value through profit or loss - net	5.4	(1,286)	(46,246)
		<u>256,024</u>	<u>393,613</u>
<b>EXPENSES</b>			
Remuneration to the NBP Fullerton Asset Management Limited - Management Company	8.1	30,078	49,228
Sindh sales tax on management fee	8.1	4,812	-
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	9	2,554	3,992
Annual fee to Securities and Exchange Commission of Pakistan	10	1,504	2,461
Securities transaction cost		171	-
Settlement and bank charges		257	771
Annual listing fee		40	40
Auditors' remuneration	14	490	447
Provision against accrued profit	7.1	-	17,012
Fund rating fee		220	200
Legal and professional charges		3,080	95
Amortisation of preliminary expenses and floatation costs		-	403
Provision against non-performing term finance certificates and sukus	5.5.1	457,278	76,215
		<u>500,484</u>	<u>150,864</u>
<b>Net (loss) / income from operating activities</b>		<u>(244,460)</u>	<u>242,749</u>
Element of loss and capital losses included in prices of units issued less those in units redeemed - net		-	(63,084)
Provision for workers' welfare fund	15	-	(3,593)
<b>Net (loss) / income before taxation</b>		<u>(244,460)</u>	<u>176,072</u>
Taxation	16	-	-
<b>Net (loss) / income for the year</b>		<u>(244,460)</u>	<u>176,072</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## Statement of Comprehensive Income For the year ended 30 June 2012

	Note	2012 (Rupees in '000)	2011
Net (loss) / income for the year		(244,460)	176,072
<b>Other comprehensive income for the year</b>			
Unrealised appreciation / (diminution) on re-measurement of investments classified as 'available for sale' - net	5.5	14,100	(80,935)
Reversal of diminution in the value of investments pertaining to non-performing investments		202,293	7,051
<b>Total comprehensive (loss) / income for the year</b>		<u>(28,067)</u>	<u>102,188</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## Distribution Statement For the year ended 30 June 2012

	2012	2011
	(Rupees in '000)	
Undistributed income brought forward	327,285	198,814
Net (loss) / income for the year	(244,460)	176,072
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	19,731	60,381
<b>Distributions:</b>		
Final distribution for the year ended 30 June 2011: 2.961% (2010: Nil) (Date of distribution: 04 July 2011)		
- Cash distribution	(45,214)	-
- Bonus units	(28,889)	-
	(74,103)	-
Interim distribution for the six months period ended 31 December 2011: Nil (2010: 1.974%) (Date of distribution: 18 February 2011)		
- Cash distribution	-	(34,071)
- Bonus units	-	(22,272)
	-	(56,343)
Interim distribution for the three months period ended 31 March 2012: Nil (2011: 1.974%) (Date of distribution: 19 April 2011)		
- Cash distribution	-	(32,140)
- Bonus units	-	(19,499)
	-	(51,639)
Total distributions	(74,103)	(107,982)
<b>Undistributed income carried forward</b>	<b>28,453</b>	<b>327,285</b>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## Statement of Movement in Unit Holders' Fund For the year ended 30 June 2012

	2012	2011
	(Rupees in '000)	
Net assets at beginning of the year	2,505,164	3,914,906
Issue of 350,986 units (2011: 1,050,462 units)	3,347	10,582
Issue of bonus units 2,974,034 (2011: 4,198,206 bonus units)	28,889	41,771
Redemption of 93,627,826 units (2011: 151,660,452 units)	(889,698)	(1,519,385)
	(857,462)	(1,467,032)
Element of loss and capital losses included in prices of units issued less those in units redeemed - net transferred to Income Statement	-	63,084
Total comprehensive income for the year	(28,067)	102,188
<b>Distributions:</b>		
Final distribution for the year ended 30 June 2011: 2.961% (2010: Nil) (Date of distribution: 04 July 2011)		
- Cash distribution	(45,214)	-
- Bonus units	(28,889)	-
	(74,103)	-
Interim distribution for the six months period ended 31 December 2011: Nil (2010: 1.974%) (Date of distribution: 18 February 2011)		
- Cash distribution	-	(34,071)
- Bonus units	-	(22,272)
	-	(56,343)
Interim distribution for the three months period ended 31 March 2012: Nil (2011: 1.974%) (Date of distribution: 19 April 2011)		
- Cash distribution	-	(32,140)
- Bonus units	-	(19,499)
	-	(51,639)
Total distributions	(74,103)	(107,982)
<b>Net assets at end of the year</b>	<b><u>1,545,532</u></b>	<b><u>2,505,164</u></b>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## Cash Flow Statement For the year ended 30 June 2012

	Note	2012 (Rupees in '000)	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net (loss) / income for the year		(244,460)	176,072
<b>Adjustments for:</b>			
Unrealised diminution on remeasurement of investments classified as financial assets at fair value through profit or loss - net		1,286	46,246
Reversal of appreciation on maturity of investment classified as financial assets at fair value through profit or loss - net		446	-
Provision against non-performing term finance certificates and sukuks		457,278	76,215
Provision for workers' welfare fund		-	3,593
Amortisation of preliminary expenses and floatation costs		-	403
Element of loss and capital losses included in prices of units issued less those in units redeemed - net		-	63,084
		<u>214,550</u>	<u>365,613</u>
<b>Decrease / (increase) in assets</b>			
Investments		870,130	576,027
Dividend and profit receivable		77,274	(40,567)
Advance, deposits, and other receivable		2,489	(462,105)
<b>Net decrease in assets</b>		949,893	73,355
<b>(Decrease) / increase in liabilities</b>			
Payable to the Management Company		(1,122)	(1,040)
Payable to the Central Depository Company of Pakistan		(79)	(150)
Payable to the Securities and Exchange Commission of Pakistan		(957)	(1,735)
Accrued expenses and other liabilities		(50)	23,219
<b>Net (decrease) / increase in liabilities</b>		(2,208)	20,294
<b>Net cash flows from operating activities</b>		<u>1,162,235</u>	<u>459,262</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Receipts from issuance of units		3,347	10,582
Payments against redemption of units		(889,706)	(1,079,991)
Distributions paid		(45,214)	(66,211)
<b>Net cash flows used in financing activities</b>		(931,573)	(1,135,620)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<u>230,662</u>	<u>(676,358)</u>
Cash and cash equivalents at beginning of the year		31,179	707,537
<b>Cash and cash equivalents at end of the year</b>	4	<u><u>261,841</u></u>	<u><u>31,179</u></u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## Notes to and forming part of the Financial Statements *For the year ended 30 June 2012*

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Income Opportunity 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. The Trust Deed was 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. The name of the fund was changed from NAFA Cash Fund to NAFA Income Opportunity Fund w.e.f. 21 December 2010.

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. The principal activity of the Fund is to make investments in money market and debt securities having a good credit rating and liquidity subject to the guidelines prescribed by SECP. Other avenues of investments include ready future arbitrage in listed securities and transactions under Continuous Funding System.

The Pakistan Credit Rating Agency Limited has assigned an asset manager rating of AM2 to the Management Company and a stability rating of BBB+ 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, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

#### 2.2 Accounting convention

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

#### 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.

# NAFA INCOME OPPORTUNITY FUND

## 2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise their judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments and impairment thereagainst (note 3.1.1 and 3.1.6).

## 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 July 01, 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 01, 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.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 01, 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 July 01, 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 would result in increased disclosures in the financial statements of the Fund.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. 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 January 01, 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Fund.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after January 01, 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. This amendment is not likely to have any impact on Fund's financial statements.
- Annual Improvements 2009–2011 (effective for annual periods beginning on or after January 01, 2013). The new cycle of improvements contains amendments to the following four standards, with consequential amendments to other standards and interpretations.

# NAFA INCOME OPPORTUNITY FUND

- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the ‘third statement of financial position’, when required, is only required if the effect of restatement is material to statement of financial position. The amendment has no impact on Fund’s financial statements.
- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of ‘property, plant and equipment’ in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories. The amendment has no impact on Fund’s financial statements.
- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.
- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The amendment may result in modified disclosure in the interim financial statements.
- IFRIC 20 Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after January 01, 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Fund.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Financial Assets

#### 3.1.1 Classification

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

##### a) 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) Held to maturity

Financial assets with fixed or determinable maturity where management has both the positive intent and ability to hold till maturity are classified as held to maturity.

##### d) Available for sale

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

# NAFA INCOME OPPORTUNITY FUND

## 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 assets.

## 3.1.3 Initial recognition and measurement

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

## 3.1.4 Subsequent measurement

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

### a) Basis of valuation of debt securities

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

### b) Basis of valuation of equity securities

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

### c) Basis of valuation of Government Securities

The government securities are valued on the basis of rates announced by the Financial Markets Association of Pakistan.

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

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

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

## 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 of financial assets

The carrying value of the Fund's assets are reviewed at each reporting 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. Impairment losses are recognised in the income statement.

Provision for non-performing debt securities and other exposures is made in accordance with the criteria specified in circular 1 dated January 6, 2009 and circular No. 13 dated May 4, 2009 issued by SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of Management Company.

# NAFA INCOME OPPORTUNITY FUND

## 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.

## 3.2 Financial liabilities

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

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

## 3.3 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.

## 3.4 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.

## 3.5 Preliminary expenses and floatation costs

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

## 3.6 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.

## 3.7 Taxation

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

## 3.8 Proposed distribution

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared. Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, requires that the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains / loss to the unit holders. However during the year no distribution in respect of the accounting income for the year ended 30 June 2012 has been made due to loss.

# NAFA INCOME OPPORTUNITY FUND

## 3.9 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.

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

An equalisation account called the 'element of income / (loss) 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.

Up to 30 June 2011, the Fund recorded portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period on account of gains / (losses) that formed 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) was included in the amount available for distribution to the unit holders. At the end of the accounting period the portion of net income / (loss) relating to units issued and redeemed during such accounting period had been transferred to income statement and remaining amount had been transferred to distribution statement.

The calculation of element of income and capital gains included in the price of units issued less those in the units redeemed and its bifurcation between reserve and income statement has been based on prevailing NAV on the date of transaction of sale and redemption and initial offer price.

Based on the proposal by the Mutual Fund Association of Pakistan (MUFAP) regarding the change in the treatment of "Element of Income and Capital Gains included in the prices of units issued less those on units redeemed" and subsequent directive dated 09 June 2011 by SECP, the Management Company of the Fund has revised the calculation to estimate element of income and capital gains included in the price of units issued less those in the units redeemed based on NAV comparison and decided to recorded full amount directly into distribution statement effective from 1 July 2011.

The above change does not have any impact on the NAV of the Fund. However, had the change in estimate not been made the undistributed income carried forward as on 30 June 2012 would have been higher by Rs. 26.687 million.

## 3.11 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.

## 3.12 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on marking to market 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.
- Profit on bank deposits, investments in debt securities and income from government securities is recognised using the effective interest method.

## 3.13 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.

## 3.14 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.

# NAFA INCOME OPPORTUNITY FUND

## 4 BALANCES WITH BANKS

	Notes	2012	2011
		(Rupees in '000)	
Current accounts		93	542
Savings accounts	4.1	261,748	30,637
		<u>261,841</u>	<u>31,179</u>

4.1 These accounts carry profit at rates ranging from 5% to 12% (2011: 5% to 12%) per annum.

## 5 INVESTMENTS

### Financial assets 'At fair value through profit or loss' - held for trading

Equity securities - listed	5.1	-	-
Term finance certificates	5.2	42,256	257,961
		<u>42,256</u>	<u>257,961</u>

### Available for sale

Term finance certificates - listed	5.3	328,643	579,835
Term finance certificates - unlisted	5.3	443,372	810,224
Sukuk bonds	5.3	382,621	661,619
		<u>1,154,636</u>	<u>2,051,678</u>
		<u>1,196,892</u>	<u>2,309,639</u>

### 5.1 Equity securities - listed

Name of the investee company	Number of shares					Value as at 30 June 2012 (Rupees in '000)	Investment as a percentage of		
	As at 01 July 2011	Purchases during the year	Bonus	Sales during the year	As at 30 June 2012		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 2012						13			
Provision as at 30 June 2012						<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 2011	Purchases during the year	Sales / *Matured during the year	As at 30 June 2012	Market value / carrying value* as at 30 June 2012	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	214	0.01%	0.01%	0.05%
Escort Investment Bank Limited	10,000	-	-	10,000	9,209	0.60%	0.45%	10.00%
Gharibwal Cement Limited (note 5.2.4)	5,000	-	-	5,000	-	-	-	-
Jahangir Siddiqui & Company Limited	18,000	-	*18,000	-	-	-	-	-
Orix Leasing Pakistan Limited	10,000	-	*10,000	-	-	-	-	-
Pace (Pakistan) Limited (note 5.2.5)	30,000	-	-	30,000	-	-	-	10.00%
Saudi Pak Leasing Company Limited (note 5.2.6)	15,000	-	-	15,000	32,833	2.12%	1.62%	10.00%
				<u>60,128</u>	<u>42,256</u>	<u>2.73%</u>	<u>2.09%</u>	
Carrying value of investments as at 30 June 2012					<u>168,000</u>			
Provision for impairment losses as at 30 June 2012**					<u>124,012</u>			

\*\* As at 30 June 2012, the Fund has total provision amounted to Rs. 191 million which has been adjusted with the reversal of unrealised loss amounted to Rs. 67 million as required by SECP cirentar no. 01 of 2009.

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5.2.2 Significant terms and conditions of term finance certificates and sukuk bonds outstanding as at 30 June 2012 are as follows:

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
Bank Alfalah Limited - II	1,662	1.5% + 6 month KIBOR	23-Nov-04	23-Nov-12
Escort Investment Bank Limited	1,249	8% fixed rate	15-Mar-07	15-Sep-14
Gharibwal Cement Limited	4,871	3% + 6 month KIBOR	18-Jan-08	18-Jan-13
Pace (Pakistan) Limited	4,994	2% + 6 month KIBOR	15-Feb-08	15-Feb-13
Saudi Pak Leasing Company Limited	3,315	6% fixed rate	13-Mar-08	13-Mar-17

5.2.3 Fair value of all performing 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).

5.2.4 This represents investment in privately placed term finance certificates. On 18 July 2009, the scheduled redemption date, principal redemption of Rs. 5 thousands and profit redemption of Rs. 2.291 million were not received by the Fund. The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these term finance certificates up to 30 June 2012 amounted to Rs.12.03 million.

5.2.5 This represents investment in listed term finance certificates with a term of five years. On 15 August 2011, the scheduled profit payment date, principal redemption of Rs.30 thousands and profit redemption of Rs.11.806 million were not received by the Fund. As at 30 June 2012, the Fund has maintained total provision amounted to Rs. 149.82 million which has been adjusted with the reversal of unrealised loss amounted to Rs. 49.064 million as required by SECP circular no. 01 of 2009. The income suspended on these term finance certificates up to 30 June 2012 amounted to Rs. 31.096 million.

5.2.6 This represents investment in listed term finance certificates. On 13 October 2011, the investee company defaulted on its obligation on account of principal redemption of Rs.0.3 million and profit payment of Rs. 0.254 million. As at 30 June 2012, the Fund has maintained total provision amounted to Rs. 16.90 million which has been adjusted with the reversal of unrealised loss amounted to Rs. 17.99 million as required by SECP circular no. 01 of 2009. The income suspended on these term finance certificates up to 30 June 2012 amounted to Rs. 2.781 million.

## 5.3 Term finance certificates and sukuk bonds - Available for sale

Name of the investee company	As at 01 July 2011	Purchases during the year	Sales / *Matured during the year	As at 30 June 2012	Market value / carrying value* as at 30 June 2012 (Rupees in '000)	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-----							
<b>Term finance certificate - listed</b>								
Pakistan Mobile Communications (Private) Limited	78,000	-	44,000	34,000	167,775	10.86%	8.28%	9.18%
World Call Telecom Limited (note 5.3.3)	45,000	-	-	45,000	96,371	6.24%	4.76%	5.63%
Allied Bank Limited	13,400	-	-	13,400	64,497	4.17%	3.18%	4.00%
				<u>92,400</u>	<u>328,643</u>	<u>21.26%</u>	<u>16.22%</u>	
<b>Term finance certificate - unlisted</b>								
Avari Hotels International	35,040	-	-	35,040	142,882	9.24%	11.94%	5.57%
Azgard Nine Limited (note 5.3.4)	50,000	-	-	50,000	-	0.00%	0.00%	10.00%
Dewan Cement Limited (note 5.3.5)	30,000	-	-	30,000	-	0.00%	0.00%	-
Engro Fertilizers Limited	62,000	-	26,200	35,800	170,229	11.01%	14.22%	7.75%
New Allied Electronics Industries (Private) Limited (note 5.3.6)	15,000	-	-	15,000	-	0.00%	0.00%	-
Orix Leasing Pakistan Limited (note 5.2.1)	3,900	-	-	3,900	130,261	8.43%	10.88%	0.44%
Agritech Limited I (note 5.3.7)	30,000	-	-	30,000	-	0.00%	0.00%	10.00%
Agritech Limited V (note 5.3.8)	-	6,464	-	6,464	-	0.00%	0.00%	10.00%
				<u>206,204</u>	<u>443,372</u>	<u>28.69%</u>	<u>37.04%</u>	
<b>Sukuk bonds</b>								
Century Paper and Board Mills Limited	28,200	-	28,200	-	-	-	-	-
Eden Builders Limited	7,956	-	-	7,956	17,179	1.11%	1.44%	1.59%
Eden Housing Limited (note 5.3.9)	9,200	-	-	9,200	17,416	1.13%	1.46%	-
Kohat Cement Company Limited	50,000	-	-	50,000	55,711	3.60%	4.65%	10.00%
Maple Leaf Cement Factory Limited (note 5.3.10)	80,000	-	-	80,000	219,533	14.20%	18.34%	5.00%
Maple Leaf Cement Factory Limited - II (note 5.3.11)	3,000	-	-	3,000	-	-	-	-
New Allied Electronics Industries (Private) Limited (note 5.3.12)	9,000	-	-	9,000	-	-	-	-
Orix Leasing Pakistan Limited	10,000	-	*10,000	-	-	-	-	-
Pak Elektron Limited (note 5.3.13)	24,000	-	-	24,000	36,571	2.37%	3.06%	10.00%
BRR Guardian Modaraba (note 5.3.14)	10,000	-	-	10,000	36,211	2.34%	3.03%	6.25%
				<u>193,156</u>	<u>382,621</u>	<u>22.41%</u>	<u>28.94%</u>	
				<u>491,760</u>	<u>1,154,636</u>	<u>72.37%</u>	<u>82.21%</u>	
Carrying value of investments as at 30 June 2012					<u>2,049,291</u>			
Provision for impairment losses as at 30 June 2012					<u>908,755</u>			

\* In case of debt securities against which provision has been made, these are carried at amortised cost less provision

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5.3.1 Significant terms and conditions of term finance certificates and sukuk bonds outstanding as at 30 June 2012 are as follows:

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
<b>Term finance certificate - listed</b>				
Pakistan Mobile Communications (Private) Limited	5,000	1.65% + 6 Month KIBOR	28-Oct-08	28-Oct-13
World Call Telecom Limited	2,855	1.60% + 6 Month KIBOR	7-Oct-08	7-Oct-13
Allied Bank Limited	4,995	0.85% + 6 Month KIBOR	28-Aug-09	28-Aug-19
<b>Term finance certificate - unlisted</b>				
Avari Hotels International	4,246	2.5% + 6 Month KIBOR	30-Apr-09	1-Nov-14
Azgard Nine Limited	4,996	2.25% + 6 Month KIBOR	4-Dec-07	4-Dec-14
Dewan Cement Limited	5,000	2% + 6 Month KIBOR	14-Jan-08	14-Jan-14
Engro Fertilizers Limited	5,000	1.7% + 6 Month KIBOR	18-Mar-08	18-Mar-18
New Allied Electronics Industries (Private) Limited	2,114	3% + 3 Month KIBOR	15-May-07	15-May-11
Orix Leasing Pakistan Limited	33,333	1.2% + 6 Month KIBOR	15-Jan-08	15-Jan-13
Agritech Limited I	4,995	1.75% + 6 Month KIBOR	30-Nov-07	30-Nov-14
Agritech Limited V	5,000	11% fixed rate	28-Oct-11	28-Apr-17
<b>Sukuk bonds</b>				
BRR Guardian Modaraba	4,828	1.3% + 6 Month KIBOR	7-Jul-08	7-Dec-16
Eden Builders Limited	2,188	2.3% + 3 Month KIBOR	8-Sep-08	8-Mar-14
Eden Housing Limited	2,906	2.5% + 6 Month KIBOR	29-Mar-08	29-Sep-14
Kohat Cement Company Limited	1,510	2.5% + 6 Month KIBOR	20-Dec-07	20-Dec-15
Maple Leaf Cement Factory Limited	4,989	1% + 3 Month KIBOR	3-Dec-07	3-Dec-18
Maple Leaf Cement Factory Limited - II	5,000	1% + 3 Month KIBOR	31-Mar-10	31-Mar-12
New Allied Electronics Industries (Private) Limited	4,905	2.2% + 6 Month KIBOR	3-Dec-07	3-Dec-12
Pak Elektron Limited	2,143	1.75% + 3 Month KIBOR	28-Sep-07	28-Sep-12

5.3.2 Fair value of all performing listed term finance certificates classified as available for sale is determined using rates notified by the Mutual Funds Association of Pakistan (MUFAP).

5.3.3 This represents investment in listed term finance certificates of Worldcall Telecom Ltd. On 07 April 2012, the investee company defaulted on its obligation on account of principal amounting to Rs. 32.12 million and profit payment amounting to Rs. 9.38 million. Although TFCs were not classified as non-performing at year end by MUFAP, the management based on financial position and liquidity problems faced by the investee company, in addition to subsequent classification as non-performing by MUFAP, has made provision of Rs.32.12 million at year end. Accordingly, unrealized loss of Rs.13.73 million up to 30 June 2011 has been reversed from unit holders' fund to statement of comprehensive income. The income suspended on these term finance certificates up to 30 June 2012 amounted to Rs. 13.447 million.

5.3.4 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 amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these term finance certificates up to 30 June 2012 amounted to Rs. 90.262 million.

5.3.5 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 amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these term finance certificates up to 30 June 2012 amounted to Rs. 99.573 million.

5.3.6 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 amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these term finance certificates up to 30 June 2012 amounted to Rs. 21.881 million.

5.3.7 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.10.523 million were not received by the Fund. The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these term finance certificates up to 30 June 2012 amounted to Rs. 23.714 million.

5.3.8 This represents investment in privately placed term finance certificates of Agritech V received against due markup of Agritech I. The management has classified these PPTFC's as non-performing. The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these term finance certificates up to 30 June 2012 amounted to Rs. 1.695 million.

5.3.9 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.1.725 million were not received by the Fund. The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these sukuk bonds up to 30 June 2012 amounted to Rs. 0.99 million.

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- 5.3.10** This represent investment in privately placed Sukuk Certificates issued with a term of six years. During the year ended, the status of these Sukuk Certificates again has been changed from performing to non-performing (performing as at 30 June 2011). The coupon payment amounting to Rs. 0.0085 million on Maple Leaf Sukuk I was due on 03 September 2011 which was not received by the Fund. The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these sukuk bonds up to 30 June 2012 amounted to Rs. 31.271 million.
- 5.3.11** This represent investment in Maple Leaf privately placed sukuk bonds II. The coupon payment on Maple Leaf Sukuk II was due on 29 June 2010 amounting to Rs. 0.54 million was not received by the Fund. Therefore as a matter of prudence, the management has classified as non-performing. The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these sukuk bonds up to 30 June 2012 amounted to Rs. 0.49 million.
- 5.3.12** This represents investment in privately placed sukuk bonds. On 03 December 2008, the scheduled redemption date, profit redemption of Rs. 3.415 million was not received by the Fund. The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these sukuk bonds up to 30 June 2012 amounted to Rs. 25.48 million.
- 5.3.13** This represents investment in privately placed sukuk bonds. On 27 December 2011 i.e. the scheduled redemption date, profit redemption of Rs. 1.93 million was not received by the Fund. The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular. The income suspended on these sukuk bonds up to 30 June 2012 amounted to Rs. 3.584 million.
- 5.3.14** 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 2011 amounting to Rs. 12.5 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. 12.07 million due to marked to MUFAP's rate has been taken to statement of comprehensive income based on its categorisation as performing.

<b>5.4 Unrealised diminution on remeasurement of investments classified as financial assets at fair value through profit or loss - net</b>	<b>2012</b>	<b>2011</b>
	<b>(Rupees in '000)</b>	
Market value of investments	42,256	257,961
Less: carrying value of investments	(168,000)	(328,563)
	<u>(125,744)</u>	<u>(70,602)</u>
<b>Provision against non-performing TFCs</b>		
Balance as at 1 July	24,356	24,356
Provision made during the year	166,715	-
Less: Reversal of unrealised loss	(67,059)	-
	99,656	-
Reversal of appreciation on maturity of investment classified as financial assets at fair value through profit or loss - net	446	-
Balance as at 30 June	<u>124,458</u>	<u>24,356</u>
	<u>(1,286)</u>	<u>(46,246)</u>
<b>5.5 Unrealised appreciation / (diminution) on remeasurement of investments classified as available for sale - net</b>		
Market value of investments	1,154,636	2,051,678
Less: Carrying of investments	(2,049,291)	(2,683,746)
	<u>(894,655)</u>	<u>(632,068)</u>
<b>Provision against non-performing TFCs and sukuk</b>		
Balance as at 1 July	551,133	475,280
Provision made during the year	357,622	75,853
Balance as at 30 June	<u>908,755</u>	<u>551,133</u>
	<u>14,100</u>	<u>(80,935)</u>
<b>5.5.1 Movement in provision against non-performing term finance certificates and sukuk</b>		
Balance as at 1 July	575,489	499,636
Add: Charge for the year	524,337	190,369
	<u>1,099,826</u>	<u>690,005</u>
Less: Reversal of unrealised loss	(67,059)	-
Less: Reversal during the year	-	(114,516)
Balance as at 30 June	<u>1,032,767</u>	<u>575,489</u>

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5.5.1 As at 30 June 2012, the Fund has total provision amounted to Rs. 524 million which has been adjusted with the reversal of unrealised loss amounted to Rs. 67 million as required by SECP circular no. 01 of 2009.

		2012	2011
		(Rupees in '000)	
<b>6</b>	<b>PROFIT RECEIVABLE</b>		
	Profit on savings account	51,773	51,044
	Provision against accrued profit	(17,012)	(17,012)
		<u>34,761</u>	<u>34,032</u>
	Income accrued on term finance certificates and sukuk bonds - net	67,312	145,315
		<u>102,073</u>	<u>179,347</u>
<b>7</b>	<b>ADVANCE, DEPOSITS AND OTHER RECEIVABLE</b>		
	Security deposits with:		
	- National Clearing Company of Pakistan Limited	-	2,500
	- Central Depository Company of Pakistan Limited	100	100
	Advance tax	1,532	1,521
	Receivable from KASB Bank Limited	463,225	463,225
		<u>464,857</u>	<u>467,346</u>
7.1	This represents receivable of Rs. 463.225 million on account of deposit maintained with KASB Bank ("the Bank").		
	The Fund claims profit at the rate 13 percent on its Mahana Khazan account maintained with the Bank, since 23 June 2008 to 10 February 2011. Whereas, the Bank did not credit / pay the due mark up at agreed rate, as the Bank did not get expected profit on its investment in units 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. 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. Subsequently, 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 filed for the redemption of their entire investment in the Fund on the same date. 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 principal of Rs 187.008 million 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 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. The Management Company was making every effort for recovery of profit at the rate higher than 7 percent. However on prudent basis, it brought down the accrued profit at 7 percent and has maintained provision of Rs. 17 million there against.		
	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 dated 12 August 2011 under Section 282J (1) and 282J (2) of the Companies Ordinance, 1984, required the Management Company to make the loss of Rs.19 million good to the Fund's unit holders in addition to a penalty of Rs. 1 million.		
	Unexpectedly, the Management Company received above order while the management was pursuing this case with the Banking Mohtasib and the High Court for the benefits of the unit holders and therefore was unable to understand as to how SECP without having final discussion issued such an order. 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 and the Bench suspended the said order till the issuance of final order.		
	During the year, the Management Company has filed petition before the Honorable High Court of Sindh for resolution of dispute with the Bank. The hearing of the case is pending to date. However, the Management Company is confident that the matter would be resolved in the Fund's favour.		
<b>8</b>	<b>PAYABLE TO THE NBP FULLERTON ASSET MANAGEMENT LIMITED</b>	2012	2011
		(Rupees in '000)	
	Management fee	1,888	3,282
	Legal charges	-	30
	Sindh Sales tax	302	-
		<u>2,190</u>	<u>3,312</u>

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- 8.1** 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 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.

During the year, the Sindh government has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company through Sindh Sales Tax on Services Act 2011 effective from 01 July 2011. Accordingly, the Management fee charged during the year inclusive of General Sales Tax.

## **9 PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED**

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund 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

## **10 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.

## **11 ACCRUED EXPENSES AND OTHER LIABILITIES**

	2012	2011
	(Rupees in '000)	
Auditors' remuneration	345	315
Settlement charges payable	44	42
Printing charges	140	194
Workers' Welfare Fund	15	12,230
Contingent load	7.1	23,161
Others	276	304
	<u>36,196</u>	<u>36,246</u>

## **12 CONTINGENCY AND COMMITMENT**

There is no contingency and commitment outstanding as at 30 June 2012.

## **13 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 year end.

	2012	2011
	(Rupees in '000)	
<b>14 AUDITORS' REMUNERATION</b>		
Audit fee	319	290
Half yearly review	128	116
Out of pocket expenses	43	41
	<u>490</u>	<u>447</u>

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## 15 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

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

Furthermore, in 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC.

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 2012. As at 30 June 2012 the management has maintained provision against Workers' Welfare Funds' amounting to Rs. 12.23 million, if the same were not made the net asset value per unit of the Fund would have been higher by Rs. 0.0765.

## 16 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 realized or unrealized is distributed among the unit holders.

## 17 FINANCIAL INSTRUMENTS BY CATEGORY

As at 30 June 2012

	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
-----Rupees in '000-----				
<b>Assets</b>				
Balances with banks	261,841	-	-	261,841
Investments	-	42,256	1,154,636	1,196,892
Loans and receivables	-	-	-	-
Profit receivable	102,073	-	-	102,073
Advance, deposits and other receivable	463,325	-	-	463,325
	<u>827,239</u>	<u>42,256</u>	<u>1,154,636</u>	<u>2,024,131</u>

As at 30 June 2012

	Liabilities at fair value through profit or loss	Other financial liabilities	Total
-----Rupees in '000-----			
<b>Liabilities</b>			
Payable to the Management Company	-	2,190	2,190
Payable to the Trustee	-	177	177
Payable on redemption of units	-	440,064	440,064
Accrued expenses and other liabilities	-	23,966	23,966
	<u>-</u>	<u>466,397</u>	<u>466,397</u>

# NAFA INCOME OPPORTUNITY FUND

	As at 30 June 2011			Total
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	
<b>Assets</b>	-----Rupees in '000-----			
Balances with banks	31,179	-	-	31,179
Investments	-	257,961	2,051,678	2,309,639
Loans and receivables	-	-	-	-
Profit receivable	179,347	-	-	179,347
Advance, 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>
	-----Rupees in '000-----			
	As at 30 June 2011			Total
	Liabilities at fair value through profit or loss	Other financial liabilities		
<b>Liabilities</b>	-----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>

## 18 TRANSACTIONS WITH CONNECTED PERSONS

- 18.1** 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.
- 18.2** The transactions with connected persons are at contracted rates and terms determined in accordance with market rates.
- 18.3** Remuneration payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.
- 18.4** Remuneration to the Trustee is determined in accordance with the provisions of the Trust Deed.
- 18.5** Details of the transactions with connected persons are as follows:

	For the year ended 30 June 2012	For the year ended 30 June 2011
(Rupees in '000)		
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Management fee expense for the year	30,078	49,228
Sindh sales tax on management fee	4,812	-
<b>NAFA Provident Fund Trust</b>		
Units redeemed / transferred out Nil units (2011: 7,536 units)	-	74
Bonus units issued Nil units (2011: 149 units)	-	-
<b>National Bank of Pakistan - Sponsor</b>		
Cash dividend	1,066	1,422
<b>Alexandra Fund Management Pte. Limited - Sponsor</b>		
Units redeemed / transferred out 802,116 units (2011: 4,741,247 units)	7,685	47,000
Bonus units issued 23,727 units (2011: 495,765 units)	-	-

# NAFA INCOME OPPORTUNITY FUND

For the year ended  
30 June 2012

For the year ended  
30 June 2011

(Rupees in '000)

<b>NBP Employees Pension Fund</b> Bonus units issued 1,656,399 units (2011: 2,091,421 units)	-	-
<b>NBP Endowment Fund Student Loan Scheme</b> Units redeemed / transferred out 18,087,807 units (2011: 15,626,470 units) Bonus units issued 535,045 units (2011: 952,798 units)	169,970	159,000
<b>NBP Employees Benevolent Fund Trust</b> Bonus units issued 57 units (2011: 72 units)	-	-
<b>Mr. Shahid Anwar Khan - Director</b> Bonus units issued 2,891	-	-
<b>Employees of Management Company</b> Units redeemed / transferred out Nil units (2011: 2,057 units) Bonus units issued Nil units (2011: 149 units)	-	20
<b>Central Depository Company of Pakistan Ltd. - Trustee</b> Remuneration	2,554	3,992

As at  
30 June 2012

As at  
30 June 2011

(Rupees in '000)

## 18.6 Balances at year end

<b>NBP Fullerton Asset Management Limited - Management Company</b> Management fee payable Legal charges payable Sindh Sales tax on management fee	1,888 - 302	3,282 30 -
<b>National Bank of Pakistan - Sponsor</b> Investment held by the sponsor in the Fund 3,601,691 units (2011: 3,601,691 units) Balances in current account	34,799 801	36,053 521
<b>Alexandra Fund Management Pte. Limited - Sponsor</b> Investment held by the Sponsor in the Fund Nil units (2011: 778,389 units)	-	7,792
<b>Employees of Management Company</b> Investment held in the Fund 4 units (2011: 4 units)	-	-
<b>Central Depository Company of Pakistan Ltd. - Trustee</b> Remuneration payable Security deposit	177 100	256 100
<b>NBP Employees Pension Fund</b> Investment held in the Fund 55,996,457 units (2011: 54,340,058 units)	541,027	543,944
<b>NBP Endowment Fund Student Loan Scheme</b> Investment held in the Fund Nil units (2011: 17,552,762 units)	-	175,703
<b>Mr. Shahid Anwar Khan - Director</b> Investment held in the Fund 97,742 units (2011: 94,851 units)	944	949
<b>NBP Employees Benevolent Fund Trust</b> Investment held in the Fund 1,929 units (2011: 1,872 units)	19	19

# NAFA INCOME OPPORTUNITY FUND

## 19 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	Qualification	Experience
1. Dr. Amjad Waheed	MBA/ Doctorate in Business Administration / CFA	24
2. Sajjad Anwar	MBA Finance, CFA	12
3. Tanveer Abid	MBA, CFA	13
4. Hussain Yasar	MBA, Passes CFA Level 1	6.5
5. Ahmed Nouman	EMBA, CFA	16

### 19.1 Hussain Yasar is the fund manager of the NAFA Income Opportunity Fund. Other funds being managed by the Fund Manager are as follows:

- NAFA Riba Free Savings Fund
- NAFA Islamic Aggressive Income Fund

## 20 BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

1. Alfalah Securities (Private) Limited	64.52%
2. JS Global Capital Limited	33.72%
2. Invest Capital and Securities (Private) Limited	1.76%

2011

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

## 21 PATTERN OF UNIT HOLDING

Category	As at 30 June 2012		
	Number of unit holders	Investment amount	Percentage investment
	(Rupees in '000)		
Individuals	533	60,743	3.93%
Associated companies / Directors	-	-	0.00%
Insurance companies	5	13,027	0.84%
Bank / DFIs	3	842,702	54.53%
NBFCs	-	-	0.00%
Retirement funds	18	604,162	39.09%
Public limited companies	2	20	0.00%
Others	27	24,878	1.61%
	<b>588</b>	<b>1,545,532</b>	<b>100%</b>

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%
	<b>758</b>	<b>2,505,164</b>	<b>100.00%</b>

# NAFA INCOME OPPORTUNITY FUND

## 22 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 32nd , 33rd, 34th, 35th and 36th Board meetings were held on July 04, 2011, September 29, 2011, October 27, 2011, February 17, 2012 and April 17, 2012 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. Shahid Anwar Khan	5	3	2	34th, 35th meeting
Dr. Asif A. Brohi	5	2	3	33rd, 34th, 35th meeting
Mr. Wah Geok Sum	5	2	3	33rd, 34th, 36th meeting
Mr. Patrick Pang Chin Hwang***	4	4	0	
Mr. Shehryar Faruque	5	3	2	32nd, 36th meeting
Mr. Kamal Amir Chinoy	5	3	2	34th, 35th meeting
Syed Iqbal Ashraf*	1	0	1	32nd meeting
Dr Amjad Waheed	5	5	0	
Mr. Amir Shehzad	3	3	0	
Mr. Koh Boon San****	1	1	0	

\* Syed Iqbal Ashraf retired from Board with effect from 27 August 2011

\*\* Mr.Amir Shehzad was co-opted on the Board with effect from 20 September 2011

\*\*\* Mr. Patrick Pang Chin Hwang retired from Board with effect from 31 March 2012

\*\*\*\* Mr.Kow Boon San was co-opted on the Board with effect from 17 February 2012

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

As at 30 June 2012, 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) requires that the rating of any security in the portfolio shall not be lower than investment grade. Non compliance of the said circular are as follows:

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 Cash and near cash instruments		261,841	-	261,841	16.94%	12.93%
Investment in Debt securities	Azgard Nine Limited **	249,800	249,800	-	-	-
	Agritech Limited I **	149,860	149,860	-	-	-
	Agritech Limited V **	32,320	32,320	-	-	-
	BRR Guardian Modaraba***	48,281	-	36,210	2.34%	1.79%
	Dewan Cement Limited - **	150,000	150,000	-	-	-
	Eden Housing Ltd. Sukuk II **	26,738	9,321	17,417	1.13%	0.86%
	Escort Investment Bank Limited***	12,490	-	9,210	0.60%	0.45%
	Gharibwal Cement Limited - **	24,356	24,356	-	-	-
	Kohat Cement Limited - Sukuk***	75,500	-	55,711	3.60%	2.75%
	Maple Leaf Cement Factory Limited - Sukuk I **	399,150	179,617	219,533	14.20%	10.84%
	Maple Leaf Cement Factory Limited - Sukuk II **	15,000	15,000	-	-	-
	New Allied Electronics Industries (Private) Limited - PPTFC **	31,707	31,707	-	-	-
	New Allied Electronics Industries (Private) Limited - Sukuk II **	44,149	44,149	-	-	-
	PACE Pakistan Limited **	149,820	149,820	-	-	-
	Pak Elektron Limited - Sukuk **	51,428	14,857	36,571	2.37%	1.81%
	Saudi Pak Leasing Company Limited **	49,728	16,895	32,833	2.12%	1.62%
	Worldcall Telecom Limited **	128,494	32,124	96,370	6.24%	4.76%

\* Investment in cash and near cash is less than 25% of net assets.

\*\* At the time of purchase, the TFCs and sukuk 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.

# NAFA INCOME OPPORTUNITY FUND

## 24 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.

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

### 24.1 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.

### 24.2 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.

### 24.3 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 2012, 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 8.389 million (2011: Rs 17.015 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 2012 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

30 June 2012					
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) -----					
<b>On-balance sheet financial instruments</b>					
<b>Financial assets</b>					
Balances with banks	5% - 12%	261,841	261,748	-	93
Investments	6.9% - 16.70%	1,196,892	17,179	776,989	402,724
Profit receivable		102,073	-	-	102,073
Deposits and receivable		463,325	-	-	463,325
		<u>2,024,131</u>	<u>278,927</u>	<u>776,989</u>	<u>968,215</u>
<b>Financial liabilities</b>					
Accrued expenses and other liabilities		23,966	-	-	23,966
Payable against redemption of units		440,064	-	-	440,064
Payable to the Management Company		2,190	-	-	2,190
Payable to the Trustee		177	-	-	177
		<u>466,397</u>	<u>-</u>	<u>-</u>	<u>466,397</u>
<b>On-balance sheet gap</b>		<u>1,557,734</u>	<u>278,927</u>	<u>776,989</u>	<u>501,818</u>
<b>Off-balance sheet financial instruments</b>		-	-	-	-
<b>Off-balance sheet gap</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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) -----					
<b>On-balance sheet financial instruments</b>					
<b>Financial assets</b>					
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
		<u>2,985,990</u>	<u>520,256</u>	<u>1,647,843</u>	<u>817,891</u>
<b>Financial liabilities</b>					
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
		<u>467,656</u>	<u>-</u>	<u>-</u>	<u>467,656</u>
<b>On-balance sheet gap</b>		<u>2,518,334</u>	<u>520,256</u>	<u>1,647,843</u>	<u>350,235</u>
<b>Off-balance sheet financial instruments</b>		-	-	-	-
<b>Off-balance sheet gap</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

# NAFA INCOME OPPORTUNITY FUND

## 24.4 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 2012, other than one fully impaired security as detailed in note 5.1.

## 24.5 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 credit worthiness 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 2012 and 30 June 2011.

	2012	2011
	(Rupees in '000)	
Balances with banks		
A1+, A-1+	258,947	-
A1, A-1	256	-
A2, A-2	310	-
A	-	31,169
A-	53	-
P-1	15	10
C	2,260	-
	<u>261,841</u>	<u>31,179</u>
Investments - Term finance certificates and sukuk bonds		
AA+, AA, AA-	532,976	743,534
A+, A, A-	160,061	846,337
BBB+, BBB, BBB-	-	-
BB+, BB, BB-	9,210	250,538
B+, B, B-	-	-
CCC	-	-
D	402,363	307,902
Non-rated	92,282	161,328
	<u>1,196,892</u>	<u>2,309,639</u>

The maximum exposure to credit risk before any credit enhancement as at 30 June 2012 is the carrying amount of the financial assets.

# NAFA INCOME OPPORTUNITY FUND

## 24.6 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 2012			
	Total	Upto three months	Over three months and upto one year	Over one year
	------(Rupees in '000)-----			
<b>Liabilities</b>				
Payable to the Management Company	2,190	2,190	-	-
Payable to the Trustee	177	177	-	-
Payable on redemption of units	440,064	440,064	-	-
Accrued expenses and other liabilities	23,966	23,966	-	-
	<b>466,397</b>	<b>466,397</b>	-	-

	30 June 2011			
	Total	Upto three months	Over three months and upto one year	Over one year
	------(Rupees in '000)-----			
<b>Liabilities</b>				
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	-	-
	<b>467,656</b>	<b>467,656</b>	-	-

# NAFA INCOME OPPORTUNITY FUND

## 25 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of financial assets and liabilities traded in active markets are based on the quoted market prices at the close of trading on the year end date. The Fund does not hold any securities that are based on quoted market prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets (e.g. Treasury bills, Terms finance certificates and Sukuks) that are not traded in an active market is determined with reference to the rates quoted by Financial Market Association of Pakistan and MUFAP. The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular 1 of 2009 dated January 6, 2009 issued by the Securities and Exchange Commission of Pakistan (SECP).

If a security is not quoted by MUFAP due to it being 'non-performing status', its value is determined by applying discount in accordance with Circular No. 1 of 2009 issued by the SECP.

The estimated fair value of other financial assets and liabilities is considered not significantly different from carrying values as the items are either short term in nature or periodically repriced.

IFRS 7, 'Financial instruments: Disclosures' requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

ASSETS	As at 30 June 2012			
	Level 1	Level 2	Level 3	Level 4
	----- (Rupees in '000) -----			
Investment in securities - at fair value through profit or loss	-	9,423	32,833	42,256
Investment in securities - available for sale	-	751,912	402,724	1,154,636

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

The reconciliation of provision in respect of level 3 is stated in note 5.5.1 to the financial statements.

## 26 UNIT HOLDERS' FUND RISK MANAGEMENT

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

The Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable on the Fund.

# NAFA INCOME OPPORTUNITY FUND

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

In accordance with the risk management policies stated in note 24, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short term borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.

## 27 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 11, 2012.

## 28 GENERAL

- 28.1 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

Director

# NAFA INCOME OPPORTUNITY FUND

## Performance Table

Particulars	For the year ended June 30, 2012	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')	1,545,532	2,505,164	3,914,906	7,665,104	24,043,799	18,248,177	3,874,369
Net Income / (loss) (Rs. '000')	(244,460)	176,072	285,007	138,143	2,184,127	1,773,340	72,844
Net Asset Value per units (Rs.)	9.6618	9.7139	9.8692	9.8959	10.0410	10.0273	10.0016
Offer price per unit	9.6618	9.7139	9.8692	9.8959	10.0410	10.0273	10.0016
Redemption price per unit	9.6618	9.7139	9.8692	9.8959	10.0410	10.0273	10.0016
Highest offer price per unit (Rs.)	9.9146	10.2445	9.9065	9.6888	9.8221	10.0273	10.0016
Lowest offer price per unit (Rs.)	9.1192	9.0655	9.2502	9.0403	9.0583	8.9543	9.8163
Highest redemption price per unit (Rs.)	9.9146	10.2445	9.9065	9.6888	9.8221	10.0273	10.0016
Lowest redemption price per unit (Rs.)	9.1192	9.0655	9.2502	9.0403	9.0583	8.9543	9.8163
Total return of the fund	-0.57%	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, 2012)	6.21%						
(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	60 Days	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 return may go down, as well as up."

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