



NBP Fullerton  
Asset Management Ltd.

A Subsidiary of  
National Bank of Pakistan

*Your investments & "NAFA" grow together*



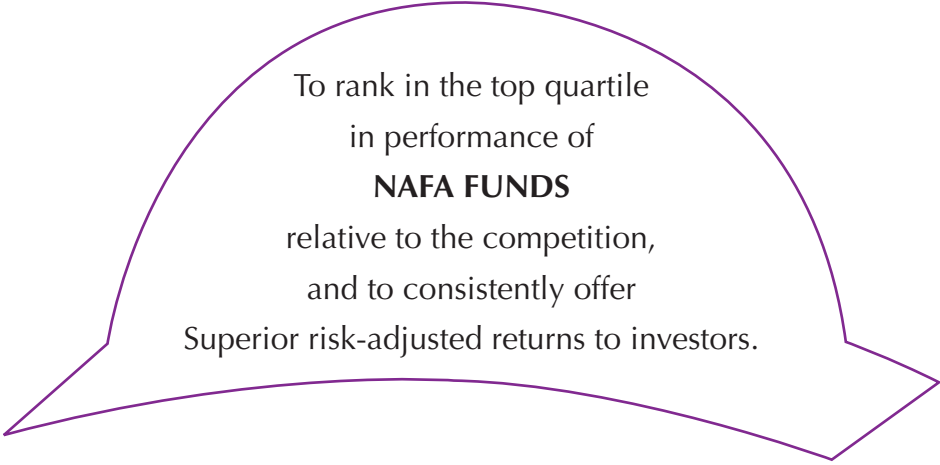
*Joint - Venture Partners*

# NAFA INCOME OPPORTUNITY FUND



QUARTERLY REPORT  
SEPTEMBER 30  
2013

## 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.

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# NAFA INCOME OPPORTUNITY FUND

## FUND'S INFORMATION

### Management Company

NBP Fullerton Asset Management Limited – Management Company

### Board of Directors of the Management Company

Mr. Khalid Mahmood	Chairman
Dr. Amjad Waheed	Chief Executive Officer
Mr. Aamir Sattar	Director
Mr. Abdul Hadi Palekar	Director
Mr. Wah Geok Sum	Director
Mr. Koh Boon San	Director
Mr. Shehryar Faruque	Director
Mr. Kamal Amir Chinoy	Director

### Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

### Audit & Risk Committee

Mr. Shehryar Faruque	Chairman
Mr. Koh Boon San	Member
Mr. Aamir Sattar	Member

### Human Resource Committee

Mr. Khalid Mahmood	Chairman
Mr. Wah Geok Sum	Member
Mr. Kamal Amir Chinoy	Member

### Trustee

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

### Bankers to the Fund

Allied Bank Limited  
Askari 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  
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 Panjab  
Summit Bank Limited  
United Bank Limited  
Samba Bank Limited  
UBL Ameen  
Sindh Bank Limited  
Al Baraka Bank Limited  
Bujr Bank Limited  
Barclays Bank Limited

# NAFA INCOME OPPORTUNITY FUND

## **Auditors**

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sheikh Sultan Trust Building No.02  
Beaumont Road,  
Karachi - 75530, Pakistan.

## **Legal Advisor**

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

## **Head Office:**

7th Floor Clifton Diamond Building, Block No. 4,  
Scheme No. 5, Clifton Karachi.  
UAN: 111-111NFA (111-111-632),  
(Toll Free): 0800-20001,  
Fax: (021) 35825329  
Website: www.nafafunds.com

## **Lahore Office:**

7-Noon Avenue, Canal Bank,  
Muslim Town,  
Lahore.

## **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 City Branch, Hussain-a-Gahi, Multan.  
Phone No: 061-4502204  
Fax No: 061-4502203

# NAFA INCOME OPPORTUNITY FUND

## DIRECTORS' REPORT

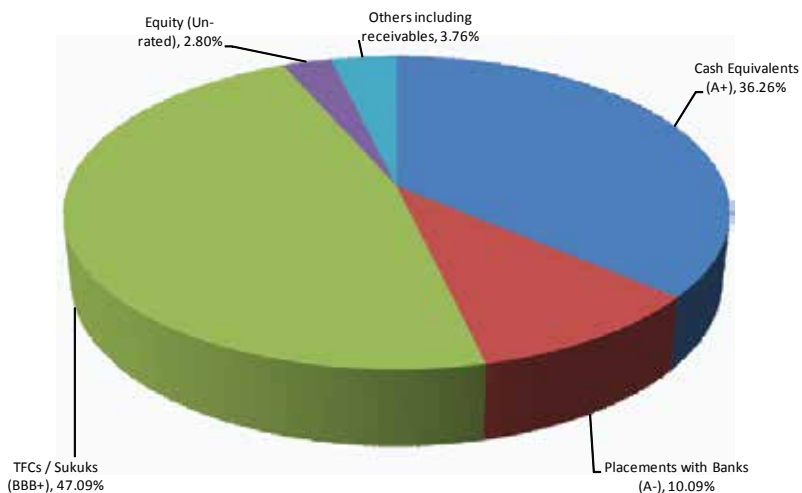
The Board of Directors of **NBP Fullerton Asset Management Limited** is pleased to present the unaudited financial statements of **NAFA Income Opportunity Fund** for the quarter ended September 30, 2013.

### Fund's Performance

The size of NAFA Income Opportunity fund has reduced from Rs. 1,869 million to Rs. 1,733 million during the period, i.e. a decline of 7.28%. During the said period, the unit price of the Fund has increased from Rs. 10.0221 (Ex-Div) on June 30, 2013 to Rs. 10.2815 on September 30, 2013, thus showing an annualized simple return of 10.27% as compared to its Benchmark (6-Month KIBOR) annualized simple return of 9.16% for the same period.

NIOF is categorized as an Income Scheme and has been awarded stability rating of BBB+(f) by PACRA. All TFCs/Sukuks in the Fund are floating rate linked to KIBOR. Therefore, any increase in interest rates will improve the coupon income of the TFC portfolio.

The Fund has earned total income of Rs.51.78 million during the period. After deducting expenses of Rs.12.42 million, the net income is Rs.39.36 million. The asset allocation of the Fund as on September 30, 2013 is as follows:



# 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: October 30, 2013  
Place: Karachi.

# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2013

	Note	(Un-audited) September 30, 2013	(Audited) June 30, 2013
(Rupees in '000)			
<b>Assets</b>			
Balances with banks		803,511	716,381
Investments	4	864,683	1,074,391
Profit receivable	5	84,135	97,241
Advances, deposits, prepayments and other receivables		464,947	464,978
<b>Total assets</b>		<u>2,217,276</u>	<u>2,352,991</u>
<b>Liabilities</b>			
Payable to Management Company		3,159	2,838
Payable to Central Depository Company of Pakistan Limited - Trustee		190	198
Payable to Securities and Exchange Commission of Pakistan		329	1,243
Payable on redemption of units		440,064	440,064
Accrued expenses and other liabilities	6	40,251	39,296
<b>Total liabilities</b>		<u>483,993</u>	<u>483,639</u>
<b>Net Assets</b>		<u>1,733,283</u>	<u>1,869,352</u>
<b>Unit Holders' Funds (As per statement attached)</b>		<u>1,733,283</u>	<u>1,869,352</u>
<b>Contingencies and Commitments</b>	7		
		<b>Number of Units</b>	
<b>Number of units in issue</b>		<u>168,582,521</u>	<u>175,369,497</u>
		<b>Rupees</b>	
<b>Net asset value per unit</b>		<u>10.2815</u>	<u>10.6595</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director



# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM INCOME STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2013 (Un-audited)

Note	Quarter Ended September 30, 2013	Quarter Ended September 30, 2012
	(Rupees in '000)	
<b>INCOME</b>		
Gain on sale of investments - net	65	-
Income from term finance certificates	32,365	145,273
Income from certificate of investments	1,113	-
Income from government securities	1,783	4,977
Profit on bank deposits and term deposits	14,676	4,517
Unrealised gain / (loss) on investments at fair value through profit or loss - net	1,774	(16,621)
<b>Total income</b>	<b>51,776</b>	<b>138,146</b>
<b>EXPENSES</b>		
Remuneration of Management Company	6,592	5,847
Sind sales tax on management fee	1,055	936
FED on management fee	1,055	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee	588	546
Annual fee - Securities and Exchange Commission of Pakistan	330	292
Securities transaction cost	13	1
Settlement and bank charges	57	93
Annual listing fee	10	12
Auditors' remuneration	136	163
Printing charges	-	29
Fund rating fee	61	55
Provision against non-performing term finance certificates	1,714	90,550
Other expenses	-	3
<b>Total expenses</b>	<b>11,611</b>	<b>98,527</b>
<b>Net income from operating activities</b>	<b>40,165</b>	<b>39,619</b>
Provision for Workers' Welfare Fund	(803)	(792)
<b>Net income for the period before taxation</b>	<b>39,362</b>	<b>38,827</b>
<b>Taxation</b>	<b>9</b>	<b>-</b>
<b>Net income for the period after taxation</b>	<b>39,362</b>	<b>38,827</b>
<b>Earnings per unit</b>	<b>10</b>	

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED SEPTEMBER 30, 2013 (Un-audited)

	Quarter Ended September 30, 2013	Quarter Ended September 30, 2012
	(Rupees in '000)	
Net income for the period after taxation	39,362	38,827
Other comprehensive income		
Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'available for sale'	4,769	(25,385)
Total comprehensive income for the period	<u>44,131</u>	<u>13,442</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM DISTRIBUTION STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2013 (Un-audited)

	Quarter Ended September 30, 2013	Quarter Ended September 30, 2012
	(Rupees in '000)	
Undistributed income brought forward	187,621	28,453
Final distribution for the year ended June 30, 2013:6.377% (2012: Nil) (Date of distribution: 11 July, 2013)		
- Cash Distribution	(51,458)	-
- Bonus units	(57,480)	-
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	(3,245)	(188)
Net income for the period	39,362	38,827
Undistributed income carried forward	<u>114,800</u>	<u>67,092</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE QUARTER ENDED SEPTEMBER 30, 2013 (Un-audited)

	Quarter Ended September 30, 2013	Quarter Ended September 30, 2012
	(Rupees in '000)	
Net assets at the beginning of the period	1,869,352	1,545,532
Issue of 5,256,630 units (2012: 31,856 units )	53,296	312
Redemption of 17,775,957 units (2012: 2,079,117 units)	(182,038) (128,742)	(20,281) (19,969)
Final distribution		
Issue of 5,732,351 bonus units for the year ended June 30, 2013: 6.377% (2012: Nil)	57,480	-
- amount representing income that form part of the unit holders' funds	3,245	188
- transferred to Distribution Statement	3,245	188
Net unrealised (diminution) / appreciation in the market value of investments classified as 'available for sale'	4,769	(25,385)
Unrealised (loss) / gain on investments at fair value through profit or loss - net	1,774	(16,621)
Gain on sale of investments - net	65	-
Other income (net of expenses)	37,523	55,448
Distribution: (Date of distribution : 11 July, 2013)		
Final distribution for the year ended June 30, 2013: 6.377% (2012: Nil)		
- Cash Distribution	(51,458)	-
- Bonus units	(57,480)	-
	(69,576)	38,827
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	(3,245)	(188)
<b>Net assets at the end of the period</b>	<u>1,733,283</u>	<u>1,539,005</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM CASH FLOW STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2013 (Un-audited)

	Quarter Ended September 30, 2013	Quarter Ended September 30, 2012
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	39,362	38,827
<b>Adjustments</b>		
Unrealised loss / (gain) on investments at fair value through profit or loss - net	(1,774)	16,621
Gain on sale of investments	(65)	-
Amortisation of preliminary expenses and floatation costs	-	-
Impairment loss on investment classified as "Available for Sale" and "Held for trading"	1,714	90,550
	<u>39,237</u>	<u>145,998</u>
<b>(Increase) / decrease in assets</b>		
Investments	214,602	(351,088)
Dividend and profit receivable	13,106	1,396
Advances, deposits, prepayments and other receivables	31	(37)
	<u>227,739</u>	<u>(349,729)</u>
<b>Increase / (decrease) in liabilities</b>		
Payable to NBP Fullerton Asset Management Limited - Management Company	321	20
Payable to Central Depository Company of Pakistan Limited - Trustee	(8)	32
Payable to Securities and Exchange Commission of Pakistan	(914)	(1,212)
Accrued expenses and other liabilities	955	1,055
	<u>354</u>	<u>(105)</u>
<b>Net cash inflow / (outflow) from operating activities</b>	267,330	(203,836)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Receipts from issue of units	53,296	312
Payments on redemption of units	(182,038)	(20,281)
Distributions paid	(51,458)	-
<b>Net cash (outflow on) / inflow from financing activities</b>	<u>(180,200)</u>	<u>(19,969)</u>
<b>Net (decrease) / increase in cash and cash equivalents during the period</b>	87,130	(223,805)
Cash and cash equivalents at the beginning of the period	716,381	261,841
<b>Cash and cash equivalents at the end of the period</b>	<u><u>803,511</u></u>	<u><u>38,036</u></u>

The annexed notes 1 to 14 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 CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2013 (Un-audited)

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Income Opportunity 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 February 11, 2006 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on January 30, 2006 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules). The Trust Deed amended through first supplemental trust deed 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 allied matters.

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. From 4 February 2013, the principal office of the Management Company is shifted to 7th floor, Clifton Diamond Building, Block No.4, Scheme No.5, Clifton, Karachi. The Management Company is also the member of MUFAP.

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

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

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

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

### 2 STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulation or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by SECP prevail. The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'.

The directors of the asset management company declare that condensed interim financial statements give a true and fair view of the Fund.

### 3 ACCOUNTING POLICIES

The accounting policies adopted for the preparation of the financial statements for the quarter ended September 30, 2013 are same as those applied in the preparation of annual audited financial statements for the year ended June 30, 2013

# NAFA INCOME OPPORTUNITY FUND

4 INVESTMENTS	Note	September 30 2013	30 June 2013
		(Rupees in '000)	
<b>At fair value through profit or loss - held for trading</b>			
Equity Securities - Listed	4.1	-	-
Market Treasury Bills	4.2	-	-
Term finance certificates - listed	4.3	156,033	293,978
		156,033	293,978
<b>Available for sale</b>			
Equity Securities - Listed	4.4	48,481	46,784
Term finance certificates - listed	4.5	229,975	232,201
Term finance certificates - unlisted	4.5	218,065	215,830
Sukuk bonds	4.5	212,129	235,596
		708,650	730,411
<b>Loans and receivable</b>			
Investment in certificate of investments		-	50,002
		<u>864,683</u>	<u>1,074,391</u>

## 4.1 Equity securities - listed - At fair value through profit or loss - held for trading

Name of the investee company	Number of shares				Value as at September 30, 2013	Investment as a percentage of		
	As at 1 July 2013	Purchases during the period	Sales during the period	As at 30 September 2013		Net assets	Market value of total investment	Paid up capital of investee company
(Rupees in '000)						----- % -----		
Fully paid ordinary shares of Rs 10 each.								
Textile composite								
Azgard Nine Limited (Non-voting)	308	-	-	308	-			-
<b>Cost of investments as at September 30, 2013</b>					<u>13</u>			
<b>Impairment losses</b>					<u>13</u>			

# NAFA INCOME OPPORTUNITY FUND

## 4.2 Market Treasury Bills

Issue date	Tenor	Face Value				Market Value as at September 30, 2013	Investment as a percentage of	
		As at July 01, 2013	Purchases during the period	Sales / matured during the period	As at September 30, 2013		Net assets	Market value of total investments
-----Rupees in '000----- %-----								
<b>Market Treasury Bills</b>								
24-Jan-13	6 Months	-	40,000	40,000	-	-	-	-
26-Jul-12	12 Months	-	600,000	600,000	-	-	-	-
19-Sep-13	3 Months	-	250,000	250,000	-	-	-	-
						-		
Carrying cost of investments as at September 30, 2013						-		

## 4.3 Term finance certificates - listed - At fair value through profit or loss - held for trading

Name of the investee company	Number of certificates				Market value as at September 30, 2013	Investment as a percentage of			
	As at July 1, 2013	Purchases during the period	Sales during the period	As at September 30, 2013		Net assets	Market value of total investments	Issue Size	
(Rupees in '000) ----- %-----									
Bank Alfalah Limited - V	20,000	-	-	20,000	102,258	5.90	11.83	0.40	
Bank Al-Habib Limited	500	-	-	500	2,505	0.14	0.29	0.19	
Engro Fertilizer Limited	5,200	-	-	5,200	25,424	1.47	2.94	0.13	
Escort Investment Bank Limited	10,000	-	-	10,000	3,684	0.21	0.43	10.00	
Gharibwal Cement Limited (note 4.5.4)	5,000	-	-	5,000	-	-	-	6.25	
Pace (Pakistan) Limited (note 4.5.5)	30,000	-	-	30,000	-	-	-	10.00	
Saudi Pak Leasing Company Limited	15,000	-	-	15,000	22,162	1.28	2.56	10.00	
<b>Short term Islamic Sukuks - unlisted</b>									
Hub Power Company Limited	10,200	-	10,200	-	-	-	-	-	
Hub Power Company Limited	17,000	-	17,000	-	-	-	-	-	
						85,700	156,033	9.00	18.05
Carrying value of investments as at September 30, 2013						328,435			
Impairment losses						174,176			

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

4.3.2 All term finance certificates have a face value of Rs 5,000 each.

## 4.4 Equity Securities - available for sale

Name of the investee company	Number of certificates				Market value as at September 30, 2013	Investment as a percentage of		
	As at July 1, 2013	Purchases during the period	Sales during the period	As at September 30, 2013		Net assets	Market value of total investments	Issue Size
(Rupees in '000) ----- %-----								
Fully paid ordinary shares of Rs 10 each								
<b>Chemicals</b>								
Agri-tech Limited (note 4.4.1)	4,040,090	-	-	4,040,090	48,481	2.80%	5.61%	1.03%
						48,481		
Carrying value as at 30 September 2013						46,784		





# NAFA INCOME OPPORTUNITY FUND

- 4.5.5 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 thousand and profit redemption of Rs.11.806 million were not received by the Fund. The investment has been fully provided.
- 4.5.6 MUFAP, on 8 November 2012 classified the TFCs as non-performing due to non payment during extended period. In accordance with the requirements of circular 33 of 2012 issued by the SECP, the security has been classified as non-performing. Subsequently, on 26 December 2012 a restructuring agreement was approved by the TFCs holders. In accordance with the terms of restructuring, repayment period has been extended by two years and the principle amount is to be settled in three equal installments starting from 7 October 2014. Payment of accrued markup as at 7 October 2012 along with regular markup payments is to be made in eleven installments starting from 7 January 2013 with major payments due on 7 July 2014 and afterwards. Currently, a provision of Rs. 81.915 million is held against the outstanding exposure.
- 4.5.7 On 12 April 2012, a share transfer and debt swap agreement was entered into between the Financial Institutions and Azgard Nine Limited (the issuer), whereby the issuer agreed to transfer its entire holding in Agritech Limited to the existing lenders / creditors, including the Term Finance Certificate (TFC) holders at the agreed settlement price, in partial settlement of the outstanding principal / redemption obligations. As part of the above arrangement, the Fund settled its investment in TFC of Azgard Nine Limited amounted to Rs. 141,403,150 in consideration of 4,040,090 ordinary shares at the value of Rs.35 per share of Agritech Limited against the partial settlement of its outstanding exposure. The fair value of an ordinary share was Rs. 12.30 at transaction date i.e. 31 October 2012. Accordingly, the same have been classified as available for sale investment and are recorded at fair value and the resultant effect recorded through income statement as recovery on partial settlement of investment.
- 4.5.8 These zero coupon privately placed term finance certificates (PPTFCs) were issued against the interest receivable on TFCs of Azgard Nine Limited under an agreement dated 28 June 2012 between the Management Company of the Company and Azgard Nine Limited. These PPTFCs are issued against the non performing securities, therefore the management, as a matter of prudence has recognised the above PPTFCs at nil value. The principal outstanding against these PPTFCs is to be redeemed in seven equal semi-annual instalments starting from 31 March 2014 and will mature on 31 March 2017. These PPTFCs have been classified as Non Performing Asset by MUFAP on 07 December 2012.
- 4.5.9 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 9 January 2008). DCL failed to complete the public offering within the said time period and has also defaulted in payment of principal and profit. These investments have been fully provided.
- 4.5.10 These represent investments in privately placed Term Finance Certificates and Sukuk bonds of the investee company. These investments have been fully provided.
- 4.5.11 Agritech Limited defaulted in payment of principal and mark-up due on 30 May 2010. The investment has been fully provided
- 4.5.12 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. 33 of 2012 has been maintained by valuing the investment in terms of the said circular. The investment has been fully provided.
- 4.5.13 This represents investment in privately placed sukuk bonds issue with a term of five years. On 6 May 2011, these Sukuks have been classified as non performing by MUFAP. Accordingly the Fund has valued these sukuks at the price lower than the last price quoted by MUFAP. Although the Fund has received all installments due as per restructured terms, accrual of profit has been suspended and all income has been recognised on receipt basis.
- 4.5.14 The sukuks of Maple Leaf Cement Factory Limited (MLCFL) were restructured on 30 March 2010. In accordance with the terms of restructuring, the amount of markup due on 03 December 2009 was partially off-set through issuance of new sukuks, "Maple Leaf Cement Factory Limited Sukuk II". The Sukuk II had been recognised at NIL value on a prudent basis and in accordance with the guidance specified by SECP which require overdue mark-up to be recognised on cash basis. The Issuer defaulted again in the payment of principal and mark-up due on 03 September 2011. In accordance with the requirements of circular 33 of 2012 issued by SECP, the exposure has been classified as non-performing and no further mark-up is being accrued after classification as non performing exposure. Upto 31 December 2012, the amount of provision required as per SECP circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circular.
- 4.5.15 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. 33 of 2012 has been maintained by valuing the investment in terms of the said circular.

# NAFA INCOME OPPORTUNITY FUND

	September 30, 2013	June 30, 2013
Note	(Rupees in '000)	
<b>5 PROFIT RECEIVABLE</b>		
Profit on savings and term deposits	35,141	36,743
Profit on certificate of investments	-	78
Income accrued on term finance certificates and sukuk bonds - net	48,994	60,420
	<u>84,135</u>	<u>97,241</u>
<b>6 ACCRUED EXPENSES AND OTHER LIABILITIES</b>		
Auditors' remuneration	490	354
Settlement charges payable	51	20
Payable to brokers	20	-
Printing charges	85	85
Workers' Welfare Fund	16,097	15,384
Contingent load	23,161	23,161
Legal Fee	40	40
Others	307	252
	<u>40,251</u>	<u>39,296</u>
<b>7 CONTINGENCIES AND COMMITMENTS</b>		
There were no contingencies and commitments outstanding as at June 30, 2013 and as at September 30, 2013.		
<b>8 PROVISION FOR WORKERS' WELFARE FUND</b>		

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, challenging the applicability of WWF to the CISs, which is pending adjudication.

Subsequent to the year ended 30 June 2011, 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. However, on 14 December 2010, the Ministry filed its response against the constitutional petition requesting the Court to dismiss the petition. According to the legal counsel who is handling the case there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

During the year 2012, 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, declared the said amendments as unlawful and unconstitutional. In March 2013, a larger bench of the Sindh High Court (SHC) in various Constitutional Petitions declared that amendments introduced in the WWF Ordinance, 1971 through Finance Act 2006 and 2008 respectively do not suffer from any constitutional or legal infirmity. However, the Honourable High Court of Sindh has not addressed the other amendments made in WWF Ordinance 1971 about applicability of WWF to the CISs which is still pending before the court.

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 period ended 30 September 2013. As at 30 September 2013 the management has maintained provision against Workers' Welfare Funds' amounting to Rs. 16.097 million, if the same were not made the net asset value per unit of the Fund would have been higher by Rs. 0.0955.

# NAFA INCOME OPPORTUNITY FUND

## 9 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a tax liability in respect of income relating to the current period as the management company has decided to distribute at least 90 percent of the Fund's accounting income for the period as reduced by capital gains (whether realised or unrealised) to its unit holders.

## 10 EARNINGS PER UNIT

Earnings per unit (EPU) for the Quarter ended September 30, 2013 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

## 11 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. The Board has approved the category of the Fund as 'Income Fund'.

In accordance with clause 9 (iii) of the investment criteria laid down for 'Income Schemes', the Fund is required to invest at least 25% of the net assets in cash and near cash instruments which include cash in bank accounts(excluding TDRs), treasury bills not exceeding 90 days maturity . Clause (v) of the categorization criteria requires that the ratings of any security in the portfolio of the Fund shall not be lower than investment grade. However, as at September 30, 2013, the Fund is in non-compliance with the above-mentioned requirement in respect of the following:

Type of Investment	Name of Non-Compliant Investment	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
Investment in Debt securities & Sukuks**	Agritech Limited	149,860	149,860	-	-	-
	Agritech Limited V	32,320	32,320	-	-	-
	Azgard Nine Limited	108,377	108,377	-	-	-
	Azgard Nine Limited V	82,180	82,180	-	-	-
	BRR Guardian Modaraba - Sukuk***	42,813	-	32,109	1.85%	1.45%
	Dewan Cement Limited	150,000	150,000	-	-	-
	Eden Housing Limited - Sukuk II	14,663	5,112	9,551	0.55%	0.43%
	Escort Investment Bank Limited ***	4,996	-	3,684	0.21%	0.17%
	Gharibwal Cement Limited	24,356	24,356	-	-	-
	Kohat Cement Company Limited - Sukuk***	27,610	-	20,707	1.19%	0.93%
	Maple Leaf Cement Factory Limited Sukuk	349,150	209,490	139,660	8.06%	6.30%
	New Allied Electronics Industries (Private) Limited - PPTFC	31,707	31,707	-	-	-
	New Allied Electronics Industries (Private) Limited - Sukuk	44,149	44,149	-	-	-
	PACE Pakistan Limited	149,820	149,820	-	-	-
	Pak Elektron Limited (Sukuk)	51,429	46,286	5,143	0.30%	0.23%
	Saudi Pak Leasing Company Limited ***	44,324	-	22,162	1.28%	1.00%
	World Call Telecom Limited	96,371	81,915	14,456	0.83%	0.65%
	Investment in Equity Securities	Azgard Nine Limited (Non-Voting)	13	13	-	-
Agritech Limited *		48,481	-	48,481	2.80%	2.19%

\* These shares are received in partial settlement against TFCs of Azgard Nine Limited as fully explained in note 4.4.1.

\*\* At the time of purchase, the TFCs and Sukuks were in compliance with the aforementioned circular. However, they subsequently defaulted or were downgraded to non investment grade.

\*\*\* Performing but below investment grade.

# NAFA INCOME OPPORTUNITY FUND

## 12 TRANSACTIONS WITH CONNECTED PERSONS

12.1 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.

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

12.3 Remuneration to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

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

	Quarter Ended September 30,2013	Quarter Ended September 30,2012
12.5 Details of the transactions with connected persons are as follows:	(Rupees in '000)	
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Management fee expense for the quarter	6,592	5,847
<b>National Bank of Pakistan - Sponsor</b>		
Cash dividend	2,297	-
Sale of T-Bill	542,672	-
<b>Central Depository Company of Pakistan Ltd. - Trustee</b>		
Remuneration	588	546
CDS charges	5	2
<b>NBP Employees Pension Fund</b>		
Bonus units issued (3,561,172 units : 2012 : Nil units)	-	-
<b>Employees of NAFA</b>		
Bonus units issued (2 units : 2012 : Nil units)	-	-
<b>NBP Employees Benevolent Fund Trust</b>		
Bonus units issued (123 Units:2012:Nil units)	-	-
<b>CDC Trustee NAFA Asset Allocation Fund</b>		
Purchased T-Bill	39,851	-
<b>Thal Limited Employees Provident Fund</b>		
Sale of T-Bill	28,929	-
<b>Pak Arab Refinery Ltd Supervisory Staff Gratuity Fund</b>		
Sale of T-Bill	26,934	-
<b>Summit Bank Limited</b>		
Bank Profit	40	72

# NAFA INCOME OPPORTUNITY FUND

	As at September 30, 2013	As at June 30, 2013
	(Rupees in '000)	
<b>12.6 Balances outstanding as at period / year end</b>		
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Management fee payable	2,126	2,257
Sindh Sales tax on management fee	340	362
Federal excise duty on management fee	693	219
<b>National Bank of Pakistan - Sponsor</b>		
Investment held by the sponsor in the Fund (3,601,691 units; June 30, 2013: 3,601,691 units)	37,031	38,392
Balances in current account	584	639
<b>Central Depository Company of Pakistan Ltd. - Trustee</b>		
Remuneration payable	190	198
Security deposit	100	100
<b>NBP Employees Benevolent Fund Trust</b>		
Investment held in the Fund (2,052 units; June 30, 2013: 1,929 units)	21	21
<b>NBP Employees Pension Fund</b>		
Investment held in the Fund (59,557,629 units; June 30, 2013: 55,996,457 units)	612,342	596,894
<b>Employees of NAFA</b>		
Investment held in the Fund (25 units; June 30, 2013: Nil units)	-	-
<b>Summit Bank Limited</b>		
Balance in account	90	6,888

## 13 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on October 30, 2013.

## 14 GENERAL

Figures have been rounded off to the nearest thousand rupees.

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



NBP Fullerton  
Asset Management Ltd.

A Subsidiary of  
National Bank of Pakistan

*Your investments & "NAFA" grow together*



*Joint - Venture Partners*

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