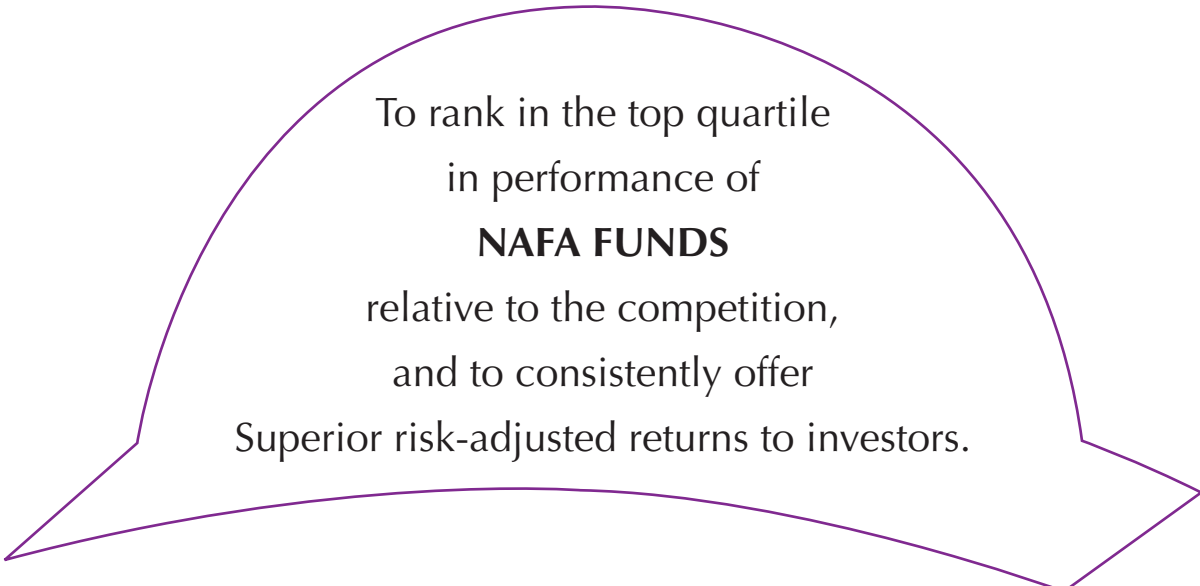


## MISSION STATEMENT



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 FUND

## FUND'S INFORMATION

### Management Company

NBP Fullerton Asset Management Limited – Management Company

### Board of Directors of the Management Company

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

### Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

### Audit & Risk Committee

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

### Trustee

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

### Bankers to the Fund

Allied Bank Limited  
Arif Habib Bank Limited  
Atlas Bank Limited  
Bank Alfalah 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  
Soneri Bank Limited  
Standard Chartered Bank (PAK) Limited  
The Bank of Khyber  
The Bank of Punjab  
United Bank Limited

# NAFA INCOME FUND

## **Auditors**

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

## **Legal Advisor**

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

## **Head Office:**

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

## **Lahore Office:**

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

## **Islamabad Office:**

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

## **Peshawar Office:**

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

## **Multan Office:**

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

# NAFA INCOME FUND

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# NAFA INCOME FUND

## DIRECTORS' REPORT

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

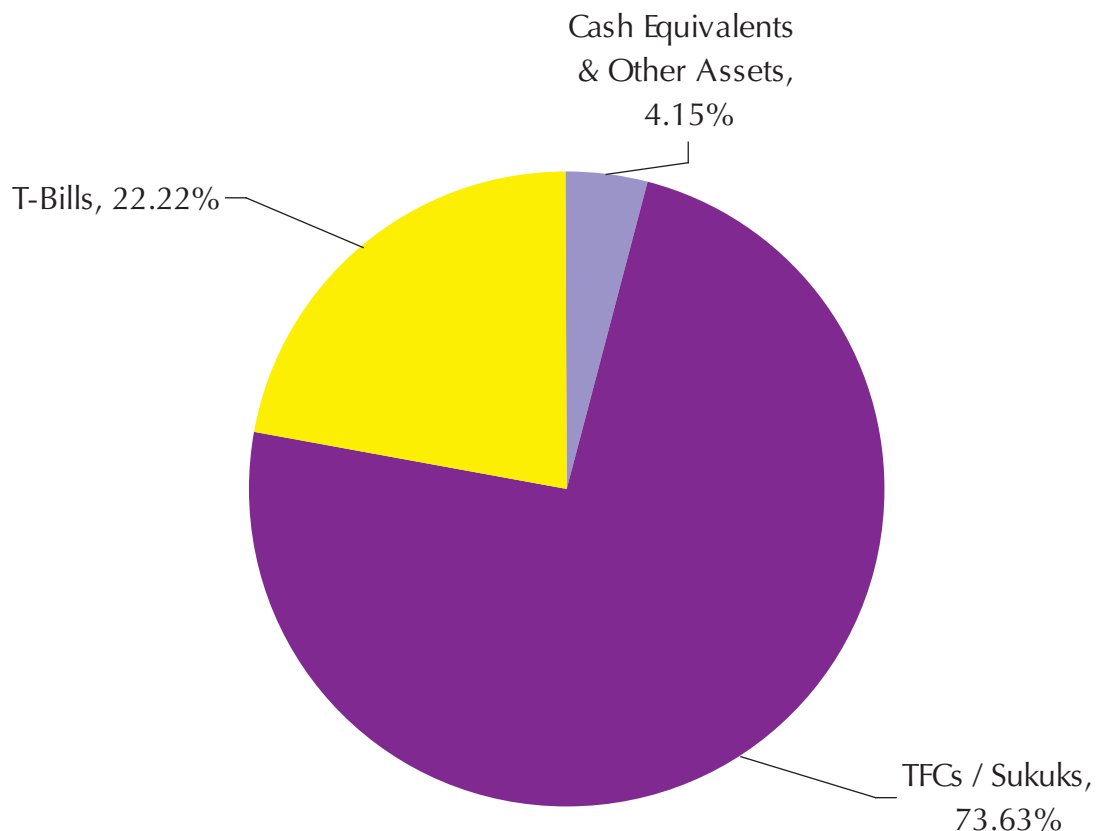
### Fund's Performance

The size of NAFA Income Fund has reduced from Rs. 582 million to Rs. 461 million during the period, i.e. a decline of 20.79%. During the said period, the unit price of NAFA Income Fund has decreased from Rs. 10.1408 on June, 2010 to Rs.9.7109 on June 30, 2011, thus showing a decline of (4.24)% as compared to its Benchmark (6-Month KIBOR) annualized return of 13.18% for the same period.

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

The Fund has earned income of Rs.62.09 million excluding unrealized losses amounting to Rs.68.95 million on its investments during the year. After deducting total expenses of Rs.13.32 million and unrealized losses, the net loss is Rs.20.18 million.

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



# NAFA INCOME FUND

## Income Distribution

The Board of Directors of the Management Company has approved an interim distribution of 3% of opening ex-NAV (3.134% of par value) during the year.

## Taxation

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

## Auditors

The present auditors, Messrs A. F. Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment.

## Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company of, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held five meetings during the current financial year. The attendance of all directors is disclosed in the note 26 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 25 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 22 to these financial statements.

# NAFA INCOME FUND

## Acknowledgement

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

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

On behalf of the Board of  
NBP Fullerton Asset Management Limited

Dr. Amjad Waheed, CFA  
Chief Executive

Shahid Anwar Khan  
Chairman

Date: September 29, 2011  
Place: Karachi.

# NAFA INCOME FUND

## TRUSTEE REPORT TO THE UNIT HOLDERS NAFA INCOME FUND

### Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

NAFA Income Fund (the Fund), an open-end scheme was established under a trust deed dated January 03, 2008, executed between NBP Fullerton Asset Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2011 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

We would like to draw unit holders attention towards the Regulations 55(5) and 55(9) of Non Banking Finance Companies and Notified Entities Regulations 2008, which require that exposure of a collective investment scheme to any single entity shall not exceed an amount equal to 10% of net assets of such collective investment scheme; further a Management Company shall not invest more than 25% of net assets of a collective investment scheme in securities of any one sector as per classification of the stock exchange. The Fund has exceeded exposure in both the above mentioned limits with reference to Term Finance Certificates (TFCs) issued by Engro Chemicals Pakistan Limited.

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

Karachi, October 21, 2011



# NAFA INCOME FUND

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

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

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

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

1. The Management Company encourages representation of independent non-executive directors. At present the Board consists of seven non-executive directors including two independent directors. The Management Company is not listed on any stock exchange and therefore does not have minority interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred during the year in the Board of the Management Company due to resignation of Mr. Gerard Lee How Cheng and Mr. Qamar Hussain was filled by Mr. Choy Peng Wah and Syed Iqbal Ashraf on November 15, 2010 and March 25, 2011. The casual vacancy due to resignation of Mr. Choy Peng Wah was filled by Mr. Wah Geok Sum on February 18, 2011. Further on August 09, 2010, Dr. Asif A. Brohi was appointed as a director.
5. The Management Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the directors and distributed to employees of the Management Company.

# NAFA INCOME FUND

6. The Board has developed a vision/mission statement overall corporate strategy and significant policies of the Fund. A complete record of the particulars along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
9. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justification for non arm's length transactions if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. All the members of Board are well aware of operations of the Fund and Management Company, therefore no orientation courses were arranged during the year.
11. The Board has approved the appointment of Head of Internal Audit and his terms of employment in FY 2007-08.
12. Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
14. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 22 to the financial statements "Transactions with Connected Persons".
15. The Management Company has complied with the corporate and financial reporting requirements of the Code with respect to the Fund.
16. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the chairman of the Committee.
17. The meetings of the Audit Committee were held at least once every quarter prior to approval of the interim and final results of the Fund as required by the Code. Terms of Reference of the Audit Committee have been prepared and advised to the Committee for compliance.

# NAFA INCOME FUND

18. There exists an effective internal audit function within the Management Company. The Management Company has appointed the Head of Internal Audit, who is considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
19. The Statutory Auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

Dated: September 29, 2011  
Karachi

Dr. Amjad Waheed, CFA  
Chief Executive Officer

# NAFA INCOME FUND

## FUND MANAGER REPORT

### NAFA Income Fund

NAFA Income Fund (NIF) is an open-end Income Scheme.

### Investment Objective of the Fund

The objective of NIF is to earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets.

### Benchmark

6 Month - KIBOR

### Fund's Performance Review

This is the fourth Annual report since the launch of the Fund on March 29, 2008. The Fund size as of June 30, 2011 is Rs. 461 million during the period, i.e. a decline of 20.79%. The Fund's annualized return since inception is 3.09%. During the same period the benchmark return has been 12.43%. The Fund's annual return during FY 2010-11 is -4.24%. During the same period the benchmark return has been 13.18%.

In the TFC market, liquidity improved in the banking sector TFCs and selected Chemicals and Telecom sector TFCs. Economic situation did not improve considerably due to fiscal imbalances, circular debt, law and order situation and power shortages. The Fund's negative return for the fiscal year was due to provisioning of some TFCs. Going forward, reversal of provision in Agritech TFC may boost the Fund's returns.

The weighted average yield to maturity of NAFA Income Fund is around 23.27% p.a. The weighted average maturity of NAFA Income Fund is 3.28 years. Thus the Fund is expected to perform well over a 3-year horizon.

Asset Allocation (% of NAV)	30-Jun-11	30-Jun-10
TFCs / Sukuks	73.64%	87.82%
T-Bills	22.22%	-
Cash Equivalents	1.59%	8.32%
Other Net Assets	2.55%	3.86%
Total	100.00%	100.00%

### Details of Non-Compliant Investments

Particulars	Type of Investment	Value of Investments before Provision	Provision held	Value of Investments after Provision	% of Net Assets	% of Gross Assets
Agritech Limited II	TFC	149,880,000	83,932,800	65,947,200	14.31%	14.20%
Saudi Pak Leasing	TFC	52,963,500	17,994,508	* 34,968,992	7.59%	7.53%
Eden Housing Sukuk II	Sukuk	71,250,000	21,756,757	49,493,243	10.74%	10.66%
New Allied Electronics Sukuk II	Sukuk	49,054,371	49,054,371	-	0.00%	0.00%
<b>Total</b>		<b>323,147,871</b>	<b>172,738,436</b>	<b>150,409,435</b>	<b>32.64%</b>	<b>32.39%</b>

\* Book Value, performing but below investment grade

# NAFA INCOME FUND

## Excess / (Short) Exposures

Particulars	Exposure Type	% of Net Assets	Limit	Excess / Short Exposure
Agritech Limited II	Per Party	14.31%	10%	4.31%
Engro Fertilizer Perpetual (PPTFC I)	Per Party	20.39%	10%	10.39%
Chemical Sector	Sector	34.70%	25%	9.70%
Cash and Cash Equivalent	Cash Balance	23.81%	25%	(1.19)%

The Board of Directors of Management Company has approved a total distribution of 3.1340% of the par value and 3.00% of the opening ex-dividend NAV. The Net Asset Value per unit before declaration was Rs.10.7376, which on ex-NAV basis became Rs.10.4242.

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

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

Size of Unit Holding (Units)	# of Unit Holders
1 - 1000	35
1001 - 5000	60
5001 - 10000	22
10001 - 50000	23
50001 - 100000	4
100001 - 500000	3
500001 - 1000000	1
1000001 - 5000000	0
5000001 - 10000000	0
10000001 - 100000000	1
	<b>149</b>

# NAFA INCOME FUND

## REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **NBP Fullerton Asset Management Limited** (the Management Company) for and on behalf of **NAFA Income Fund** (the Fund) to comply with the Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange (Guarantee) Limited where the Fund is listed.

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

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

Sub-regulation (xiii a) of the Listing Regulation No. 35 requires the Management Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2011.

A.F. Ferguson & Co.  
Chartered Accountants  
Karachi  
Dated: October 03, 2011

# NAFA INCOME FUND

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of NAFA Income Fund which comprise the statement of assets and liabilities as at June 30, 2011, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

### Auditors' responsibility

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

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

### Opinion

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

### Other matters

In our opinion, the financial statements have been prepared in all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

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

# NAFA INCOME FUND

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2011

	Note	2011	2010
		-----Rupees in '000-----	
ASSETS			
Balances with banks	4	7,330	48,844
Investments	5	441,844	510,859
Profit receivable	6	10,831	23,357
Advances, deposits, prepayments and other receivables	7	2,696	3,696
Preliminary expenses and floatation costs	8	1,744	2,744
Total assets		<u>464,445</u>	<u>589,500</u>
LIABILITIES			
Payable to the Management Company	9	851	4,737
Payable to the Trustee	10	70	96
Payable to the Securities and Exchange Commission of Pakistan	11	389	515
Accrued expenses and other liabilities	12	2,201	2,428
Total liabilities		3,511	7,776
NET ASSETS		<u>460,934</u>	<u>581,724</u>
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		<u>460,934</u>	<u>581,724</u>
CONTINGENCIES AND COMMITMENTS	13		
		-----Number of units-----	
Number of units in issue		<u>47,465,768</u>	<u>53,768,935</u>
		-----Rupees-----	
NET ASSET VALUE PER UNIT	14	<u>9.7109</u>	<u>10.8190</u>

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director



# NAFA INCOME FUND

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 -----Rupees in '000-----	2010
<b>INCOME</b>			
(Loss) / gain on sale of investments - net		(134)	1,616
Income from term finance certificates and sukuk bonds		49,302	91,045
Income from government securities		5,356	-
Profit on bank deposits	15	4,322	6,841
Unrealised diminution on investments at fair value through profit or loss - net	5.4	(68,945)	(5,394)
Other income	5.1.7	946	-
<b>Total (loss) / income</b>		<u>(9,153)</u>	<u>94,108</u>
<b>EXPENSES</b>			
Remuneration of the Management Company	9.1	10,353	10,306
Remuneration of the Trustee	10.1	963	1,372
Annual fee - Securities and Exchange Commission of Pakistan	11.1	389	515
Securities transaction cost		13	27
Settlement and bank charges		27	34
Rating fee and printing related cost		105	334
Annual listing fee		40	20
Auditors' remuneration	16	352	341
Amortisation of preliminary expenses and floatation costs	8	1,000	1,000
Legal and professional charges		80	364
(Reversal of impairment) / impairment loss on sukuk bonds	5.3.3	(118)	21,875
<b>Total expenses</b>		<u>13,204</u>	<u>36,188</u>
<b>Net (loss) / income from operating activities</b>		<u>(22,357)</u>	<u>57,920</u>
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		2,176	(12,514)
Provision for Workers' Welfare Fund	17	-	(1,710)
<b>Net (loss) / income for the year before taxation</b>		<u>(20,181)</u>	<u>43,696</u>
Taxation	18	-	-
<b>Net (loss) / income for the year after taxation</b>		<u>(20,181)</u>	<u>43,696</u>
<b>Earnings per unit</b>	19		

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME FUND

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

	Note	2011	2010
		-----Rupees in '000-----	
Net (loss) / income for the year after taxation		(20,181)	43,696
Net unrealised appreciation / (diminution) in the market value of investments classified as 'available for sale'	5.5	154	(1,800)
Reversal of unrealised diminution in the value of investments pertaining to impairment of non-performing assets		-	3,085
Total comprehensive (loss) / income for the year		<u>(20,027)</u>	<u>44,981</u>

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME FUND

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	-----Rupees in '000-----	
Undistributed income brought forward	51,455	21,284
Final distribution for the year ended June 30, 2010: 3.773% (2009: 1.70%) (Date of distribution: July 5, 2010)		
- Bonus units	(19,011)	(16,900)
- Cash distribution	(1,061)	(497)
Net (loss) / income for the year	(20,181)	43,696
Interim distribution for the quarter ended March 31, 2011: 3.134% (2010: Nil) (Date of Disribution: April 19, 2011)		
- Bonus units	(14,415)	-
- Cash Distribution	(101)	-
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' fund	(4,540)	3,872
	(39,237)	47,568
(Accumulated losses) / undistributed income carried forward	<u>(7,854)</u>	<u>51,455</u>

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME FUND

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

	Note	2011 -----Rupees in '000-----	2010
Net assets at the beginning of the year		581,724	1,036,057
Issue of 3,232,725 units including 3,202,850 bonus units (2010:17,525,005 units)		305	178,719
Redemption of 9,535,892 units (2010: 67,793,838 units)		(97,730) (97,425)	(690,050) (511,331)
Final distribution (bonus) for the year ended June 30, 2010: 3.773% (2009: 1.70%)		19,011	16,900
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed			
- amount representing (income) / losses and capital (gains) / losses - transferred to Income Statement		(2,176)	12,514
- amount representing loss / (income) that form part of the unit holders' fund - transferred to Distribution Statement		4,540 2,364	(3,872) 8,642
Net unrealised appreciation / (diminution) in the market value of investments classified as 'available for sale'	5.5	154	(1,800)
Reversal of unrealised diminution in the value of investments pertaining to impairment of non-performing assets		-	3,085
(Loss) / gain on sale of investments - net		(134)	1,616
Unrealised diminution in the value of investments at fair value through profit or loss - net		(68,945)	(5,394)
Other net income for the year		48,898 (20,181)	47,474 43,696
<b>Less: Distributions made during the year</b>			
Final distribution for the year ended June 30, 2010: 3.773% (2009: 1.70%) (Date of distribution: July 5, 2010)			
- Bonus units		(19,011)	(16,900)
- Cash distribution		(1,061)	(497)
Interim distribution for the quarter ended March 31, 2011: 3.134% (2010: Nil) (Date of Distribution: April 19, 2011)			
- Bonus units		(14,415)	-
- Cash distribution		(101)	-
		(34,588)	(17,397)
Interim distribution: Issue of bonus units		14,415	-
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' fund		(4,540)	3,872
<b>Net assets as at the end of the year</b>		<u>460,934</u>	<u>581,724</u>

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME FUND

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		-----Rupees in '000-----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net (loss) / income for the year		(20,181)	43,696
<b>Adjustments</b>			
Unrealised loss on investments at fair value through profit or loss - net		68,945	5,394
Amortisation of preliminary expenses and floatation costs		1,000	1,000
(Reversal of impairment) / Impairment loss on sukuk bond		(118)	21,875
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		(2,176)	12,514
		<u>47,470</u>	<u>84,479</u>
<b>Decrease in assets</b>			
Investments		342	287,101
Profit receivable		12,526	18,500
Advances, deposits, prepayments and other receivables		1,000	163
		<u>13,868</u>	<u>305,764</u>
<b>(Decrease) / increase in liabilities</b>			
Payable to the Management Company		(3,886)	(2,068)
Payable to the Trustee		(26)	(71)
Payable to the Securities and Exchange Commission of Pakistan		(126)	(561)
Accrued expenses and other liabilities		(227)	1,566
		<u>(4,265)</u>	<u>(1,134)</u>
<b>Net cash inflow from operating activities</b>		<u>57,073</u>	<u>389,109</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Receipts from issue of units		305	178,719
Payments on redemption of units		(97,730)	(698,082)
Distributions paid		(1,162)	(497)
<b>Net cash outflow on financing activities</b>		<u>(98,587)</u>	<u>(519,860)</u>
<b>Net decrease in cash and cash equivalents during the year</b>		<u>(41,514)</u>	<u>(130,751)</u>
Cash and cash equivalents at the beginning of the year		48,844	179,595
<b>Cash and cash equivalents at the end of the year</b>	4	<u><u>7,330</u></u>	<u><u>48,844</u></u>

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME FUND

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

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Income Fund (NIF) (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited (NAFA) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on January 03, 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on January 29, 2008 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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

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

The core objective of the Fund is to earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets. The Fund comprises of investments of various investment horizons with a significant amount invested in short term investments for the purpose of maintaining liquidity.

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

Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as 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 requirements of the Trust Deed, the requirements of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust deed, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Regulations or the directives issued by the SECP prevail.

#### 2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the year and are mandatory for accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not detailed in these financial statements.

#### 2.3 Standards, interpretations and amendments to published approved accounting standards, as adopted in Pakistan, that are not yet effective:

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

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

There are other amendments to the standards, improvements to International Financial Reporting Standards 2010 and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

# NAFA INCOME FUND

## 2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its 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 (note 3.2 and note 5).

## 2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value in accordance with the requirements of IAS 39: 'Financial Instruments: Recognition and Measurement'.

## 2.6 Functional and presentation currency

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Cash and cash equivalents

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

### 3.2 Financial assets

#### 3.2.1 Classification

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

##### a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

##### b) Loans and receivables

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

##### c) Available for sale

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

#### 3.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

#### 3.2.3 Initial recognition and measurement

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

# NAFA INCOME FUND

Loans and receivables are initially recognised at fair value plus transaction costs.

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

### b) Basis of Valuation of government securities

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Markets Association of Pakistan.

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

Net gains and losses arising from changes in fair value of available for sale financial assets are taken to '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 'income statement'.

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

## 3.2.5 Impairment

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the 'Income Statement' is reclassified from 'Unit Holders' Fund' to the 'Income Statement'.

### a) Debt securities

Provision for non-performing debt securities is made on the basis of time based criteria as prescribed under circular no. 1 of 2009 dated January 6, 2009 issued by the SECP. Impairment losses recognised on debt securities can be reversed through the 'Income Statement'.

As allowed under circular no. 13 of 2009 dated May 4, 2009 issued by the SECP, the management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid circular, in accordance with a provisioning policy approved by the Board of Directors and disseminated by the Management Company in its website.

### b) Loans and receivables

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

## 3.2.6 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.



# NAFA INCOME FUND

## 3.2.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

## 3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

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

## 3.4 Derivative

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

## 3.5 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund and the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

## 3.6 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours of that 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. The sales load is payable to the Management Company, Investment facilitators or distributors. Transaction costs are recorded as the income of the Fund.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption applications during business hours of that day. The redemption price represents the Net Asset Value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

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

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

## 3.8 Provisions

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

## 3.9 Taxation

The income of the Fund is exempt from Income Tax as per 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 the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders.

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

# NAFA INCOME FUND

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

## 3.10 Proposed distributions

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

## 3.11 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on term finance certificates, sukuk bonds and commercial papers is recognised on time proportion basis.
- Income on issue and redemption of units is recognised when units are issued and redeemed at the transaction date.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets 'at fair value through profit or loss' are included in the Income Statement in the period in which they arise.
- Profit on bank deposits is recognised on an accrual basis.

	Note	2011 -----Rupees in '000-----	2010
<b>4 BALANCES WITH BANKS</b>			
Current accounts		124	96
Savings accounts		7,206	48,748
		<u>7,330</u>	<u>48,844</u>
<b>5 INVESTMENTS</b>			
<b>At fair value through profit or loss - held for trading</b>			
Term finance certificates - listed	5.1.1	84,267	88,421
Term finance certificates - unlisted	5.1.1	159,947	252,598
Sukuk bonds	5.1.4	-	-
Market Treasury Bills	5.2	102,439	-
		346,653	341,019
<b>Available for sale</b>			
Term finance certificates - listed	5.3	45,698	112,340
Sukuk bonds	5.3	49,493	57,500
		95,191	169,840
		<u>441,844</u>	<u>510,859</u>

# NAFA INCOME FUND

## 5.1 Term finance certificates and sukuk bonds

### 5.1.1 Term finance certificates - At fair value through profit or loss

Name of the investee company	Note	Number of certificates				Market value as at June 30, 2011	Investment as a percentage of		
		As at July 1, 2010	Purchases during the year	Sales/ Matured during the year	As at June 30, 2011		Net assets	Market value of total investments	Issue size
(Rs in '000)									
<b>Term finance certificates - listed</b>									
Saudi Pak Leasing Company Limited		15,000	-	-	15,000	34,969	7.59	7.91%	7.06%
United Bank Limited		10,000	-	-	10,000	49,298	10.70	11.16%	0.83%
					<b>25,000</b>	<b>84,267</b>	<b>18.29</b>	<b>19.07%</b>	
<b>Term finance certificates - unlisted</b>									
Engro Chemical Pakistan Limited		20,000	-	-	20,000	94,000	20.39	21.27%	2.50%
Agritech Limited (note 5.1.6)	5.1.2	30,000	-	-	30,000	65,947	14.31	14.93%	2.17%
Pakistan Mobile Communications Limited		10,000	-	10,000	-	-	-	-	-
					<b>50,000</b>	<b>159,947</b>	<b>34.70</b>	<b>36.20%</b>	
					<b>75,000</b>	<b>244,214</b>	<b>52.99</b>	<b>55.27%</b>	
Carrying cost of investments as at June 30, 2011						<b>313,117</b>			

5.1.2 Securities listed below have been classified as non-performing in accordance with the SECP's Circular 1 of 2009 and the Fund's provisioning policy for non-performing exposures. accordingly, the carrying values stated above have been arrived at after taking into account provisions as under.

	2011			2010		
	Outstanding balance	Provision Held	Net Carrying value	Outstanding balance	Provision Held	Net Carrying value
	----- (RS in '000) -----					
Agritech Limited	149,880	83,933	65,947			

5.1.3 These carry a rate of return ranging from 8.66% to 15.44% (2010: 13.05% to 17.32%) per annum.

### 5.1.4 Sukuk bonds - At fair value through profit or loss

Name of the investee company	Number of certificates				Market value as at June 30, 2011	Investment as a percentage of		
	As at July 1, 2010	Purchases during the year	Sales during the year	As at June 30, 2011		Net assets	Market value of total investments	Issue size
(Rs in '000)								
New Allied Electronics Industries (Private) Limited (note 5.1.5)	10,000			10,000	-	-	-	-
				<b>10,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# NAFA INCOME FUND

5.1.5 All term finance certificates and sukuk bonds have a face value of Rs 5,000 each.

5.1.6 This represents investment in privately placed unlisted term finance certificates with a term of seven years. On July 14, 2010 the investee company defaulted on its obligation on account of principal and profit payment. The minimum amount of provision as per circular 1 of 2009 amounts to Rs 83.933 million. The management has recognised the said provision till June 30, 2011. The income suspended on these term finance certificates amounted to Rs 21.354 million.

5.1.7 This represents investment in privately placed sukuk bonds with a term of five years. On December 3, 2008, the investee company had defaulted on its obligation on account of profit repayment. The minimum amount of provision as per circular 1 of 2009 amounts to Rs 50 million which is retained by the management. During the year the Fund received insurance amount of Rs 0.946 million in respect of the said sukuk due to which the provision maintained has been accordingly reduced.

Issue Date	Tenor	Face Value				Market value as at June 30, 2011	Investment as a percentage of	
		As at July 1, 2010	Purchases during the year	Sales/ Matured during the year	As at June 30, 2011		Net assets	Market value of total investments
------(Rs in '000)-----								
October 21, 2010	3 months	-	50,000	50,000	-	-	-	-
December 2, 2010	3 months	-	50,000	50,000	-	-	-	-
February 24, 2011	3 months	-	60,000	60,000	-	-	-	-
March 24, 2011	3 months	-	53,000	53,000	-	-	-	-
March 24, 2011	3 months	-	10,000	10,000	-	-	-	-
April 21, 2011	3 months	-	35,000	35,000	-	-	-	-
May 5, 2011	3 months	-	70,000	70,000	-	-	-	-
May 5, 2011	3 months	-	35,000	30,000	5,000	4,950	1.07%	1.12%
June 16, 2011	3 months	-	100,000	-	100,000	97,489	21.15%	22.06%
						<u>102,439</u>		
Carrying cost of investments as at June 30, 2011						<u>102,481</u>		

5.2.1 These carry a rate of return ranging from 12.88% to 13.49% (2010:nil) per annum.

### 5.3 Term Finance Certificates and Sukuk Bonds - Available for Sale

Name of the investee company	Number of certificates / bonds				Market value as at June 30, 2011	Investment as a percentage of		
	As at July 1, 2010	Purchases during the year	Sales during the year	As at June 30, 2011		Net assets	Market value of total investments	Issue size
(Rs in '000)								
Term finance certificate - listed								
Worldcall Telecom Limited	24,000	-	10,000	14,000	45,698	9.91%	10.34%	1.25%
				<u>14,000</u>	<u>45,698</u>	<u>9.91%</u>	<u>10.34%</u>	
Carrying cost of investments as at June 30, 2011					<u>45,544</u>			
Sukuk bonds								
Eden Housing (note 5.3.3)	20,000	-	-	20,000	49,493	10.74%	11.20%	9.76%
				<u>20,000</u>	<u>49,493</u>	<u>10.74%</u>	<u>11.20%</u>	
Carrying cost of investments as at June 30, 2011					<u>71,250</u>			
Impairment loss recognised					<u>21,757</u>			

5.3.1 These carry a rate of return ranging from 13.98% to 15.93% (2010: 13.98% to 15.25%) per annum.

5.3.2 All term finance certificates and sukuk bonds have a face value of Rs. 5,000 each.

5.3.3 This represents investment in privately placed sukuk bonds issue with a term of five years. The issuer defaulted on payment of principal and profit to certain sukuk holders due to which it was rated as 'Defaulter' by the MUFAP. The said sukuk was classified by the Fund due to non payment in June 30, 2010 and a provision of Rs 21.875 million (as per the provision of circular 1 of 2009 and circular 3 of 2010 issued by SECP) was recorded by the Fund.

The issuer has paid the profit and principal in default to the Fund during the year except for the principal and profit due on June 29, 2011. The management as a matter of abundant caution and as per the provisioning policy duly formulated and approved by the Board of Directors of the Management Company (as per the requirements of circular 13 of 2009 dated May 04, 2009 issued by the SECP) and further due to its aforementioned classification has retained a provision of Rs 21.757 million in respect of these sukuk (net of reversal of Rs 0.118 million). The income suspended on these sukuk bonds amounted to Rs 2.940 million.

# NAFA INCOME FUND

5.3.4 The term finance certificates and sukuk bonds held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage of fixed assets of the issuer.

	Note	2011 -----Rupees in '000-----	2010 -----Rupees in '000-----
<b>5.4 Net unrealised diminution in value of investments at 'fair value through profit or loss'</b>			
Market value of investments	5.1.1, 5.1.4 & 5.2	346,653	341,019
Less: carrying value of investments		415,598	346,413
Closing provision		<u>(68,945)</u>	<u>(5,394)</u>
<b>5.5 Unrealised appreciation / (diminution) in value of investments classified as available for sale - net</b>			
Market value of investments	5.3	95,191	169,840
Less: Carrying of investments		116,794	193,515
		<u>(21,603)</u>	<u>(23,675)</u>
Provision against non-performing TFCs and sukuks		21,757	21,875
		<u>154</u>	<u>(1,800)</u>
<b>6 PROFIT RECEIVABLE</b>			
Profit on savings and term deposit accounts		57	10
Income accrued on term finance certificates and sukuk bonds		56,087	39,725
Less: Suspended Income		<u>(45,313)</u>	<u>(16,378)</u>
		<u>10,774</u>	<u>23,347</u>
		<u>10,831</u>	<u>23,357</u>
<b>7 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Security deposit with:			
- National Clearing Company of Pakistan Limited		2,500	3,500
- Central Depository Company of Pakistan Limited		100	100
Advance tax		96	96
		<u>2,696</u>	<u>3,696</u>
<b>8 PRELIMINARY EXPENSES AND FLOATATION COSTS</b>			
Balance as at the beginning of the year	8.1	2,744	3,744
Name of the investee company		1,000	1,000
Balance as at the end of the year		<u>1,744</u>	<u>2,744</u>
<b>8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from March 28, 2008 as per the requirements set out in the Trust Deed of the Fund.</b>			
	Note	2011 -----Rupees in '000-----	2010 -----Rupees in '000-----
<b>9 PAYABLE TO THE MANAGEMENT COMPANY</b>			
Management fee	9.1	821	717
Front-end load		-	20
Formation cost payable		-	4,000
Others		30	-
		<u>851</u>	<u>4,737</u>

# NAFA INCOME FUND

9.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of one and a half percent per annum for the current period. The remuneration is paid on a monthly basis in arrears.

	Note	2011	2010
-----Rupees in '000-----			
<b>10 PAYABLE TO THE TRUSTEE</b>			
Trustee fee	10.1	70	96

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2011 is as follows:

Amount of funds under management (Average NAV)	Tariff per annum
<b>Before January 1, 2011:</b>	
Upto Rs 1,000 million	Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher
On amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million
<b>After January 1, 2011</b>	
Upto Rs 1,000 million	Rs 0.6 million or 0.17% p.a. of NAV, whichever is higher
On amount exceeding Rs 1,000 million	Rs 1.7 million plus 0.085% p.a. of NAV exceeding Rs 1,000 million

The remuneration is paid to the trustee monthly in arrears.

	Note	2011	2010
-----Rupees in '000-----			
<b>11 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>			
Annual fee	11.1	389	515

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

<b>12 ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
-----Rupees in '000-----			
Auditor's remuneration		256	235
Settlement charges payable		37	16
Bank charges payable		28	72
Payable to brokers		23	19
WWF		1,710	1,710
Printing charges payable		127	376
Withholding tax		20	-
		<u>2,201</u>	<u>2,428</u>

## 13 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2011.

## 14 NET ASSET VALUE PER UNIT

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

	2011	2010
-----Rupees in '000-----		
<b>15 PROFIT ON BANK DEPOSITS</b>		
Income on saving deposits	4,322	6,841
	<u>4,322</u>	<u>6,841</u>

# NAFA INCOME FUND

	2011	2010
	-----Rupees in '000-----	
<b>16 AUDITORS' REMUNERATION</b>		
Annual Audit fee	231	210
Half yearly review fee	92	85
Out of pocket expenses	29	46
	352	341

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

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

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs 1.710 million in these financial statements. No provision for WWF has been made during the year as the Fund has incurred a loss during the year.

## 18 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 / period, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded any tax liability in to the current year as the Fund has incurred a loss during the year.

## 19 EARNINGS PER UNIT

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

## 20 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 Scheme'.

In accordance with clause (iii) of the investment criteria laid down for 'Income Schemes', the Fund is required to invest atleast 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 June 30, 2011, 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
Cash and near cash instruments - (note 20.1)	N/A	109,769	-	109,769	23.81%	23.63%
Investment in Debt Securities - (note 20.2)	Agritech Limited II	149,880	83,933	65,947	14.31%	14.20%
	Eden Housing Limited	71,250	21,757	49,493	10.74%	10.66%
	New Allied Electronics Industries (Private) Limited	49,054	49,054	-	-	-
	Saudi Pak Leasing Company Limited	34,969	-	34,969	7.59%	7.53%

# NAFA INCOME FUND

- 20.1 SECP vide circular no. 16 of 2010 dated July 7, 2010 required that a scheme non-compliant with this requirement should comply with this requirement by December 31, 2010.
- 20.2 At the time of purchase, the above Term Finance Certificates were in compliance with the circular (i.e. investment grade) and was subsequently downgraded. In case of New Allied Electronics Industries (Private) Limited, Agri Tech Limited and Eden Housing Limited the downgrading has been made due to default in payments of due principal and markup.

## 21 FINANCIAL INSTRUMENTS BY CATEGORY

-----As at June 30, 2011-----				
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
	-----Rupees in '000-----			
<b>Assets</b>				
Balances with banks	7,330	-	-	7,330
Investments	-	346,653	95,191	441,844
Profit receivable	10,831	-	-	10,831
Advances, deposits and other receivables	2,600	-	-	2,600
	<u>20,761</u>	<u>346,653</u>	<u>95,191</u>	<u>462,605</u>

-----As at June 30, 2011-----			
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	-----Rupees in '000-----		
<b>Liabilities</b>			
Payable to the Management Company	-	851	851
Payable to the Trustee	-	70	70
Accrued expenses and other liabilities	-	471	471
	<u>-</u>	<u>1,392</u>	<u>1,392</u>

-----As at June 30, 2010-----				
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
	-----Rupees in '000-----			
<b>Assets</b>				
Balances with banks	48,844	-	-	48,844
Investments	-	341,019	169,840	510,859
Profit receivable	23,357	-	-	23,357
Advances, deposits and other receivables	3,600	-	-	3,600
	<u>75,801</u>	<u>341,019</u>	<u>169,840</u>	<u>586,660</u>

-----As at June 30, 2010-----			
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	-----Rupees in '000-----		
<b>Liabilities</b>			
Payable to the Management Company	-	4,737	4,737
Payable to the Trustee	-	96	96
Accrued expenses and other liabilities	-	718	718
	<u>-</u>	<u>5,551</u>	<u>5,551</u>

## 22 TRANSACTIONS WITH CONNECTED PERSONS

- 22.1 Connected persons include NBP Fullerton Asset Management Limited (Formerly National 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.
- 22.2 On March 31, 2010, NIB Bank Limited sold out its shareholding of NAFA to NBP. Accordingly, thereafter NIB is no longer a connected person for the Management Company.
- 22.3 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.



# NAFA INCOME FUND

22.4 Remuneration and front-end load payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

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

	2011	2010
	-----Rupees in '000-----	
<b>22.6 Details of the transactions with connected persons are as follows:</b>		
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Management fee expense for the year	10,353	10,306
Units redeemed / transferred out (4,535,426 units; 2010: 5,575,532 units)	45,600	56,825
Bonus units issued (203,630 units; 2010: 178,995 units)		
Preliminary expenses and floatation cost paid	4,000	975
<b>NIB Bank Limited - (Previously a Sponsor)</b>		
Profit on bank deposits		3,892
Income from term finance certificates		255
<b>Chief Executive Officer</b>		
Units redeemed / transferred out (Nil units; 2010: 31,338 units)	-	314
Bonus units issued (Nil units; 2010: 526 units)		
<b>Employees of the Management Company</b>		
Units issued / transferred in (Nil units; 2010: 192,936 units)	-	1,969
Units redeemed / transferred out (704 units; 2010: 193,365 units)	7	1,976
Bonus units issued (96 units; 2010: 73 units)		
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration	963	1,372
<b>NBP Employees Pension Fund</b>		
Bonus units issued (2,822,911 units; 2010: 708,818 units)	-	-
<b>NAFA Employees Provident Fund</b>		
Units redeemed / transferred out ( 20,422 units; 2010: 239,560 units)	211	2,500
Bonus units issued (705 units; 2010: 4,354 units)		
<b>22.7 Amounts outstanding as at year end</b>		
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Management fee payable	821	717
Investment held by management company in the Fund (752,012 units; 2010: 5,083,807 units)	7,303	55,002
Front end load payable	-	20
Preliminary charges and floatation cost	-	4,000
Others	30	-
<b>National Bank of Pakistan - Sponsor</b>		
Balance in current account	120	92
<b>Employees of the Management Company</b>		
Investment held in the Fund (1,138 units; 2010: 4,401 units)	11	48
<b>NAFA Employees Provident Fund</b>		
Investment held in the Fund (Nil units; 2010: 19,717 units)	-	213
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	70	96
CDC charges	1	1
Security deposit	100	100
<b>NBP Employees Pension Fund</b>		
Investment held in the Fund (45,033,858 units; 2010: 42,210,947 units)	437,319	456,680

# NAFA INCOME FUND

## 23 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

		Qualification	Experience in years
1	Dr. Amjad Waheed	MBA, Doctorate in Business Administration, CFA	23
2	Sajjad Anwar	MBA, CFA	11
3	Tanvir Abid	MBA, CFA, FRM	12
5	Ahmed Nouman*	EMBA, CFA	15

23.1 \*Mr. Ahmed Nouman is the manager of the Fund. He is also the fund manager of NAFA Government Securities Liquid Fund and NAFA Savings Plus Fund.

## 24 TRANSACTIONS WITH TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

2011

1	BMA Capital Management Ltd.	40.00%
2	JS Global Capital Limited	28.35%
3	Elixir Securities Pakistan (Pvt) Ltd.	13.85%
4	Atlas Capital Market (Pvt) Ltd.	11.00%
5	Invisor Securities (Pvt) Ltd.	6.80%

2010

1	Alfalah Securities (Private) Limited	37.93%
2	KASB Securities	34.48%
3	Jahangir Siddiqui Capital Markets	27.59%

## 25 PATTERN OF UNIT HOLDING

Category	As at June 30, 2011		
	Number of unit holders	Investment amount	Percentage investment
	(Rupees in '000)		
Individuals	142	12,904	2.80%
Associated entities / Directors	2	444,622	96.46%
Insurance companies	-	-	-
Bank / DFIs	-	-	0.00%
NBFCs	-	-	-
Retirement funds	3	3,149	0.01
Public Limited companies	1	-	0.00%
Others	1	259	0.06%
	149	460,934	100.00%

Category	As at June 30, 2010		
	Number of unit holders	Investment amount	Percentage investment
	(Rupees in '000)		
Individuals	227	33,580	5.77%
Associated companies / Directors	2	55,215	9.49%
Insurance companies	-	-	-
Bank / DFIs	1	27,047	4.65%
NBFCs	-	-	-
Retirement funds	5	460,848	79.22%
Public Limited companies	2	202	0.04%
Others	3	4,832	0.83%
	240	581,724	100.00%

# NAFA INCOME FUND

## 26 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

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

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

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

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

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

\*\*\*\* Mr. Choy Peng Wah was co-opted on the board with effect from November 05, 2010 and has retired from the board with effect from February 18, 2011.

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

\*\*\*\*\* Dr. Asif A. Brohi was co-opted on the board with effect from August 09, 2010

## 27 FINANCIAL RISK MANAGEMENT

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, spread transactions, continuous funding system transactions and investments in other money market instruments. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

### 27.1 Market risk

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

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

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

#### 27.1.1 Currency risk

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

#### 27.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

##### a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing 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 June 30, 2011, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 0.108 million (2010: Rs 1.675 million).

# NAFA INCOME FUND

## b) Sensitivity analysis for fixed rate instruments

As at June 30, 2011 the Fund holds Market Treasury Bills which are classified as "financial assets at fair value through profit or loss", exposing the Fund to fair value interest rate risk. In case of 100 basis point increase in rates announced by the Financial Market Association of Pakistan (FMAP) on June 30, 2011, with all other variables held constant, the net income the net income for the period and net assets would be lower by Rs 0.186 million. In case of 100 basis points decrease in rates announced by FMAP on June 30, 2011, with all other variables held constant, the net income for the period & net assets would be higher by Rs 0.185 million.

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

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

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

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

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

### On-balance sheet financial instruments

#### Financial Assets

Balances with Banks	5.00 - 12.00	7,330	7,206	-	-	124
Investments	8.66 - 15.93	441,844	102,439	244,214	95,191	-
Profit receivable	-	10,831	-	-	-	10,831
Advances, deposits and other receivables	-	2,600	-	-	-	2,600
		462,605	109,645	244,214	95,191	13,555

#### Financial Liabilities

Payable to the Management Company		851	-	-	-	851
Payable to the Trustee		70	-	-	-	70
Accrued expenses and other liabilities		471	-	-	-	471
		1,392	-	-	-	1,392

### On-balance sheet gap

	461,213	109,645	244,214	95,191	12,163
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### Off-balance sheet financial instruments

	-	-	-	-	-
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### Off balance sheet gap

	-	-	-	-	-
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# NAFA INCOME FUND

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

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

## On-balance sheet financial instruments

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

### Financial Assets

Balances with banks	5.00 - 11.50	48,844	48,748	-	-	96
Investments	13.15 - 14.14	510,859	-	453,359	-	57,500
Profit receivable	-	23,357	-	-	-	23,357
Advances, deposits and other receivables	-	3,600	-	-	-	3,600
		586,660	48,748	453,359	-	84,553

### Financial Liabilities

Payable to the Management Company		4,737	-	-	-	4,737
Payable to the Trustee		96	-	-	-	96
Payable on redemption of units		-	-	-	-	-
Accrued expenses and other liabilities		718	-	-	-	718
		5,551	-	-	-	5,551

### On-balance sheet gap

		581,109	48,748	453,359	-	79,002
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### Off-balance sheet financial instruments

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

### Off-balance sheet gap

		-	-	-	-	-
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## 27.1.3 Price Risk

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

## 27.2 Credit risk

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

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

### Bank balances by rating category

A1+, A-1+	97.22%	97.02%
A1	0.80%	1.85%
A2 -, A-2	1.98%	1.13%

### Term finance certificates and sukuk bonds by rating category

	2011	2010
AAA, AAA-, AAA+	-	-
AA, AA-, AA+	42.22%	26.77%
A, A-, A+	13.46%	53.97%
BBB, BBB+, BBB-	10.30%	8.01%
Non performing	34.02%	11.25%

# NAFA INCOME FUND

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

## Concentration of credit risk

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

## 27.3 Liquidity risk

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

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

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

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

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

As at June 30, 2011

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

### Financial Liabilities

Payable to the Management Company

Payable to the Trustee

Accrued expenses and other liabilities

851	851	-	-
70	70	-	-
471	471	-	-
<b>1,392</b>	<b>1,392</b>	-	-

As at June 30, 2010

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

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

### Financial Liabilities

Payable to the Management Company

Payable to the Trustee

Accrued expenses and other liabilities

4,737	4,737	-	-
96	96	-	-
718	718	-	-
<b>5,551</b>	<b>5,551</b>	-	-

# NAFA INCOME FUND

## 28 UNIT HOLDERS' FUND RISK MANAGEMENT

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

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

In accordance with the risk management policies stated in note 27, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

## 29 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Effective January 1, 2009, the Fund adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) level 3).

----- As at June 30, 2011-----				
	Level 1	Level 2	Level 3	Total
----- Rupees in '000 -----				
ASSETS				
Investment in securities	-	326,404	115,440	441,844
----- As at June 30, 2010-----				
	Level 1	Level 2	Level 3	Total
----- Rupees in '000 -----				
ASSETS				
Investment in securities	-	453,359	57,500	510,859

# NAFA INCOME FUND

## 30 DATE OF AUTHORISATION FOR ISSUE

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

## 31 GENERAL

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

31.2 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. The following has been reclassified and disclosed in the notes to the financial statements:

Note	Reclassification from component	Note	Reclassification to component	(Rupees '000)
5.4	Provision against non performing TFCs and sukuks	5.4	Net unrealised diminution in value of investments at 'fair value through profit or loss'	26,917

31.3 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 FUND

## PERFORMANCE TABLE

Particulars	For the year ended June 30, 2011	For the year ended June 30, 2010	For the year ended June 30, 2009	For the year ended June 30, 2008
Net assets (Rs. '000')	460,934	581,724	1,036,057	1,827,917
Net Income (Rs. '000')	(20,181)	43,696	40,049	37,719
Net Asset Value per units (Rs.)	9.7109	10.4457	9.9537	10.0011
Offer price per unit	9.8080	10.5502	10.0549	10.1032
Redemption price per unit	9.7109	10.4457	9.9537	10.0011
Highest offer price per unit (Rs.)	10.6810	10.5539	9.9974	10.1032
Lowest offer price per unit (Rs.)	9.6993	9.7051	9.1366	9.8935
Highest redemption price per unit (Rs.)	10.5752	10.4494	9.8984	10.0011
Lowest redemption price per unit (Rs.)	9.6033	9.6090	9.0461	9.7955
Total return of the fund	-4.24%	8.69%	3.91%	2.11%
Capital growth	-7.25%	4.94%	-0.46%	0.01%
Income distribution	3.01%	3.75%	4.37%	2.10%
Interim distribution per unit	0.3140	-	0.2670	-
Final distribution per unit	-	0.3733	0.1700	0.2096
Distribution dates				
Interim	19-Apr-11	-	16-Oct-08	-
Final		5-Jul-10	3-Jul-09	3-Jul-08
Average annual return (launch date 29-03-08) (Since inception to June 30, 2011)	3.09%	6.52%	6.10%	8.43%
Portfolio Composition (Please see Fund Manager Report)				
Weighted average portfolio duration	3.28 Years	57 Days	2 Years	2 Years

"Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up."

# NAFA INCOME FUND

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