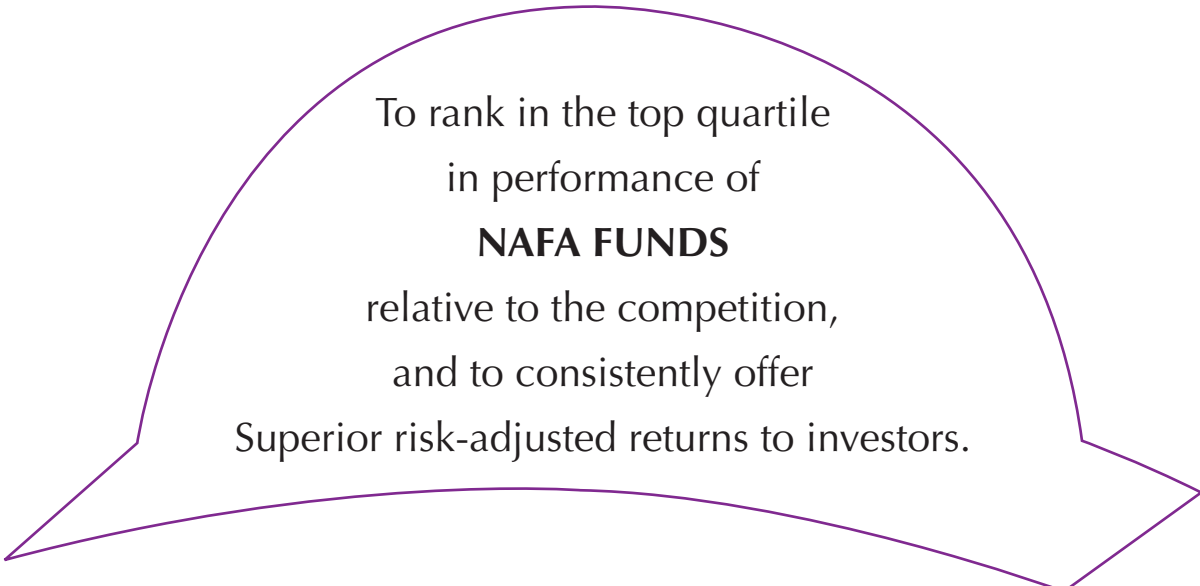


## MISSION STATEMENT



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
Mr. Amir Shehzad	Director
Mr. Wah Geok Sum	Director
Mr. Koh Boon San	Director
Mr. Shehryar Faruque	Director
Mr. Kamal Amir Chinoy	Director
Dr. Asif A. Brohi	Director
Dr. Amjad Waheed	Chief Executive Officer

### Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

### Audit & Risk Committee

Mr. Koh Boon San	Chairman
Mr. Shehryar Faruque	Member
Mr. Amir Shehzad	Member

### Trustee

MCB Financial Service Limited  
3rd Floor, Adamjee House, I.I.  
Chundrigar Road Karachi - 74000

### Bankers to the Fund

Summit Bank Limited  
Bank Alfalah Limited  
Faysal Bank Limited  
JS Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Soneri Bank Limited  
Standard Chartered Bank (PAK) 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  
UAN: 021-111-111-NFA (632)  
Toll Free: 0800-20001  
Fax: 021-32467605

## **Lahore Office:**

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

## **Islamabad Office:**

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

## **Peshawar Office:**

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

## **Multan Office:**

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

# 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 Fifth Annual Report of NAFA Income Fund for the year ended June 30, 2012.

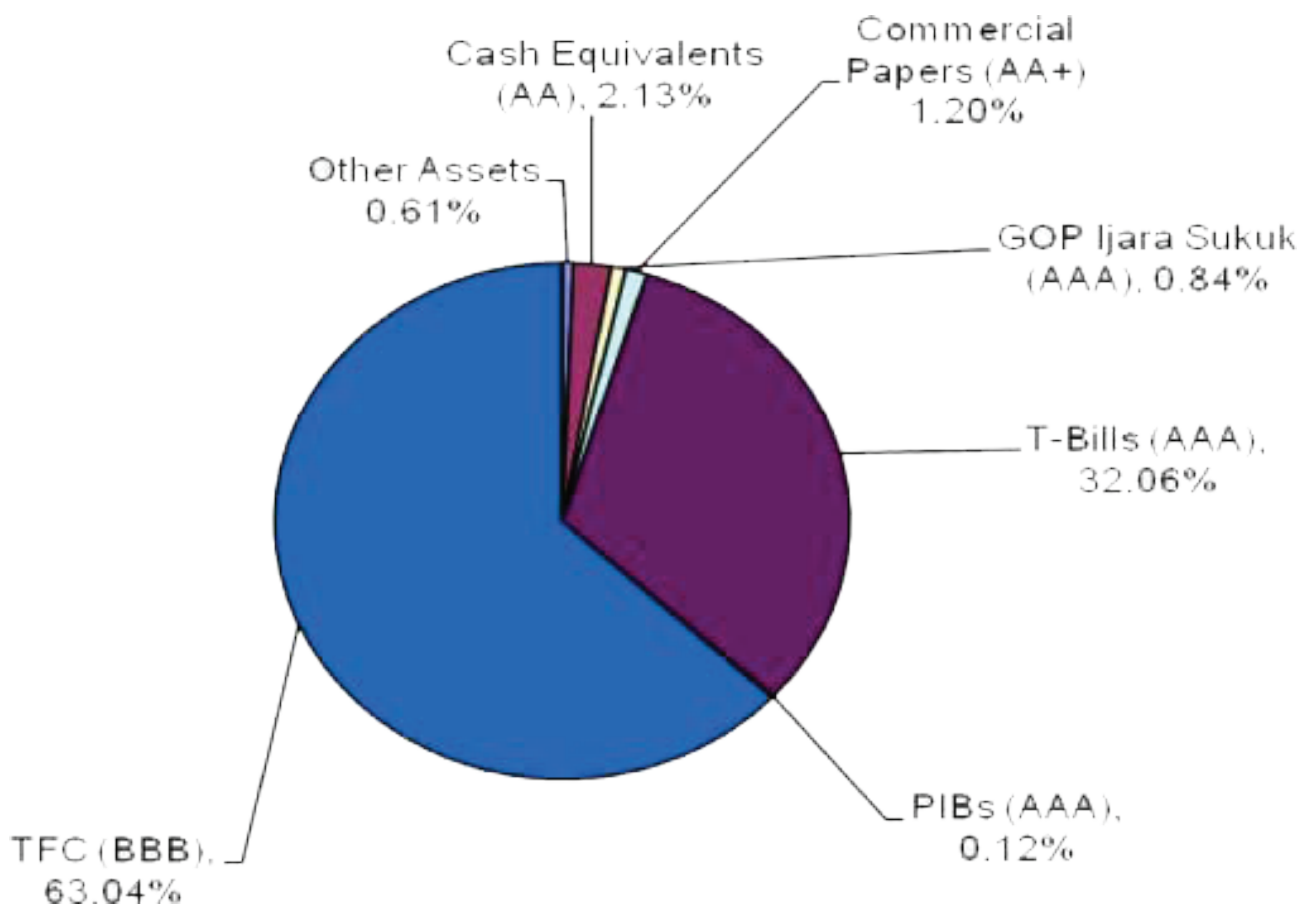
### Fund's Performance

The size of **NAFA Income Fund** has reduced from Rs. 461 million to Rs. 417 million during the period, i.e. a decline of 9.54%. During the said period, the unit price of NAFA Income Fund has decreased from Rs. 9.7109 on June 30, 2011 to Rs. 9.0407 on June 30, 2012, thus showing an annualized return of -6.92% as compared to its Benchmark (6-Month KIBOR) annualized return of 12.37% for the same period. The subdued performance of the Fund is due to heavy provisioning in few TFCs.

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

The Fund has incurred loss of Rs.14.50 million during the year. After accounting for expenses of Rs.21.26 million, the total loss is Rs.35.76 million.

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



# NAFA INCOME FUND

## Income Distribution

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

## Taxation

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

## Auditors

The present auditors, Messers A.F.Ferguson & Co., Chartered Accountants, retire. In their place, the Board has approved the appointment of Messers M. Yousuf Adil Saleem & Co., Chartered Accountants for the year ending June 30, 2013.

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

1. The financial statements, prepared by the management company 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 Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held five meetings during the current financial year. The attendance of all directors is disclosed in the note 25 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 24 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 21 to these financial statements.

# NAFA 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

Chief Executive

Director

Date: September 11, 2012  
Place: Karachi.

# NAFA INCOME FUND

## TRUSTEE REPORT TO THE UNIT HOLDERS NAFA INCOME FUND

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

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Income Fund (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the period from July 01, 2011 to December 21, 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.

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

Karachi: February 28, 2012



# NAFA INCOME FUND

## TRUSTEE REPORT TO THE UNIT HOLDERS NAFA INCOME FUND

### Report of the Trustee Pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

NAFA Income Fund, an open-end Scheme 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 (CDC), as the Trustee. The Scheme was authorized by Securities and Exchange Commission of Pakistan (Commission) on January 29, 2008.

During the period CDC retired as the Trustee of the Fund and MCB Financial Services Limited (MCBFSL) was appointed as the new trustee with effect from November 22, 2011.

1. NBP Fullerton Asset Management Limited, the Management Company of NAFA Income Fund has in all material respects managed NAFA Income Fund during the period from November 22, 2011 to June 30, 2012 in accordance with the provisions of the following:
  - (i) the limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;
  - (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;
  - (iii) the creation and cancellation of units are carried out in accordance with the deed;
  - (iv) and any regulatory requirement

Karachi: October 10, 2012

Khawaja Anwar Hussain  
Chief Executive Officer  
MCB Financial Services Limited

# NAFA INCOME FUND

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

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

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

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

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

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

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

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

# NAFA INCOME FUND

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

# NAFA INCOME FUND

19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. There was no 'closed period' prior to the announcement of interim/final results.
22. Material / price sensitive information has been disseminated amongst all market participants at once through stock exchange.
23. We confirm that all other material principles contained in the CCG have been complied with.

Karachi  
September 11, 2012

For and behalf of the board

Dr. Amjad Waheed  
Chief Executive Officer

# NAFA INCOME 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 Performance Review

This is the fifth Annual report since the launch of the Fund on March 29, 2008. The Fund size declined by 9.5% during FY12 and stands at Rs 417 million as on June 30, 2012. The Fund's annualized return since its inception is 0.65% versus the benchmark return of 12.42%. During FY12 the Fund's Net Asset Value decreased by 6.88%. The benchmark posted annualized return of 12.37% during this period.

The key factor responsible for the subdued performance of the Fund was provisioning for some TFC holdings during the year. As a result, the difference between the Face Value of TFC Portfolio (Rs 541 million) and market/ book value (Rs 271 million) is Rs 270 million. This substantial marked-down TFC portfolio of the Fund offer potential for healthy recovery of the Fund going forward. However, the TFC portfolio is exposed to downward risks in case of further deterioration of the economy.

The weighted average yield to maturity of NAFA Income Fund is around 15.21% p.a. The weighted average maturity of NAFA Income Fund is 2.62 years. Thus, the Fund is expected to perform well over medium term horizon.

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

Particulars	30-Jun-12	30-Jun-11
TFCs / Sukuks	63.03%	73.64%
Cash Equivalents	2.13%	1.59%
T-Bills	32.06%	22.22%
PIB	0.12%	-
GOP Ijara Sukuk	0.84%	-
Money Market Instrument	1.20%	-
Other Net Assets	0.62%	2.55%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

We have witnessed very little fresh issues of the corporate bonds. Trading activity remained limited to high rated issuers, mainly belonging to Financial sector. Inflation as measured by CPI stood at 11% for FY12 as against 13.3% during the preceding year. With this letup in inflation and to spur private sector investment, SBP reduced the Discount Rate from 14% to 12%. Correspondingly the benchmark 6-Months KIBOR declined to 12.06% from 13.78% during the year.

# NAFA INCOME FUND

## Details of Non-Compliant Investments

Particulars	Type of Investment	Value of Investments before Provision	Provision held	Value of Investments after Provision	% of Net Assets	% of Gross Assets	Yield to Maturity per annum
Eden Housing (Sukuk II)	SUKUK	58,125,000	20,263,014	37,861,986	9.08%	9.01%	52.50%
Saudi Pak Leasing	TFC	49,728,675	16,895,467	32,833,208	7.87%	7.81%	20.81%
World Call Telecom Limited	TFC	39,976,002	9,994,000	29,982,002	7.19%	7.13%	-
Agritech Limited II	TFC	149,875,800	149,875,800	-	-	-	-
Agritech Limited V	TFC	22,180,000	22,180,000	-	-	-	-
New Allied Electronics (Sukuk II)	SUKUK	49,054,371	49,054,371	-	-	-	-
<b>Total</b>		<b>368,939,848</b>	<b>268,262,652</b>	<b>100,677,196</b>	<b>24.14%</b>	<b>23.95%</b>	

The Board of Directors of Management Company did not announce any distribution in the Fund during the year.

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

Size of Unit Holding (Units)	# of Unit Holders
1 - 1000	32
1001 - 5000	51
5001 - 10000	16
10001 - 50000	16
50001 - 100000	2
100001 - 500000	2
500001 - 1000000	-
1000001 - 5000000	-
5000001 - 10000000	-
10000001 - 100000000	1
100000001 - 1000000000	-
	<b>120</b>

## During the period under question:

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

## Workers' Welfare Fund (WWF)

The scheme has maintained provisions against Workers' Welfare Fund's liability to the tune of Rs. 1,709,485/-. If the same were not made the NAV per unit/ FY 2012 return of scheme would be higher by Rs. 0.0370/ 0.38%. For details investors are advised to read note 16 of the Financial Statement of the Scheme for the year ended June 30, 2012.

# NAFA INCOME FUND

## REVIEW REPORT 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 of **NAFA Income Fund**, to comply with the Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company'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 Company's personnel and review of various documents prepared by the 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.

Regulation 35 (x) of the listing regulations notified by the Lahore Stock Exchange (Guarantee) Limited requires the 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 above requirements 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 for and on behalf of the Fund, 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, 2012.

A.F. Ferguson & Co.  
Chartered Accountants  
Karachi  
Dated: September 26, 2012

# NAFA INCOME FUND

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of NAFA – Income Fund (here in after referred to as “the Fund”), which comprise the statement of assets and liabilities as at June 30, 2012, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders’ fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

### Auditor’s responsibility

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

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

### Opinion

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

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in 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: September 26, 2012  
Karachi



# NAFA INCOME FUND

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2012

	Note	2012	2011
		-----Rupees in '000-----	
<b>ASSETS</b>			
Balances with banks	4	8,868	7,330
Investments	5	405,681	441,844
Profit receivable	6	4,857	10,831
Advances, deposits, prepayments and other receivables	7	298	2,696
Preliminary expenses and floatation costs	8	744	1,744
<b>Total assets</b>		420,448	464,445
<b>LIABILITIES</b>			
Payable to the Management Company	9	793	851
Payable to the Trustee	10	34	70
Payable to the Securities and Exchange Commission of Pakistan	11	320	389
Accrued expenses and other liabilities	12	2,145	2,201
<b>Total liabilities</b>		3,292	3,511
<b>NET ASSETS</b>		<u>417,156</u>	<u>460,934</u>
<b>UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>		<u>417,156</u>	<u>460,934</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	13	-	-
		-----Number of units-----	
<b>Number of units in issue</b>		<u>46,141,823</u>	<u>47,465,768</u>
		-----Rupees-----	
<b>NET ASSET VALUE PER UNIT</b>	3.11	<u>9.0407</u>	<u>9.7109</u>

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME FUND

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
-----Rupees in '000-----			
<b>INCOME</b>			
Loss on sale of investments - net		(189)	(134)
Income from term finance certificates and sukus		55,309	49,302
Income from government securities		15,370	5,356
Profit on bank deposits	14	1,263	4,322
Unrealised (diminution) / appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	5.4	(86,255)	(68,945)
Other income		-	946
<b>Total income / (loss)</b>		<b>(14,502)</b>	<b>(9,153)</b>
<b>EXPENSES</b>			
Remuneration of the Management Company	9.1	8,534	10,353
Sindh sales tax on remuneration of the Management Company		1,365	-
Remuneration of the Trustee	10.1	573	963
Annual fee - Securities and Exchange Commission of Pakistan	11.1	320	389
Securities transaction cost		109	13
Settlement and bank charges		157	27
Rating fee and printing related cost		220	105
Annual listing fee		30	40
Auditors' remuneration	15	413	352
Amortisation of preliminary expenses and floatation costs	8	1,000	1,000
Legal and professional charges		40	80
Impairment loss / (Reversal) on term finance certificates and sukus		8,501	(118)
<b>Total expenses</b>		<b>21,262</b>	<b>13,204</b>
<b>Net (loss) / income from operating activities</b>		<b>(35,764)</b>	<b>(22,357)</b>
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		-	2,176
Provision for workers' welfare fund	16	-	-
<b>Net (loss) / income for the year before taxation</b>		<b>(35,764)</b>	<b>(20,181)</b>
Taxation	17	-	-
<b>Net (loss) / income for the year after taxation</b>		<b>(35,764)</b>	<b>(20,181)</b>
<b>Loss / Earnings per unit</b>	3.12		

The annexed notes 1 to 30 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, 2012

	Note	2012	2011
		-----Rupees in '000-----	
Net (loss) / income for the year after taxation		(35,764)	(20,181)
Net unrealised appreciation on re-measurement of investments classified as 'available for sale'	5.5	4,272	154
<b>Total comprehensive loss for the year</b>		<u>(31,492)</u>	<u>(20,027)</u>

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME FUND

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2012

	2012	2011
	-----Rupees in '000-----	
Accumulated (loss) / Undistributed income brought forward	(7,854)	51,455
Final distribution for the year ended June 30, 2011: Nil (2010: 3.773%)		
- Bonus units	-	(19,011)
- Cash distribution	-	(1,061)
Net (loss) for the year	(35,764)	(20,181)
Interim distribution for the quarter ended March 31, 2012: Nil (2011: 3.134%)		
- 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	571	(4,540)
	(35,193)	(39,237)
Accumulated (losses) carried forward	(43,047)	(7,854)

The annexed notes 1 to 30 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, 2012

	Note	2012 -----Rupees in '000-----	2011
Net assets at the beginning of the year		460,934	581,724
Issue of 155,478 units (2011: 3,232,725 units including 3,202,850 bonus units)		1,457	305
Redemption of 1,479,423 units (2011: 9,535,892 units)		(13,743) (12,286)	(97,730) (97,425)
Final distribution for the year ended June 30, 2011: Nil (2010: 3.773%) - Bonus distribution		-	19,011
Net 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)
- amount representing loss / (income) that form part of the unit holders' fund - transferred to Distribution Statement		(571) (571)	4,540 2,364
Net unrealised appreciation on re-measurement of investments classified as 'available for sale'	5.5	4,272	154
Loss on sale of investments - net		(189)	(134)
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'		(86,255)	(68,945)
Other operating (loss) / income for the year		50,680 (35,764)	48,898 (20,181)
<b>Distributions</b>			
Final distribution for the year ended June 30, 2011: Nil (2010: 3.773%)			
- Bonus units		-	(19,011)
- Cash distribution		-	(1,061)
Interim distribution for the quarter ended March 31, 2012: Nil ( March 2011: 3.134%)			
- Bonus units		-	(14,415)
- Cash distribution		-	(101)
		-	(34,588)
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		571	(4,540)
<b>Net assets as at the end of the year</b>		<u>417,156</u>	<u>460,934</u>

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME FUND

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
		-----Rupees in '000-----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net (loss) for the year		(35,764)	(20,181)
<b>Adjustments</b>			
Net unrealised (appreciation) / diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'		86,255	68,945
Amortisation of preliminary expenses and floatation costs		1,000	1,000
(Reversal of impairment) / Impairment loss on term finance certificates and sukuku		8,501	(118)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed transferred to income statement		-	(2,176)
		<u>59,992</u>	<u>47,470</u>
<b>(Increase) / Decrease in assets</b>			
Investments		(54,321)	342
Profit receivable		5,974	12,526
Advances, deposits, prepayments and other receivables		2,398	1,000
		<u>(45,949)</u>	<u>13,868</u>
<b>Decrease in liabilities</b>			
Payable to the Management Company		(58)	(3,886)
Payable to the Trustee		(36)	(26)
Payable to the Securities and Exchange Commission of Pakistan		(69)	(126)
Accrued expenses and other liabilities		(56)	(227)
		<u>(219)</u>	<u>(4,265)</u>
<b>Net cash inflow from operating activities</b>		<u>13,824</u>	<u>57,073</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Receipts from issue of units		1,457	305
Payments on redemption of units		(13,743)	(97,730)
Distributions paid		-	(1,162)
<b>Net cash outflow on financing activities</b>		<u>(12,286)</u>	<u>(98,587)</u>
<b>Net increase / (decrease) in cash and cash equivalents during the year</b>		<u>1,538</u>	<u>(41,514)</u>
Cash and cash equivalents at the beginning of the year		7,330	48,844
<b>Cash and cash equivalents at the end of the year</b>	4	<u><u>8,868</u></u>	<u><u>7,330</u></u>

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

### 1 LEGAL STATUS AND NATURE OF BUSINESS

The NAFA Income Fund (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management (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 authorised 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).

During the period Central Depository Company of Pakistan Limited (CDC) retired as the Trustee of the Fund and MCB Financial Services Limited (MCBFSL) was appointed as the new Trustee with effect from November 22, 2011. The SECP approved the appointment of MCBFSL as the Trustee in place of CDC and further approved the amendments to the Trust Deed vide its letter number SCD/AMCWING/VS/NIF/458/2011 dated November 15, 2011. Accordingly, the Trust Deed of the Fund was revised through a supplemental Deed executed between the Management Company, CDC and MCBFSL.

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

The Fund is an open-ended mutual fund and is listed on the Lahore Stock Exchange. Units of the Fund are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering these to the Fund. The Fund is categorized as an Open-End "Income Scheme" as per the criteria laid down by SECP for categorization of Collective Investment Schemes (CIS).

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 time 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 stability rating of 'A-(f)' to the Fund.

Title of the assets of the Fund is held in the name of MCB Financial Services Limited (MCBFSL) as the trustee of the Fund. However, title of a few bank accounts are still in the name of CDC but are being closed by the Fund.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

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

The following standards, amendments and interpretations to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2011:

- a) IFRS 7, 'Financial Instruments: Disclosures' This amendment is effective from January 1, 2011. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements during the current year.
- b) IFRS 7, 'Financial instruments: Disclosures' This amendment is effective from July 1, 2011. The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any significant impact on the Fund's financial statements during the current year.

# NAFA INCOME FUND

- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Fund's financial statements.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. 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 revised standard does not have any impact on the Fund's financial statements.

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

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

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment will not have any significant effect on the Fund's financial statements.
- b) IAS 32, 'Financial instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management of the Fund is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

## 2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in application of its accounting policies. The estimates, judgments and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. 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 that certain financial assets have been carried at fair value in accordance with the requirements of International Accounting Standard (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 unless otherwise stated.

### 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.



# NAFA INCOME FUND

## 3.2 Financial assets

### 3.2.1 Classification

The Fund classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss
- loans and receivables
- available for sale

The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate 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

These are financial assets acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

#### b) 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.

### 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 the income statement.

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

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

# NAFA INCOME FUND

## 3.2.5 Impairment

The carrying amounts of the Fund's assets are revalued at each reporting date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. If any impairment 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 statement of comprehensive income is reclassified from other comprehensive income and recognised in 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 on its website.

### b) Loans and receivables

For financial assets classified as 'loans and receivables', a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is determined based on the provisioning criteria specified by SECP.

## 3.2.6 Derecognition

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

## 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 to realise the assets and settle the liabilities simultaneously.

## 3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to management company, payable to trustee and other liabilities.

## 3.4 Derivatives

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

## 3.5 Preliminary expenses and floatation costs

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

# NAFA INCOME FUND

## 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.

During the current year, the Fund has revised its methodology for determination of element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed. As per the revised methodology, element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed is determined based on the income earned during the year and on unrealised appreciation / (diminution) arising during the year on available for sale securities. The amount so determined is taken directly to the distribution statement. Previously, the element was calculated based on cumulative values of undistributed income and unrealised gain / loss on available for sale securities present in the net asset value of units. The element which related to income earned during the year was recognised in the income statement, while the remaining amount was recognised in the distribution statement

The revised methodology, in the opinion of the management, reflects a more appropriate manner for determination of element. The change in the presentation of element in the financial statements has been based on the recommendation of the Institute of Chartered Accountants of Pakistan (ICAP) to the Securities and Exchange Commission of Pakistan (SECP). As per ICAPs recommendation to the SECP, element of income, being in the nature of "equalization account" does not qualify for recognition either as expense or income as per International Financial Reporting Standards (IFRSs). Therefore, in order to enhance harmonization of mutual fund accounting with the primary accounting framework, the net balance of element of income at the end of the reporting period has been recognised directly in the distribution statement.

The change did not have any impact on the net assets value (NAV) of the Fund. Had the management not revised its methodology:

- Income for the year would have been higher by Rs. 0.571 million; and
- amount taken to distribution statement would have been lower by Rs 0.382 million

## 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.

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 period / year end 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 Net asset value per unit

The net asset value per unit as disclosed in 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.

## 3.12 Loss / Earnings per unit

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

# NAFA INCOME FUND

## 3.13 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, sukuks 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 capital gains / (losses) arising on re-measurement 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	2012	2011
-----Rupees in '000-----			
<b>4 BALANCES WITH BANKS</b>			
Current accounts		5	124
Saving accounts		8,863	7,206
		<u>8,868</u>	<u>7,330</u>

4.1 These carry a rate of return ranging from 6% to 12% (2011: 5% to 12%) per annum

## 5 INVESTMENTS

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

Term finance certificates - listed	5.1.1	154,673	84,267
Term finance certificates - unlisted	5.1.1	40,418	159,947
Sukuks	5.1.3	8,500	-
Government Securities	5.2	134,246	102,439
		<u>337,837</u>	<u>346,653</u>

### Available for sale

Term finance certificates - listed	5.3	29,982	45,698
Sukuks	5.3	37,862	49,493
		<u>67,844</u>	<u>95,191</u>
		<u>405,681</u>	<u>441,844</u>

## 5.1 Term finance certificates and sukuks

### 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, 2012	Investment as a percentage of		
		As at July 1, 2011	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	5.3.3	15,000	-	-	15,000	32,833	7.87%	8.09%	6.63%
Bank Alfalah Limited	-	-	2,000	-	2,000	10,540	2.53%	2.60%	0.20%
Faysal Bank Limited	-	-	5,000	-	5,000	25,934	6.22%	6.39%	0.20%
NIB Bank Limited	-	-	6,200	5,000	1,200	5,964	1.43%	1.47%	0.75%
Allied Bank Limited	-	-	2,000	-	2,000	9,626	2.31%	2.37%	1.42%
Standard Chartered Bank (Pak) Limited	-	-	6,000	-	6,000	30,000	7.19%	7.39%	1.20%
Pakistan Mobile Communication Limited	-	-	5,000	-	5,000	24,673	5.91%	6.08%	0.10%
United Bank Limited	-	10,000	-	7,000	3,000	15,103	3.62%	3.72%	0.25%
					<u>39,200</u>	<u>154,673</u>	<u>37.08%</u>	<u>38.13%</u>	
<b>Term finance certificates - unlisted</b>									
Engro Fertilizers Limited	-	20,000	-	11,500	8,500	40,418	9.69%	9.96%	0.62%
Agritech Limited II	5.3.4	30,000	-	-	30,000	-	-	-	-
Agritech Limited V	5.3.5	-	4,436	-	-	4,436	-	-	-
					<u>42,936</u>	<u>40,418</u>	<u>9.69%</u>	<u>9.96%</u>	
					<u>82,136</u>	<u>195,091</u>	<u>46.77%</u>	<u>48.09%</u>	
					<u>281,250</u>				

Carrying cost of investments as at June 30, 2012

# NAFA INCOME FUND

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

Name of the investee company	2012			2011		
	Outstanding balance	Provision Held	Net Carrying value	Outstanding balance	Provision Held	Net Carrying value
	----- (RS in '000) -----					
Saudi Pak Leasing Company Limited	49,728	(16,895)	32,833	34,969	-	34,969
Agritech Limited II	149,876	(149,876)	-	149,880	(83,933)	65,947
Agritech Limited V	22,180	(22,180)	-	-	-	-

5.1.2 These carry a rate of return ranging from 6.91% to 16.24% (2011: 8.66% to 15.44%) per annum.

## 5.1.3 Sukuks - At fair value through profit or loss

Name of the investee company	Number of certificates				Market value as at June 30, 2012	Investment as a percentage of			
	As at July 1, 2011	Purchases during the year	Sales during the year	As at June 30, 2012		Net assets	Market value of total investments	Issue size	
	(Rs in '000)								
New Allied Electronics Industries (Private) Limited (note 5.3.6)	10,000	-	-	10,000	-	-	-	-	
GOP Ijarah Sukuk (02-MAR-12 to 02-MAR-15)	-	700	-	700	3,500	0.84%	0.86%	-	
HUBCO Short term Islamic Sukuk	-	1000	-	1,000	5,000	1.20%	1.23%	0.63%	
				<b>11,700</b>	<b>8,500</b>	<b>2.04%</b>	<b>2.10%</b>		
Carrying cost of investments as at June 30, 2012					<b>8,500</b>				

5.1.4 All term finance certificates and sukuku have a face value of Rs 5,000 each.

## 5.2 Government Securities

Issue Date	Tenor	Face Value				Market value as at June 30, 2012	Investment as a percentage of			
		As at July 1, 2011	Purchases during the year	Sales/ Matured during the year	As at June 30, 2012		Net assets	Market value of total investments		
		----- (Rs in '000) -----								
<b>Market Treasury Bills</b>	3 months	5,000	-	5,000	-	-	-	-		
May 5, 2011	3 months	100,000	-	100,000	-	-	-	-		
June 16, 2011	3 months	-	7,500	7,500	-	-	-	-		
July 28, 2011	6 months	-	3,500	3,500	-	-	-	-		
August 25, 2011	6 months	-	100,000	100,000	-	-	-	-		
June 2, 2011	6 months	-	12,000	12,000	-	-	-	-		
September 22, 2011	3 months	-	8,000	8,000	-	-	-	-		
October 20, 2011	6 months	-	50,000	50,000	-	-	-	-		
November 3, 2011	6 months	-	50,000	50,000	-	-	-	-		
November 17, 2011	3 months	-	150,000	150,000	-	-	-	-		
November 17, 2011	3 months	-	100,000	100,000	-	-	-	-		
December 1, 2011	3 months	-	5,000	5,000	-	-	-	-		
March 24, 2011	6 months	-	10,000	10,000	-	-	-	-		
July 28, 2011	3 months	-	100,000	100,000	-	-	-	-		
January 12, 2012	3 months	-	7,500	7,500	-	-	-	-		
January 26, 2012	12 months	-	7,500	-	7,500	7,022	1.68%	1.73%		
January 26, 2012	3 months	-	10,000	10,000	-	-	-	-		
February 9, 2012	3 months	-	10,000	10,000	-	-	-	-		
February 23, 2012	3 months	-	140,000	140,000	-	-	-	-		
March 8, 2012	3 months	-	5,000	5,000	-	-	-	-		
March 22, 2012	3 months	-	3,000	3,000	-	-	-	-		
April 5, 2012	3 months	-	7,500	-	7,500	7,471	1.79%	1.84%		
April 19, 2012	3 months	-	122,000	107,000	15,000	14,874	3.57%	3.67%		
May 3, 2012	3 months	-	86,000	-	86,000	84,890	20.35%	20.93%		
May 17, 2012	3 months	-	5,000	-	5,000	4,891	1.17%	1.21%		
June 14, 2012	3 months	-	15,000	-	15,000	14,609	3.50%	3.60%		
June 28, 2012										
<b>Pakistan Investment Bond</b>										
August 18, 2011	3 Years	-	38,000	37,500	500	489	0.12%	0.12%		
August 18, 2011	5 Years	-	25,000	25,000	-	-	-	-		
						<b>134,246</b>				
Carrying cost of investments as at June 30, 2012						<b>134,342</b>				

# NAFA INCOME FUND

5.2.1 These carry a rate of return ranging from 11.55% to 13.53% (2011: 12.88% to 13.49%) per annum

## 5.3 Term Finance Certificates and Sukuks - Available for Sale

Name of the investee company	Number of certificates / bonds				Market value as at June 30, 2012	Investment as a percentage of		
	As at July 1, 2011	Purchases during the year	Sales during the year	As at June 30, 2012		Net assets	Market value of total investments	Issue size
(Rs in '000)								
<b>Term finance certificate - listed</b>								
Worldcall Telecom Limited (note 5.3.7)	14,000	-	-	14,000	29,982	7.19%	7.39%	1.00%
				<u>14,000</u>	<u>29,982</u>	<u>7.19%</u>	<u>7.39%</u>	
Carrying cost of investments as at June 30, 2012					<u>39,976</u>			
<b>Sukuks</b>								
Eden Housing (note 5.3.8)	20,000	-	-	20,000	37,862	9.08%	9.33%	2.91%
				<u>20,000</u>	<u>37,862</u>	<u>9.08%</u>	<u>9.33%</u>	
Carrying cost of investments as at June 30, 2012					<u>58,125</u>			

5.3.1 These carry a rate of return ranging from 14.40% to 16.03% (2011: 13.98% to 15.93%) per annum.

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

5.3.3 This represents investment in listed term finance certificates of Saudi Pak Leasing Company Ltd. On October 13, 2011, the investee company defaulted on its obligation on account of principal and profit payment. The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular.

5.3.4 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 amount of provision as per circular 1 of 2009 has been maintained by valuing the investment in terms of the said circular.

5.3.5 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 as per circular 1 of 2009 has been maintained by valuing the investment in terms of the said circular.

5.3.6 This represents investment in privately placed sukuks with a term of five years. On December 3, 2008, the investee company had defaulted on its obligation on account of profit repayment. The amount of provision as per circular 1 of 2009 has been maintained by valuing the investment in terms of the said circular.

5.3.7 This represents investment in listed term finance certificates of Worldcall Telecom Ltd. On April 07, 2012, the investee company defaulted on its obligation on account of principal and profit payment. The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular.

5.3.8 This represents investment in privately placed sukuks 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 management of the Fund as a matter of abundant caution has classified the investment as "Non-Performing". The amount of provision required as per SECP circular no. 01 of 2009 has been maintained by valuing the investment in terms of the said circular.

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

	Note	2012	2011
		-----Rupees in '000-----	
<b>5.4 Unrealised appreciation / (diminution) in value of investments at 'fair value through profit or loss' - net</b>			
Market value of investments	5.1.1, 5.1.4 & 5.2	337,837	346,653
Less: carrying value of investments		<u>424,092</u>	<u>415,598</u>
		(86,255)	(68,945)
<b>5.5 Unrealised appreciation / (diminution) in value of investments classified as available for sale - net</b>			
Market value of investments	5.3	67,844	95,191
Less: Carrying value of investments		<u>93,829</u>	<u>116,794</u>
		(25,985)	(21,603)
Provision against non-performing term finance certificates and sukuks		<u>30,257</u>	<u>21,757</u>
		<u>4,272</u>	<u>154</u>



# NAFA INCOME FUND

	Note	2012	2011
-----Rupees in '000-----			
5.6.1	These carry a rate of return ranging from 14.40% to 16.03% (2011: 13.98% to 15.93%) per annum.		
<b>6</b>	<b>PROFIT RECEIVABLE</b>		
	Profit on saving and term deposit accounts	150	57
	Profit receivable on term finance certificates and sukuks	64,522	56,087
	Profit receivable on government securities	30	
	Less: Suspended Income on term finance certificates and sukuks	(59,845)	(45,313)
		<u>4,707</u>	<u>10,774</u>
		<u>4,857</u>	<u>10,831</u>
<b>7</b>	<b>ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>		
	Security deposit with:		
	- National Clearing Company of Pakistan Limited	-	2,500
	- MCB Financial Services Limited	100	-
	- Central Depository Company of Pakistan Limited	100	100
	Advance tax	98	96
		<u>298</u>	<u>2,696</u>
<b>8</b>	<b>PRELIMINARY EXPENSES AND FLOATATION COSTS</b>		
	Balance as at the beginning of the year	8.1	1,744
	Less: Amortisation during the year		<u>1,000</u>
	Balance as at the end of the year		<u>744</u>
			<u>1,744</u>
8.1	Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from March 28, 2008 as per the requirements set out in the Trust Deed of the Fund.		
		Note	2012
			2011
-----Rupees in '000-----			
<b>9</b>	<b>PAYABLE TO THE MANAGEMENT COMPANY</b>		
	Remuneration of the Management Company	9.1	684
	Sindh sales tax on Management Company's remuneration		109
	Others		-
			<u>30</u>
			<u>793</u>
			<u>851</u>
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 two percent per annum for the current period. The remuneration is paid on a monthly basis in arrears.		
9.2	During the current year, the Provincial Government of Sindh levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011 effective from July 1, 2011.		
		Note	2012
			2011
-----Rupees in '000-----			
<b>10</b>	<b>PAYABLE TO THE TRUSTEE</b>		
	Trustee fee	10.1	34
			<u>70</u>
10.1	The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets of the Fund.		

Based on the Trust Deed, the tariff structure applicable to the Fund upto December 20, 2011 is as follows:

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

The tariff structure revised and applicable to the Fund from December 20, 2011, due to the change of trustee, is 0.1% of daily NAV

# NAFA INCOME FUND

	Note	2012	2011
-----Rupees in '000-----			
<b>11 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>			
Annual fee	11.1	<u>320</u>	<u>389</u>
<b>11.1</b>	Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, a collective investment scheme categorised as Income Scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the scheme. The Fund has been classified as an Income Scheme by the Management Company.		
		2012	2011
-----Rupees in '000-----			
<b>12 ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Auditors' remuneration		299	256
Settlement charges		14	37
Bank charges		6	28
Brokerage		23	23
Provision for workers' welfare fund		1,710	1,710
Printing charges		73	127
Others		<u>20</u>	<u>20</u>
		<u>2,145</u>	<u>2,201</u>
<b>13 CONTINGENCIES AND COMMITMENTS</b>			
There were no contingencies and commitments outstanding as at June 30, 2012.			
<b>14 PROFIT ON BANK DEPOSITS</b>			
Income on saving deposits		<u>1,263</u>	<u>4,322</u>
		<u>1,263</u>	<u>4,322</u>
		2012	2011
-----Rupees in '000-----			
<b>15 AUDITORS' REMUNERATION</b>			
Annual Audit fee		254	231
Half yearly review fee		102	92
Other certifications		25	-
Out of pocket expenses		<u>32</u>	<u>29</u>
		<u>413</u>	<u>352</u>
<b>16 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.

During the year ended June 30, 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 December 14, 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 ended June 30, 2012, the Honourable 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 and struck them down. 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. Had the same not been made the net asset value per unit / return of the Fund would have been higher by Rs 0.0370 / 0.38% per unit respectively.

## 17 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year / 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 the current year as the Fund has incurred a loss during the year.



# NAFA INCOME FUND

## 18 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'.

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, 2012, 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
(-----Rupees in '000-----)						
Investment in debt securities - (note 18.1)	Agritech Limited II	149,876	149,876	-	-	-
	Agritech Limited V	22,180	22,180	-	-	-
	Eden Housing Limited	58,125	20,263	37,862	9.08%	9.01%
	New Allied Electronics Industries (Private) Limited	49,054	49,054	-	-	-
	Saudi Pak Leasing Company Limited	49,728	16,895	32,833	7.87%	7.81%
	Worldcall Telecom Limited	39,976	9,994	29,982	7.19%	7.13%

18.1 At the time of purchase, the above Term Finance Certificates were in compliance with the circular (i.e. investment grade) and were subsequently downgraded. In case of Saudi Pak Leasing, New Allied Electronics Industries (Private) Limited, Agri Tech Limited, Eden Housing Limited and Worldcall Telecom Limited the downgrading has been made due to default in payments of due principal and markup.

## 19 FINANCIAL INSTRUMENTS BY CATEGORY

-----As at June 30, 2012-----				
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
-----Rupees in '000-----				
<b>Assets</b>				
Balances with banks	8,868	-	-	8,868
Investments	-	337,837	67,844	405,681
Profit receivable	4,857	-	-	4,857
Advances, deposits, prepayments and other receivables	200	-	-	200
	<u>13,925</u>	<u>337,837</u>	<u>67,844</u>	<u>419,606</u>

-----As at June 30, 2012-----			
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
-----Rupees in '000-----			
<b>Liabilities</b>			
Payable to the Management Company	-	793	793
Payable to the Trustee	-	34	34
Accrued expenses and other liabilities	-	415	415
	<u>-</u>	<u>1,242</u>	<u>1,242</u>

# NAFA INCOME FUND

	-----As at June 30, 2011-----			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
<b>Assets</b>	-----Rupees in '000-----			
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
<b>Liabilities</b>	-----Rupees in '000-----		
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>

2012                      2011  
-----Rupees in '000-----

## 20 NUMBER OF UNITS IN ISSUE

Total units in issue at the beginning of the year	47,465,768	53,768,935
Add: units issued during the year	155,478	29,875
Add: bonus units issued during the year	-	3,202,850
Less: units redeemed during the year	1,479,423	9,535,892
Total units in issue at the end of the year	<u>46,141,823</u>	<u>47,465,768</u>

## 21 TRANSACTIONS WITH CONNECTED PERSONS

21.1 Connected persons include NBP Fullerton Asset Management Limited (NAFA) being the Management Company, MCB Financial Services Ltd. being the Trustee, National Bank of Pakistan being the sponsor, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

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

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

21.4 Remuneration payable to the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.

21.5 Details of the transactions with connected persons are as follows:

2012                      2011  
-----Rupees in '000-----

### NBP Fullerton Asset Management Limited - Management Company

Remuneration for the year	8,534	10,353
Sindh sales tax on remuneration	1,365	-
Units redeemed / transferred out (752,012 units; 2011: 4,535,426 units)	7,084	45,600
Bonus units issued (Nil units; 2011: 203,630 units)	-	-
Preliminary expenses and floatation cost paid	-	4,000

### Employees of the Management Company

Units redeemed / transferred out (Nil units; 2011: 704 units)	-	7
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### Central Depository Company of Pakistan Limited

Remuneration	356	963
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### MCB Financial Services Limited

Remuneration	217	-
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# NAFA INCOME FUND

2012                      2011  
-----Rupees in '000-----

## NBP Employees Pension Fund

Bonus units issued (Nil units; 2011: 2,822,911 units)

-                      -

## NAFA Employees Provident Fund

Units redeemed / transferred out ( Nil units; 2011: 20,422 units)

-                      211

Bonus units issued (Nil units; 2011: 705 units)

## National Bank of Pakistan - Sponsor

PIB purchased during the year

12,581                      -

## 21.6 Amounts outstanding as at year end

### NBP Fullerton Asset Management Limited - Management Company

Management remuneration payable

684                      821

Sindh sales tax

109                      -

Investment held by management company in the Fund

Nil units; 2011: 752,012 units)

-                      7,303

Others

-                      30

### National Bank of Pakistan - Sponsor

Balance in current account

5                      120

### Employees of the Management Company

Investment held in the Fund (1,137 units; 2011: 1,137 units)

10                      11

### MCB Financial Services Limited - Trustee

Remuneration payable

34                      -

Security deposit

100                      -

### Central Depository Company of Pakistan Limited - Trustee

Remuneration payable

-                      70

CDC charges

1                      1

Security deposit

100                      100

### NBP Employees Pension Fund

Investment held in the Fund (45,033,858 units; 2011: 45,033,858 units)

407,138                      437,319

## 22 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	24
2	Sajjad Anwar	CFA / MBA Finance	12
3	Tanvir Abid	CFA / FRM	13
4	Ahmed Nouman*	EMBA / CFA	16
5	Salman Ahmed	EMBA	6.5

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

# NAFA INCOME FUND

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

		2012
1	JS Global Capital Limited	52.52%
2	KASB Securities Limited	16.40%
3	Elixir Securities Pakistan (Pvt) Limited	11.49%
4	BMA Capital Management Limited	8.27%
5	Atlas Capital Market (Pvt) Limited	4.81%
6	Alfalah Securities Limited	4.60%
7	Invest & Finance Securities (Pvt) Limited	1.44%
8	Vector Capital Limited	0.48%
		2011
1	BMA Capital Management Limited	40.00%
2	JS Global Capital Limited	28.35%
3	Elixir Securities Pakistan (Pvt) Limited	13.85%
4	Atlas Capital Market (Pvt) Limited	11.00%
5	Invisor Securities (Pvt) Limited	6.80%

## 24 PATTERN OF UNIT HOLDING

Category	As at June 30, 2012		
	Number of unit holders	Investment amount	Percentage investment
(Rupees in '000)			
Individuals	114	6,843	1.64%
Associated companies / Directors	1	407,138	97.60%
Retirement funds	3	2,932	0.70%
Others	2	243	0.06%
	120	417,156	100.00%
Category	As at June 30, 2011		
	Number of unit holders	Investment amount	Percentage investment
(Rupees in '000)			
Individuals	142	12,904	2.80%
Associated companies / Directors	2	444,622	96.46%
Retirement funds	3	3,149	0.68%
Others	1	259	0.06%
	148	460,934	100.00%

## 25 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 32nd, 33rd, 34th, 35th and 36th Board meetings were held on July 04, 2011, September 29, 2011, October 27, 2011, February 17, 2012 and April 17, 2012 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Shahid Anwar Khan	5	3	2	34th, 35th meeting
Dr. Asif A. Brohi	5	2	3	33rd, 34th, 35th meeting
Mr. Wah Geok Sum	5	2	3	33rd, 34th, 36th meeting
Mr. Patrick Pang Chin Hwang***	4	4	-	
Mr. Shehryar Faruque	5	3	2	32nd, 36th meeting
Mr. Kamal Amir Chinoy	5	3	2	34th, 35th meeting
Syed Iqbal Ashraf*	1	-	1	32nd meeting
Dr Amjad Waheed	5	5	-	
Mr. Amir Shehzad**	3	3	-	
Mr. Koh Boon San****	1	1	-	

# NAFA INCOME FUND

- \* Syed Iqbal Ashraf retired from Board with effect from August 27, 2011
- \*\* Mr. Amir Shehzad was co-opted on the Board with effect from September 29, 2011
- \*\*\* Mr. Patrick Pang Chin Hwang retired from Board with effect from March 31, 2012
- \*\*\*\* Mr. Kow Boon San was co-opted on the Board with effect from February 17, 2012

## 26 FINANCIAL RISK MANAGEMENT

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

### 26.1 Market risk

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

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

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

#### 26.1.1 Currency risk

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

#### 26.1.2 Interest rate risk

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

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

Presently, the Fund holds KIBOR based interest bearing 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, 2012, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 337,031 (2011: Rs 0.108 million).

##### b) Sensitivity analysis for fixed rate instruments

Investments in Treasury Bills and Pakistan Investment Bonds are not subject to cash flow interest rate risk.

As at June 30, 2012, the Fund holds Pakistan Investment Bonds which are classified as 'fair value through profit and loss', exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Market Association on June 30, 2012, the net income for the year and net assets would be lower by Rs 10,476 (2011: Rs Nil). In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2012, the net income for the year and net assets would be higher by Rs. 7,483 (2011: Rs Nil).

As at June 30, 2012 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, 2012, with all other variables held constant, the net income for the period and net assets would be lower by Rs 179,192. In case of 100 basis points decrease in rates announced by FMAP on June 30, 2012, with all other variables held constant, the net income for the period & net assets would be higher by Rs . 179,960.

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, 2012 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.

# NAFA INCOME FUND

-----As at June 30, 2012-----

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	6.00 - 12.00	8,868	8,863	-	-	5
Investments	6.91 - 16.24	405,681	131,735	77,717	196,229	-
Profit receivable	-	4,857	-	-	-	4,857
Advances, deposits, prepayments and other receivables	-	200	-	-	-	200
		419,606	140,598	77,717	196,229	5,062

### Financial Liabilities

Payable to the Management Company		793	-	-	-	793
Payable to the Trustee		34	-	-	-	34
Accrued expenses and other liabilities		415	-	-	-	415
		1,242	-	-	-	1,242

### On-balance sheet gap

		418,364	140,598	77,717	196,229	3,820
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### Off-balance sheet financial instruments

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

		-	-	-	-	-
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-----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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## 26.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2012.

# NAFA INCOME FUND

## 26.2 Credit risk

Credit risk represents the risk of a loss if counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in debt securities. The Fund is also exposed to counterparty credit risks on loans and receivables, balances with banks, profit receivable, advances, deposits and 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, 2012 and June 30, 2011:

Bank balances by rating category	2012	2011
A1+, A-1+	99.99%	97.02%
A1	-	1.85%
A2 -, A-2	-	1.13%
A3	0.01%	-

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

AAA, AAA-, AAA+	11.20%	-
AA, AA-, AA+	49.00%	26.77%
A, A-, A+	2.23%	53.97%
BBB, BBB+, BBB-	-	8.01%
Non performing	37.58%	11.25%

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

## 26.3 Liquidity risk

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

For the purpose of making redemptions, the Fund has the ability to borrow in the short term. However, such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund 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, 2012

Total	Upto three months	Over three months and upto one year	Over one year
------(Rupees in '000)-----			
793	793	-	-
34	34	-	-
415	415	-	-
1,242	1,242	-	-

### Financial Liabilities

Payable to the Management Company  
Payable to the Trustee  
Accrued expenses and other liabilities

# NAFA INCOME FUND

As at June 30, 2011

Total	Upto three months	Over three months and upto one year	Over one year
------(Rupees in '000)-----			
Payable to the Management Company	851	851	-
Payable to the Trustee	70	70	-
Accrued expenses and other liabilities	471	471	-
<b>1,392</b>	<b>1,392</b>	<b>-</b>	<b>-</b>

## Financial Liabilities

## 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 26, 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, 2012 -----			
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
<b>ASSETS</b>				
Investment in securities	-	305,004	100,677	405,681
	----- As at June 30, 2011 -----			
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
<b>ASSETS</b>				
Investment in securities	-	326,404	115,440	441,844



# NAFA INCOME FUND

## 29 DATE OF AUTHORISATION FOR ISSUE

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

## 30 GENERAL

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

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME FUND

## PERFORMANCE TABLE

Particulars	For the year ended June 30, 2012	For the year ended June 30, 2011	For the year ended June 30, 2010	For the year ended June 30, 2009	For the year ended June 30, 2008
Net assets (Rs. '000')	417,156	460,934	581,724	1,036,057	1,827,917
Net Income / (loss) (Rs. '000')	(35,764)	(20,181)	43,696	40,049	37,719
Net Asset Value per units (Rs.)	9.0407	9.7109	10.4457	9.9537	10.0011
Offer price per unit	9.1311	9.8080	10.5502	10.0549	10.1032
Redemption price per unit	9.0407	9.7109	10.4457	9.9537	10.0011
Highest offer price per unit (Rs.)	9.8339	10.6810	10.5539	9.9974	10.1032
Lowest offer price per unit (Rs.)	8.8148	9.6993	9.7051	9.1366	9.8935
Highest redemption price per unit (Rs.)	9.7365	10.5752	10.4494	9.8984	10.0011
Lowest redemption price per unit (Rs.)	8.7275	9.6033	9.6090	9.0461	9.7955
Total return of the fund	6.88%	-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, 2012)	0.65%	3.09%	6.52%	6.10%	8.43%
Portfolio Composition (Please see Fund Manager Report)					
Weighted average portfolio duration	89 Days	3.28 Years	57 Days	2 Years	2 Years

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

# NAFA INCOME FUND

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# NAFA INCOME FUND

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