

## 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. Asif Hassan	Chairman
Dr. Amjad Waheed	Chief Executive Officer
Mr. Khalid Mahmood	Director
Mr. Aamir Shehzad	Director
Mr. Wah Geok Sum	Director
Mr. Koh Boon San	Director
Mr. Shehryar Faruque	Director
Mr. Kamal Amir Chinoy	Director

### Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

### Audit & Risk Committee

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

### Human Resource Committee

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

### Trustee

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

### Bankers to the Fund

Allied Bank Limited  
Bank Alfalah Limited  
Faysal Bank Limited  
Bank of Punjab  
National Bank of Pakistan  
NIB Bank Limited  
Habib Bank Limited  
Burj Bank Limited  
Sindh Bank Limited

# NAFA INCOME FUND

## **Auditors**

M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Cavish Court,  
A-35, Block 7 & 8,  
KCHSU, Sharae Faisal  
Karachi-75350 Pakistan

## **Legal Advisor**

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

## **Head Office:**

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## **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 Sixth Annual Report of NAFA Income Fund (NIF) for the year ended June 30, 2013.

### Fund's Performance

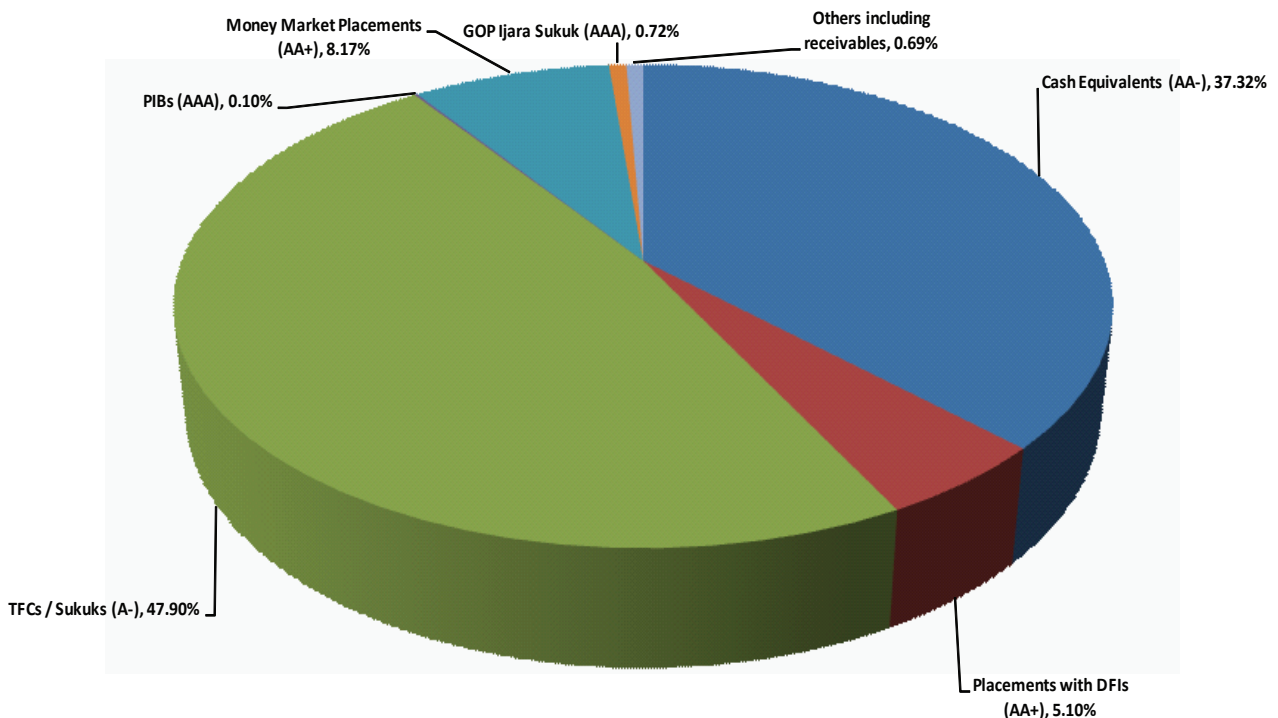
The size of NAFA Income Fund has increased from Rs. 417 million to Rs. 490 million during the period, i.e. a growth of 17.51%. During the said period, the unit price of NAFA Income Fund has increased from Rs. 9.0407 on June 30, 2012 to Rs. 9.6652 on June 30, 2013, thus posting a return of 6.91% as compared to its Benchmark (6-Month KIBOR) return of 9.92% for the same period.

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

With letup in inflationary pressures and manageable external account position, SBP slashed the Policy Rate during FY13 by 300 bps to 9%. On the corporate debt sphere, yields on the corporate bonds in the secondary market squeezed due to the price appreciation on the back of decline in interest rates, increased risk appetite of the investors, and limited primary issuance.

The Fund has earned income of Rs.44.02 million during the year. After accounting for expenses of Rs.13.71 million, the net income is Rs.30.31 million.

The asset allocation of NAFA Income Fund as on June 30, 2013 is as follows:



# NAFA INCOME FUND

## Income Distribution

The Board of Directors of the Management Company has approved a final distribution of 5.95% of opening ex-NAV (5.379% of the par value). After final distribution, the net asset value per unit will be Rs.9.1273 on June 30, 2013.

## Taxation

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

## Auditors

The present auditors, M. Yousuf Adil Saleem & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2014.

## 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 23 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 22 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 19 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: August 27, 2013  
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

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.

Subsequently, 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 year ended June 30, 2013 in accordance with the provisions of the following:
  - (i) Investment 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: August 21, 2013

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, 2013

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. As at June 30, 2013, the Board included:

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. Mr. Asif Hassan (Chairman) 2. Mr. Khalid Mahmood 3. Mr. Amir Shehzad 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 of more than seven 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 election 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 were occurred on the board on February 26, 2013 and on May 20, 2013 during the year which were filled up by the directors on April 11, 2013 and May 20, 2013 respectively.
5. 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. Up to 30 June 2013, one of the directors has obtained the director's training program offered by Pakistan Institute of Corporate Governance. The Company has started the process for training of other directors and it is expected that some of other directors may also obtain certification of the director's training program in upcoming year. However, 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 an 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 a Human Resource and Remuneration Committee. It comprises of three members. All the members 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.

For and behalf of the board

Karachi  
August 27, 2013

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 sixth Annual report since the launch of the Fund on March 29, 2008. The Fund size increased by 17.42% during FY13 and stands at Rs 490 million as on June 30, 2013. The Fund's annualized return since its inception is 1.81% versus the benchmark return of 11.95%. During FY13, the Fund posted an annualized return of 6.91% as compared to benchmark annualized return of 9.92%.

Key factor responsible for the subdued performance of the Fund during the year was due to provisioning impact of a Telecom sector TFC. The weighted average Yield-to-Maturity of the Fund is around 14.70% p.a. while the yield does not include potential recovery in fully provided TFCs (Face Value of Rs. 221 million), which is potential upside for the Fund. Weighted average time to maturity of the Fund is 1.60 years.

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

Particulars	30-Jun-13	30-Jun-12
Cash Equivalents	37.32%	2.13%
Placements with DFIs	5.10%	-
T. Bills	-	32.06%
TFCs / Sukuks	47.90%	63.03%
PIBs	0.10%	0.12%
Commercial Papers	-	1.20%
Money Market Placements	8.17%	
GOP Ijara Sukuk	0.72%	0.84%
Others including receivables	0.69%	0.62%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

With letup in inflationary pressures and manageable external account position, SBP slashed the Policy Rate during FY13 by 300 bps to 9%. On the corporate debt sphere, yields on the corporate bond in the secondary market squeezed amid ample liquidity in the market on the back of incessant government borrowing, elevated risk appetite of the investors in search of yield and limited primary issuance. All corporate TFCs / sukuks in the Fund are floating rate linked to KIBOR. During the year, 6-Months KIBOR declined to 9.09% from 12.06%.

# NAFA INCOME FUND

## Distribution for the Financial Year 2013

Period	Dividend as a % of Par Value (Rs.10)	Cumulative Div. Price / Unit	Ex- Div. Price
Year Ended Jun 13	5.3790%	9.6652	9.1273

## 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
World Call Telecom Limited	TFC	29,982,002	25,484,702	4,497,300	0.92%	0.91%	42.31%
Saudi Pak Leasing**	TFC	45,524,790	-	22,762,395	4.65%	4.60%	48.06%
Eden Housing (Sukuk II)	SUKUK	31,875,000	11,111,976	20,763,024	4.24%	4.20%	70.22%
Agritech Limited II	TFC	149,875,800	149,875,800	-	n/a	n/a	n/a
Agritech Limited V	TFC	22,180,000	22,180,000	-	n/a	n/a	n/a
New Allied Electronics (Sukuk II)	SUKUK	49,054,371	49,054,371	-	n/a	n/a	n/a
<b>Total</b>		<b>328,491,963</b>	<b>257,706,848</b>	<b>48,022,720</b>	<b>9.81%</b>	<b>9.69%</b>	

\*\*Said TFC is performing but classified as Non-Compliant on the basis of required rating. Due to this the difference between the Value of Investment before provision and after provision is mark to market loss instead of provisioning.

## Unit Holding Pattern of NAFA Income Fund as on 30th June 2013

Size of Unit Holding (Units)	# of Unit Holders
1 - 1000	31
1001 - 5000	40
5001 - 10000	5
10001 - 50000	12
50001 - 100000	2
100001 - 500000	1
500001 - 1000000	-
1000001 - 5000000	1
5000001 - 10000000	-
10000001 - 100000000	1
100000001 - 1000000000	-
	<b>93</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. 2,328,133/-. If the same were not made the NAV per unit/ FY 2013 return of scheme would be higher by Rs. 0.0459/ 0.51%. For details investors are advised to read note 15 of the Financial Statements of the Scheme for the year ended June 30, 2013.

# NAFA INCOME FUND

## REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE WITH 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 (the Code) prepared by the Board of Directors of the **NBP Fullerton Asset Management Limited**, the Management Company of **NAFA Income Fund** (the Fund) to comply with the Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange Limited, where the Fund is listed.

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

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2013.

**M. Yousuf Adil Saleem & Co. Chartered Accountants**

Date: September 18, 2013  
Karachi

# NAFA INCOME FUND

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **NAFA Income Fund** (the Fund), which comprise the statement of assets and liabilities as at June 30, 2013, and the related income statement, statement of comprehensive income, cash flow statement, distribution statement and statement of movements in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

NBP Fullerton Asset Management Limited (the Management Company) is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2013, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### Other matter

The financial statements of the Fund for the year ended June 30, 2012, were audited by another firm of chartered accountants, who expressed an unmodified opinion on those statements on September 26, 2012.

### Report on other legal and regulatory requirements

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

### M. Yousuf Adil Saleem & Co. Chartered Accountants

#### Engagement Partner:

Nadeem Yousuf Adil

Place: Karachi

Date: 18 September, 2013

# NAFA INCOME FUND

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2013

	Note	2013 -----Rupees in '000-----	2012
<b>ASSETS</b>			
Balances with banks	4	182,806	8,868
Investments	5	303,644	405,681
Profit receivable	6	7,178	4,857
Advances, deposits, prepayments and other receivables	7	419	298
Preliminary expenses and floatation costs	8	-	744
<b>Total assets</b>		<b>494,047</b>	<b>420,448</b>
<b>LIABILITIES</b>			
Payable to NBP Fullerton Asset Management Limited - Management Company	9	1,014	793
Payable to MCB Financial Services Limited - Trustee	10	40	34
Payable to Securities and Exchange Commission of Pakistan	11	341	320
Accrued expenses and other liabilities	12	2,812	2,145
<b>Total liabilities</b>		<b>4,207</b>	<b>3,292</b>
<b>NET ASSETS</b>		<b>489,840</b>	<b>417,156</b>
<b>UNIT HOLDERS' FUND (As Per Statement Attached)</b>		<b>489,840</b>	<b>417,156</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	13		
<b>NUMBER OF UNITS IN ISSUE</b>			
	18	50,680,883	46,141,823
<b>NET ASSETS VALUE PER UNIT</b>			
	3.12	9.6652	9.0407

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, 2013

	Note	2013 -----Rupees in '000-----	2012
<b>INCOME</b>			
Profit on bank deposits		8,351	1,263
Loss on sale of investments-net		(1,315)	(189)
Income from term finance certificates and sukuku		40,168	55,309
Income from certificate of investment (COI)		902	-
Income from letter of placements (LOP)		769	-
Income from government securities		6,588	15,370
Unrealised loss on re-measurement of investments 'at fair value through profit or loss - held for trading' - net	5.7	(22,004)	(86,255)
<b>Total income / (loss)</b>		<b>33,459</b>	<b>(14,502)</b>
<b>EXPENSES</b>			
Remuneration of NBP Fullerton Asset Management Limited - Management Company	9.1	9,102	8,534
Sindh sales tax on remuneration of the Management Company	9.2	1,468	1,365
Federal Excise Duty on remuneration of the Management Company	9.3	77	-
Remuneration of MCB Financial Services Limited - Trustee	10.1	455	573
Annual fee - Securities and Exchange Commission of Pakistan	11.1	341	320
Annual listing fee		30	30
Securities transaction cost		3	109
Settlement and bank charges		228	157
Auditors' remuneration	14	455	413
Fund rating fee		140	220
Amortisation of preliminary expenses and floatation costs	8	744	1,000
Legal and professional charges		40	40
(Reversal) / impairment loss on term finance certificates and sukuku		(10,556)	8,501
<b>Total expenses</b>		<b>2,527</b>	<b>21,262</b>
<b>Net income / (loss) from operating activities</b>		<b>30,932</b>	<b>(35,764)</b>
Provision for Workers' Welfare Fund	15	(619)	-
<b>Net income / (loss) for the year before taxation</b>		<b>30,313</b>	<b>(35,764)</b>
Taxation	16	-	-
<b>Net income / (loss) for the year after taxation</b>		<b>30,313</b>	<b>(35,764)</b>
<b>Earnings per unit</b>	3.13		

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, 2013

	Note	2013 -----Rupees in '000-----	2012
Net income / (loss) for the year after taxation		30,313	(35,764)
<b>Other comprehensive income / (loss) for the year</b>			
Items that may be reclassified subsequently to income statement:			
Unrealised gain on re-measurement of investments classified as 'available for sale'- net	5.8	-	4,272
<b>Total comprehensive income / (loss) for the year</b>		<u>30,313</u>	<u>(31,492)</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, 2013

	2013	2012
	-----Rupees in '000-----	
Accumulated loss brought forward	(43,047)	(7,854)
Net income / (loss) for the year	30,313	(35,764)
Element of income and capital gains included in prices of units issued less those in units redeemed - net	1,335	571
Accumulated loss carried forward	<u>31,648</u> <u>(11,399)</u>	<u>(35,193)</u> <u>(43,047)</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

## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 -----Rupees in '000-----	2012
Net assets at the beginning of the year		417,156	460,934
Issuance of 4,847,368 units (2012: 155,478 units)		45,264	1,457
Redemption of 308,308 units (2012: 1,479,423 units)		(2,893)	(13,743)
		42,371	(12,286)
Net element of (income) and capital (gains) included in prices of units issued less those in units redeemed-transferred to Distribution Statement		(1,335)	(571)
Unrealised gain on re-measurement of investments classified as 'available for sale'- net	5.8	-	4,272
Total comprehensive income / (loss) for the year		30,313	(35,764)
Element of income and capital gains included in prices of units issued less those in units redeemed - net		1,335	571
<b>Net assets as at the end of the year</b>		<u>489,840</u>	<u>417,156</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, 2013

	Note	2013	2012
		-----Rupees in '000-----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income / (loss) for the year before taxation		30,313	(35,764)
<b>Adjustments</b>			
Unrealised loss on re-measurement of investments 'at fair value through profit or loss - held for trading' - net		22,004	86,255
Amortisation of preliminary expenses and floatation costs		744	1,000
(Reversal) / impairment loss on term finance certificates and sukuku		(10,556)	8,501
		12,192	95,756
		42,505	59,992
<b>Decrease / (increase) in assets</b>			
Investments		90,589	(54,321)
Profit receivable		(2,321)	5,974
Advances, deposits, prepayments and other receivables		(121)	2,398
		88,147	(45,949)
<b>Increase / (decrease) in liabilities</b>			
Payable to NBP Fullerton Asset Management Limited - Management Company		209	(58)
Payable to MCB Financial Services Limited - Trustee		6	(36)
Payable to Securities and Exchange Commission of Pakistan		21	(69)
Accrued expenses and other liabilities		679	(56)
		915	(219)
<b>Net cash generated from operating activities</b>		131,567	13,824
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipts from issue of units		45,264	1,457
Payments on redemption of units		(2,893)	(13,743)
Distributions paid		-	-
<b>Net cash generated from / (used in) financing activities</b>		42,371	(12,286)
<b>Net increase in cash and cash equivalents during the year</b>		173,938	1,538
Cash and cash equivalents at the beginning of the year		8,868	7,330
<b>Cash and cash equivalents at the end of the year</b>	4	182,806	8,868

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, 2013

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Income Fund (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited, a company incorporated under the Companies Ordinance, 1984, as Management Company and Central Depository Company of Pakistan Limited (CDC), also incorporated under the Companies Ordinance, 1984, 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). Subsequently, 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 was situated at 9th Floor, Adamjee House, I.I. Chundrigarh Road, Karachi. From 4 February 2013, the registered office of the Management Company is shifted to 7th Floor, Clifton Diamond Building Block No. 4, Scheme No.5, Clifton, Karachi. The Management Company is also the member of the Mutual Fund Association of Pakistan (MUFAP).

The Fund is an open-ended mutual fund categorised as income scheme and its units are listed on the Lahore Stock Exchange. Units of the Fund are offered for public subscription on continuous basis. These units are transferable and can be redeemed by surrendering them to the Fund.

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' to the Management Company and a long term and short term performance ranking 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 trustee of 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 (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the NBFC Rules, the NBFC Regulations or the directives issued by the SECP shall prevail.

#### 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for the investments which are stated at fair value.

#### 2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the functional and presentation currency of the Fund. Figures have been rounded off to the nearest thousand rupees, except otherwise stated.

# NAFA INCOME FUND

## 2.4 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2013

The following standards, amendments and interpretations are effective for the year ended June 30, 2013. These standards, interpretations and the amendments are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain additional disclosures.

Amendments to IAS 1 - Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	Effective from accounting period beginning on or after July 01, 2012
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### New accounting standards and IFRS interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain additional disclosures.

Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information	Effective from accounting period beginning on or after January 01, 2013
"Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment"	Effective from accounting period beginning on or after January 01, 2013
Amendments to IAS 19 - Employee Benefits	Effective from accounting period beginning on or after January 01, 2013
"Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction"	Effective from accounting period beginning on or after January 01, 2013
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	Effective from accounting period beginning on or after January 01, 2014
"Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities"	Effective from accounting period beginning on or after January 01, 2013
Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities	Effective from accounting period beginning on or after January 01, 2013
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	Effective from accounting period beginning on or after January 01, 2013

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non-adoption of IFRS 10 and IFRS 11

## 2.5 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 on-going 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.

# NAFA INCOME FUND

In the process of applying the Fund's accounting policies, management has made the following estimates and judgments which are significant to the financial statements.

- (a) classification of financial assets (Note 3.2.1)
- (b) impairment of financial assets (Note 3.2.5)
- (c) provisions (Note 3.8)

## 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 unless otherwise stated.

### 3.1 Cash and cash equivalents

Cash comprises current and saving accounts with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant change in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

### 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

Financial assets that are 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 making 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. Purchases / sales of financial assets require delivery of securities within the time frame established by the regulation.

#### 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 and circular no. 33 of 2012 dated October 24, 2012. 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.



# NAFA INCOME FUND

## b) Basis of valuation of government securities

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

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

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

## c) Loans and receivables

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

### 3.2.5 Impairment of financial assets

The carrying amounts of the Fund's assets are reviewed 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 evidence of impairment 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 to 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 and circular no. 33 of 2012 dated October 24, 2012 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 where the Fund has transferred substantially all risks and rewards of ownership.

### 3.2.7 Offsetting of financial assets and financial liabilities

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

### 3.3 Financial liabilities

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

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

### 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.

# NAFA INCOME FUND

## 3.5 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represents 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 Regulation, 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 on that date. The offer price represents the Net Asset Value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the Management Company, investment facilitators or distributors. Transaction costs are recorded as 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 on that day. The redemption price represents the Net Asset Value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

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

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.

## 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 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the 'income statement' on the date at which the transaction takes place.
- Unrealised 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.
- Mark-up / return on government securities, term finance certificates, sukuks, commercial papers, clean placements, bank balances and term deposit receipts are recognised on a time apportionment basis using the effective interest method.

## 3.10 Taxation

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

The Fund is 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.

## 3.11 Proposed distributions

Distributions declared subsequent to the year end are considered as non-adjusting events and are recognised in the financial statements of the period in which such distributions are declared.

## 3.12 Net asset value per unit

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

## 3.13 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

	Note	2013	2012
-----Rupees in '000-----			
<b>4. BALANCES WITH BANKS</b>			
Current accounts		423	5
Savings accounts	4.1	182,383	8,863
		<u>182,806</u>	<u>8,868</u>
4.1 These carry profits at the rates ranging from 6% to 11.8% per annum (2012: 6.00% to 12% per annum).			
<b>5. INVESTMENTS</b>			
<b>At fair value through profit or loss - held for trading</b>			
Term finance certificates - listed	5.1.1	195,770	154,673
Term finance certificates - unlisted	5.1.3	13,594	40,418
Sukuk certificates	5.2	43,507	8,500
Government Securities	5.3	512	134,246
		253,383	337,837
<b>Available for sale</b>			
Term finance certificates - listed	5.4	4,497	29,982
Sukuk certificates	5.5	20,763	37,862
		25,260	67,844
<b>Loans and receivables</b>			
Investment in certificate of investments	5.6	25,001	-
		<u>303,644</u>	<u>405,681</u>

## 5.1 Term finance certificate - at fair value through profit and loss - held for trading

### 5.1.1 Term finance certificates - Listed

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

Name of the investee company	Note	Number of certificates				Market value as at June 30, 2013	Investment as a percentage of		
		As at July 1, 2012	Purchases during the year	Sales/ Matured during the year	As at June 30, 2013		Net assets	Market value of total investments	Issue size
(Rs in '000)									
Saudi Pak Leasing Company Limited	5.1.2	15,000	-	-	15,000	22,762	4.65%	7.50%	10.00%
Bank Alfalah Limited		2,000	-	-	2,000	10,497	2.14%	3.46%	0.20%
Faysal Bank Limited		5,000	-	-	5,000	25,962	5.30%	8.55%	0.83%
NIB Bank Limited		1,200	-	-	1,200	5,972	1.22%	1.97%	0.15%
Allied Bank Limited		2,000	-	-	2,000	9,655	1.97%	3.18%	0.33%
Standard Chartered Bank (Pakistan)Limited		6,000	-	-	6,000	29,805	6.08%	9.82%	1.20%
Engro Fertilizers Limited (30-11-07)		-	6,804	400	6,404	31,529	6.44%	10.38%	0.80%
Engro Fertilizers Limited (17-12-09)		-	1,000	400	600	2,463	0.50%	0.81%	0.15%
Pakistan Mobile Communication Limited		5,000	3,400	-	8,400	42,015	8.58%	13.84%	0.76%
United Bank Limited		3,000	-	-	3,000	15,110	3.08%	4.98%	0.25%
<b>Total as at June 30, 2013</b>						<u>195,770</u>	<u>39.97%</u>	<u>64.47%</u>	
Carrying value as at June 30, 2013						<u>217,608</u>			

# NAFA INCOME FUND

5.1.2 "This represents investment in listed term finance certificates with original term of five years. On October 13, 2011 the investee company defaulted on its obligation on account of principal and profit payment. The investee company rescheduled its terms on December 26, 2011 with new maturity in March 2017. The said TFC has complied with repayment terms since and has been reclassified as performing as per criteria defined in circular no. 1 of 2009 and circular no. 33 of 2012."

## 5.1.3 Term finance certificates- unlisted

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

Name of the investee company	Note	Number of certificates				Market value as at June 30, 2013	Investment as a percentage of		
		As at July 1, 2012	Purchases during the year	Sales/ Matured during the year	As at June 30, 2013		Net assets	Market value of total investments	Issue size
(Rs in '000)									
Engro Fertilizers Limited PRP I		8,500	-	5,600	2,900	13,594	2.78%	4.48%	0.36%
Agritech Limited II	5.1.4	30,000	-	-	30,000	-	-	-	-
Agritech Limited V	5.1.5	4,436	-	-	4,436	-	-	-	-
						<u>13,594</u>	<u>2.78%</u>	<u>4.48%</u>	
Carrying value as at June 30, 2013						<u>13,790</u>			
Accumulated impairment						<u>172,057</u>			

5.1.4 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 no.1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circular.

5.1.5 This represents investment in privately placed term finance certificates (PPTFC) 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 no. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circular.

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

5.1.7 Securities listed below have been classified as non-performing in accordance with SECP circular no. 1 of 2009 and circular no. 33 of 2012 and the Fund's provisioning policy for non-performing exposure. Accordingly, the carrying values stated above have been arrived at after taking into account provision as under:

Name of the investee company	Note	2013			2012		
		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
Agritech Limited II		149,876	(149,876)	-	149,876	(149,876)	-
Agritech Limited V		22,180	(22,180)	-	22,180	(22,180)	-

# NAFA INCOME FUND

## 5.1.8 Term finance certificates- unlisted

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

Name of the investee company	Note	Number of certificates				Market value as at June 30, 2013	Investment as a percentage of		
		As at July 1, 2012	Purchases during the year	Sales/ Matured during the year	As at June 30, 2013		Net assets	Market value of total investments	Issue size
New Allied Electronics (Private) Limited	5.2.1	10,000	-	-	10,000	-	-	-	-
GOP Ijarah Sukuk (02-Mar-12 to 02-Mar-15)		700	-	-	700	3,507	0.72%	1.15%	-
HUBCO Short term Islamic Sukuk(03-Feb-12 to 03-Aug-2012)		1,000	-	1,000	-	-	-	-	-
HUBCO Short term Islamic Sukuk(03-Aug-12 to 03-Feb-2013)		-	5,000	5,000	-	-	-	-	-
HUBCO Short term Islamic Sukuk(16-Aug-12 to 16-Feb-2013)		-	1,000	1,000	-	-	-	-	-
HUBCO Short term Islamic Sukuk(13-Mar-13 to 13-Sep-2013)		-	4,000	-	4,000	20,000	4.08%	6.59%	4.35%
HUBCO Short term Islamic Sukuk(14-Feb-13 to 14-Aug-2013)		-	4,000	-	4,000	20,000	4.08%	6.59%	4.55%
						<b>43,507</b>	<b>8.88%</b>	<b>14.33%</b>	
Carrying value as at June 30, 2013						<b>43,500</b>			
Accumulated impairment						<b>49,054</b>			

5.2.1 This represents investment in privately placed sukuks with a term of five years. On December 3, 2008, the investee company has defaulted on its obligation on account of principal and profit payment. The amount of provision as per circular no. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circular.

## 5.3 Government Securities - at fair value through profit or loss - held for trading

Issue Date	Tenor	Face Value				Market value as at June 30, 2013	Investment as a percentage of	
		As at July 1, 2012	Purchases during the year	Sales/ Matured during the year	As at June 30, 2013		Net assets	Market value of total investments
------(Rs in '000)-----								
<b>Market Treasury Bills (MTBs)</b>								
January 26, 2012	12 Months	7,500	-	7,500	-	-	-	-
August 11, 2011	12 Months	-	28,000	28,000	-	-	-	-
April 19, 2012	3 Months	7,500	-	7,500	-	-	-	-
May 3, 2012	3 Months	15,000	-	15,000	-	-	-	-
May 17, 2012	3 Months	86,000	-	86,000	-	-	-	-
June 14, 2012	3 Months	5,000	-	5,000	-	-	-	-
June 28, 2012	3 Months	15,000	-	15,000	-	-	-	-
July 12, 2012	3 Months	-	110,000	110,000	-	-	-	-
July 26, 2012	3 Months	-	14,000	14,000	-	-	-	-
August 9, 2012	3 Months	-	9,000	9,000	-	-	-	-
August 23, 2012	3 Months	-	1,500	1,500	-	-	-	-
September 6, 2012	6 Months	-	7,000	7,000	-	-	-	-
September 20, 2012	6 Months	-	15,000	15,000	-	-	-	-
October 4, 2012	3 Months	-	85,000	85,000	-	-	-	-
October 18, 2012	3 Months	-	10,000	10,000	-	-	-	-
November 1, 2012	3 Months	-	12,000	12,000	-	-	-	-
November 15, 2012	3 Months	-	90,000	90,000	-	-	-	-
December 13, 2012	3 Months	-	125,000	125,000	-	-	-	-
December 13, 2012	6 Months	-	30,000	30,000	-	-	-	-
December 13, 2012	12 Months	-	30,000	30,000	-	-	-	-
January 10, 2013	12 Months	-	150,000	150,000	-	-	-	-
January 24, 2013	3 Months	-	150,000	150,000	-	-	-	-
February 21, 2013	12 Months	-	150,000	150,000	-	-	-	-
March 21, 2013	3 Months	-	45,000	45,000	-	-	-	-
May 30, 2013	12 Months	-	80,000	80,000	-	-	-	-
June 13, 2013	12 Months	-	120,000	120,000	-	-	-	-
<b>Pakistan Investment Bonds (PIBs)</b>								
August 18, 2011	3 Years	500	-	-	500	512	0.10%	0.17%
July 19, 2012	3 Years	-	105,000	105,000	-	-	-	-
July 19, 2012	5 Years	-	100,000	100,000	-	-	-	-
July 19, 2012	10 Years	-	25,000	25,000	-	-	-	-
						<b>512</b>	<b>0.10%</b>	<b>0.17%</b>
Carrying value as at June 30, 2012						<b>489</b>		

# NAFA INCOME FUND

5.3.1 These carry rate of return ranging from 9.20% to 14.47% (2012: 11.55% to 13.53%) per annum.

## 5.4 Term Finance Certificate - available for sale

Name of the investee company	Note	Number of certificates				Market value as at June 30, 2013	Investment as a percentage of		
		As at July 1, 2012	Purchases during the year	Sales during the year	As at June 30, 2013		Net assets	Market value of total investments	Issue size
Worldcall Telecom Limited	5.4.1	14,000	-	-	14,000	4,497	0.92%	1.48%	1.75%
						(Rs in '000)			
Carrying value as at June 30, 2013						<u>29,982</u>			
Accumulated impairment						<u>25,485</u>			

5.4.1 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. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circular.

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

## 5.5 Sukuks- available for sale

Name of the investee company	Note	Number of certificates				Market value as at June 30, 2013	Investment as a percentage of		
		As at July 1, 2012	Purchases during the year	Sales during the year	As at June 30, 2013		Net assets	Market value of total investments	Issue size
Eden Housing	5.5.1	20,000	-	-	20,000	20,763	4.24%	6.84%	13.75%
						(Rs in '000)			
Carrying value as at June 30, 2013						<u>31,875</u>			
Accumulated impairment						<u>11,112</u>			

5.5.1 This represents investment in privately placed sukuk bonds with a term of five years. On May 06, 2011, the issuer defaulted its scheduled principal and profit payment and therefore it was classified as 'Non-Performing Asset' (NPA) by MUFAP. The management has recognised provision for impairment amounting to Rs. 11.11 million which has been freed since October 02, 2011. Management Company considers that since the Fund is receiving timely payments from borrower; hence no additional provision is required (as per minimum provisioning criteria defined in circular no. 33 of 2012).

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

## 5.6 Loans and receivables

Name of Issuer	Maturity Date	Rate	As at June 30, 2013
Certificate of investment	September 25, 2013	9.45%	25,001
Pak Brunei Investment Company Limited (25-06-2013 to 25-09-2013)			

Note  
2013  
-----Rupees in '000-----  
2013

## 5.7 Unrealised loss on re-measurement of investments 'at fair value through profit or loss - held for trading' - net

Market value of investments	5.1.1, 5.1.3, 5.2 & 5.3	253,383	337,837
Less: Carrying value of investments		(275,387)	(424,092)
		<u>(22,004)</u>	<u>(86,255)</u>

## 5.8 Unrealised gain on re-measurement of investments classified as 'available for sale'- net

Market value of investments	5.4 & 5.5	25,260	67,844
Less: Carrying value of investments		61,857	93,829
		<u>(36,597)</u>	<u>(25,985)</u>
Add: Provision against non-performing term finance certificates and sukus	5.9	36,597	30,257
		<u>-</u>	<u>4,272</u>

# NAFA INCOME FUND

	Note	2013	2013
		-----Rupees in '000-----	
<b>5.9 Movement in provision against investments</b>			
Opening balance		268,264	259,763
Charge for the year		15,491	8,501
Reversals during the year		(26,047)	-
Closing balance		<u>257,708</u>	<u>268,264</u>
Provisions related to investments classified at "fair value through profit or loss - held for trading"		221,111	238,007
Provisions related to investments classified at "available-for-sale"		36,597	30,257
Closing balance		<u>257,708</u>	<u>268,264</u>
<b>6 PROFIT RECEIVABLE</b>			
Profit on savings and term deposits		213	150
Profit receivable on term finance certificate and sukuks		88,073	64,522
Profit receivable on government securities		21	30
Profit receivable on certificate of investments		39	-
Less: Income suspended over non-performing debt securities		(81,168)	(59,845)
		<u>6,965</u>	<u>4,707</u>
		<u>7,178</u>	<u>4,857</u>
<b>7 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Security deposits with:			
- MCB Financial Services Limited		100	100
- Central Depository Company of Pakistan Limited		100	100
		200	200
Advance tax		98	98
Prepaid Expense		121	-
		<u>419</u>	<u>298</u>
<b>8 PRELIMINARY EXPENSES AND FLOATATION COSTS</b>			
Balance as at the beginning of the year	8.1	744	1,744
Less: Amortisation during the year		744	1,000
Balance as at the end of the year		<u>-</u>	<u>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	2013	2013
		-----Rupees in '000-----	
<b>9 PAYABLE TO NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY</b>			
Management fee	9.1	798	684
Sindh sales tax payable on Management Remuneration	9.2	139	109
Federal Excise Duty payable on Management Remuneration	9.3	77	-
		<u>1,014</u>	<u>793</u>

# NAFA INCOME FUND

- 9.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulation), 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 year. The remuneration is paid on a monthly basis in arrears.
- 9.2 This represents amount payable in respect of Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company as required by Sindh Sales Tax on Services Act, 2011 which is effective from July 1, 2011.
- 9.3 During the year, the Federal Government of Pakistan amended the First schedule Table II to the Federal Excise Act, 2005, and imposed excise duty on services provided by Asset Management Companies at the rate of 16% effective from June 13, 2013.

	Note	2013	2012
-----Rupees in '000-----			

## 10 PAYABLE TO MCB FINANCIAL SERVICES LIMITED - TRUSTEE

Trustee fee	10.1	<u>40</u>	<u>34</u>
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- 10.1 The Trustee is entitled to a monthly remuneration @ 0.1% of daily NAV for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein.

Note	2013	2012
-----Rupees in '000-----		

## 11 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Annual fee	11.1	<u>341</u>	<u>320</u>
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- 11.1 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 Securities and Exchange Commission of Pakistan, an amount equal to 0.075 percent of the daily net assets of the scheme. The Fund has been classified as a Income Scheme by the Management Company.

Note	2013	2012
-----Rupees in '000-----		

## 12 ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration		345	299
Settlement charges payable		-	14
Bank charges		10	6
Brokerage		20	23
Provision for Workers' Welfare Fund (WWF)	15.	2,328	1,710
Printing charges		50	73
Legal and professional charges		40	-
Others		19	20
		<u>2,812</u>	<u>2,145</u>

## 13 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2013.

## 14 AUDITORS' REMUNERATION

Annual audit fee		285	254
Half yearly review fee		114	102
Other certification		25	25
Out of pocket expenses		31	32
		<u>455</u>	<u>413</u>



# NAFA INCOME FUND

## 15 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (SHC), challenging the applicability of WWF to the CISs, which is pending adjudication.

Subsequently, the Ministry of Labour and Manpower (the Ministry) vide its letter dated 15 July 2010, clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income on Mutual Fund(s), the product being sold, is exempted under the law *ibid*".

Further, the Secretary (Income Tax Policy) Federal Board of Revenue (FBR) issued a letter dated 6 October 2010, to the Members (Domestic Operation) North and South FBR. In the letter reference was made to the clarification issued by the Ministry of Labour and Manpower stating that mutual funds are a product and their income are exempted under the law *ibid*. The Secretary (Income Tax Policy) Federal Board of Revenue directed that the Ministry's letter may be circulated amongst field formations for necessary action. Following the issuance of FBR Letter, show cause notice which had been issued by taxation office to certain mutual funds for payment of levy under WWF were withdrawn. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter 4 January 2011, has cancelled ab-initio clarificatory letter dated 6 October 2010, on applicability of WWF on mutual funds and issued show cause notices to certain mutual funds for collecting WWF. In respect of such show cause notices, certain mutual funds have been granted stay by Honourable High Court of Sindh on the basis of the pending constitutional petition in the said court as referred above.

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

During the period, the Larger Bench of the Sindh High Court (SHC) issued a judgment in response to a petition in another similar case in which it is held that the amendments introduced in the WWF Ordinance through Finance Acts, 2006 and 2008 do not suffer from any constitutional or legal infirmity.

However, without prejudice to the above, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs. 2.328 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. 0.0459 / 0.51% per unit respectively.

## 16 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 a tax liability in respect of income relating to the current year as subsequent to the year end the Management Company has distributed the required minimum percentage of the Fund's accounting income for the current year as reduced by capital gains (whether realised or unrealised) to its unit holders.

## 17 DETAILS OF NON-COMPLIANT INVESTMENT WITH INVESTMENTS

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'.

The SECP vide circular no. 16 dated July 07, 2010, prescribed specific disclosures for the scheme holding investments that are non-compliant either with the minimum investment criteria specified for the category assigned to such schemes or with investment requirements of their constitutive documents.

# NAFA INCOME FUND

Following is the detail of non-compliant investments:

Name of non-compliant investment	Non-compliance of clause	Type of investment	Value of investment before provision	Provision held, if any	Value of investment after provision	% of net assets	% of gross assets
(-----Rupees in '000-----)							
World Call Telecom Limited	Rating is below investment grade	Term finance certificates (17.1)	29,982	(25,485)	4,497	0.92%	0.91%
Saudi Pak Leasing Company (note 17.2)		Term finance certificates (17.2)	22,762	-	22,762	4.65%	4.61%
Eden Housing (Sukuks II)	as prescribed in clause 9(v) of the Annexure of circular 7 of 2009	Sukuks (17.1)	31,875	(11,112)	20,763	4.24%	4.20%
Agritech Limited II		Term finance certificates (17.1)	149,876	(149,876)	-	-	-
Agritech Limited V		Term finance certificates (17.1)	22,180	(22,180)	-	-	-
New Allied Electronics (Sukuk II)		Sukuks (17.1)	49,054	(49,054)	-	-	-

17.1 At the time of purchase, these term finance certificates and sukus were in compliance with the aforementioned circular. However, they were subsequently defaulted or were downgraded to non investment grade.

17.2 The TFC is performing but classified as Non-Compliant on the basis of required rating. Due to this difference between the value of investment before and after provision is mark to market loss instead of provisioning.

2013                      2012  
-----Rupees in '000-----

## 18 NUMBER OF UNITS IN ISSUE

Total units in issue at the beginning of the year	46,141,823	47,465,768
Add: units issued during the year	4,847,368	155,478
Add: bonus units issued during the year	-	-
Less: units redeemed during the year	308,308	1,479,423
<b>Total units in issue at the end of the year</b>	<u>50,680,883</u>	<u>46,141,823</u>

## 19. TRANSACTIONS WITH CONNECTED PERSONS

19.1 Connected persons include NBP Fullerton Asset Management Limited, being the Management Company, MCB Financial Services Limited, being the Trustee, National Bank of Pakistan (NBP) and Alexandra Fund Management Pte. Limited, being the sponsors of the Fund / Management Company, Taurus Securities being an entity having the directorship common with that of the Management company, other collective investment schemes managed by the Management Company, directors and officers of the Management Company and employee benefit funds of the Management Company.

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

19.3 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.

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

2013                      2012  
-----Rupees in '000-----

### 19.5 Details of the transactions with connected persons are as follows:

#### NBP Fullerton Asset Management Limited - Management Company

Remuneration of NBP Fullerton Asset Management Limited - Management Company	9,102	8,534
Sindh sales tax on remuneration of the Management Company	1,468	1,365
Federal Excise Duty on remuneration of the Management Company	77	-
Units redeemed / transferred out: Nil units (2012: 4,535,426 unit)	-	7,084

#### Central Depository Company of Pakistan Limited

Remuneration	-	356
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# NAFA INCOME FUND

	2013	2012
	-----Rupees in '000-----	
<b>MCB Financial Service Limited - Trustee</b>		
Remuneration	455	217
<b>National Bank of Pakistan- Sponsor</b>		
PIB purchased during the year	23,195	12,581
T-Bill purchased during the year	183,092	-
<b>Amounts outstanding as at year end are as follows:</b>		
<b>NBP Fullerton Asset Management Limited- Management Company</b>		
Management fee	798	684
Sindh sales tax payable on Management Remuneration	139	109
Federal Excise Duty payable on Management Remuneration	77	-
<b>National Bank of Pakistan - Sponsor</b>		
Balance in current account	423	5
<b>Employees of the Management Company</b>		
Investment held in the Fund: 1,137 unit (2012: 1,137)	11	10
<b>MCB Financial Services Limited -Trustee</b>		
Remuneration payable	40	34
Security deposit	100	100
<b>Central Depository Company Pakistan Limited</b>		
Remuneration payable	-	-
CDC charges	-	1
Security deposit	-	100
<b>NBP Employees Pension Fund</b>		
Investment held in the Fund 45,033,858 units (2012: 45,033,858 units)	435,261	407,138

## 20 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of 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	25
2. Sajjad Anwar	CFA / MBA Finance	13
3. Muhammad Ali Bhabha	CFA / FRM /MBA / MS(CS)	18.5
4. Syed Suleman Akhtar	MBA / CFA	13

### 20.1 Mr. Muhammad Ali Bhabha is the manager of the Fund. Other funds being managed by the Fund Manager are as follows:

- NAFA Government Securities Liquid Fund
- NAFA Saving Plus Fund

# NAFA INCOME FUND

## 21 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

		2013
1	Invest Capital Markets Limited	37.58%
2	Summit Capital (Private) Limited	30.72%
3	JS Global Capital Limited	15.85%
4	Alfalah Securities (Private) Limited	7.92%
5	Invest One Markets Limited	7.92%

		2012
1	JS Global Capital Limited	52.52%
2	KASB Securities Limited	16.40%
3	Elixir Securities Pakistan (Private) Limited	11.49%
4	BMA Capital Management Limited	8.27%
5	Atlas Capital market (Private) Limited	4.81%
6	Alfalah Securities Limited	4.60%
7	Invest & Finance Securities (Private) Limited	1.44%
8	Vector Capital Limited	0.48%

## 22 PATTERN OF UNIT HOLDING

Category	As at June 30, 2013		
	Number of unit holders	Investment amount	Percentage investment
(Rupees in '000)			
Individuals	86	4,603	0.94%
Associated companies / Directors	1	435,261	88.86%
Retirement funds	4	49,717	10.15%
Others	2	259	0.05%
	<b>93</b>	<b>489,840</b>	<b>100.00%</b>

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%
	<b>120</b>	<b>417,156</b>	<b>100.00%</b>

## 23 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 37th, 38th, 39th, 40th and 41st Board meetings were held on July 9, 2012, September 11, 2012, October 23, 2012, February 26, 2013 and April 26, 2013 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	5	0	
Dr. Asif A. Brohi*	5	1	4	37th, 38th, 40th & 41st meeting
Mr. Khalid Mahmood*	1	0	1	41st meeting
Mr. Wah Geok Sum	5	4	1	41st meeting
Mr. Koh Boon San	5	5	0	
Mr. Shehryar Faruque	5	4	1	37th meeting
Mr. Kamal Amir Chinoy	5	2	3	37th, 39th & 41st meeting
Mr. Amir Shehzad	5	3	2	37th & 39th meeting
Mr. Asif Hassan****	0	0	0	
Dr Amjad Waheed	5	5	0	

\* Dr. Asif A. Brohi retired from Board with effect from February 26, 2013

\*\* Mr. Khalid Mahmood was co-opted on the Board with effect from April 11, 2013

\*\*\* Mr. Shahid Anwar Khan retired from Board with effect from May 20, 2013

\*\*\*\* Mr. Asif Hasan was co-opted on the Board with effect from May 20, 2013

# NAFA INCOME FUND

## 24 FINANCIAL INSTRUMENTS BY CATEGORY

-----As at June 30, 2013-----				
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
-----Rupees in '000-----				
<b>Financial Assets</b>				
Balances with banks	182,806	-	-	182,806
Investments	25,001	253,383	25,260	303,644
Profit receivable	7,178	-	-	7,178
Advances, deposits, prepayments and other receivables	200	-	-	200
	<u>215,185</u>	<u>253,383</u>	<u>25,260</u>	<u>493,828</u>
-----As at June 30, 2013-----				
		Liabilities at fair value through profit or loss	Other financial liabilities	Total
-----Rupees in '000-----				
<b>Financial Liabilities</b>				
Payable to the Management Company		-	1,002	1,002
Payable to Trustee		-	40	40
Accrued expenses and other liabilities		-	477	477
		<u>-</u>	<u>1,519</u>	<u>1,519</u>
-----As at June 30, 2012-----				
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
-----Rupees in '000-----				
<b>Financial 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>Financial Liabilities</b>				
Payable to the Management Company		-	793	793
Payable to Trustee		-	34	34
Accrued expenses and other liabilities		-	415	415
		<u>-</u>	<u>1,242</u>	<u>1,242</u>

## 25 FINANCIAL RISK MANAGEMENT

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

### 25.1 Market risk

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

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

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

# NAFA INCOME FUND

## 25.1.1 Currency risk

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

## 25.1.2 Interest rate risk

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

### a) Sensitivity analysis for variable rate instruments

As at June 30, 2013, the Fund holds KIBOR based interest bearing term finance certificates and sukuks exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2013 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. 4.860 million (2012: Rs. 4.145 million).

### b) Sensitivity analysis for fixed rate instruments

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

As at June 30, 2013 the Fund holds Pakistan Investment Bonds which are classified as financial assets at 'fair value through profit 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, 2013, with all other variables held constant, the net income and the net assets would be lower by Rs. 8,035 (2012: 10,476). In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2013, the net income for the year and net asset would be higher by Rs. 2,729 (2012: 7,483).

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, 2013 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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

-----As at June 30, 2013-----

Yield / Interest rate	Total	Exposed to Yield / Interest risk			Not exposed to Yield / Interest rate risk
		Upto three months	More than three months and upto one year	More than one year	

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

### On-balance sheet financial instruments

#### Financial assets

Balances with banks	6.00 - 11	182,806	182,383	-	-	423
Investments	13.14 - 16.70	303,644	89,271	209,876	4,497	-
Profit receivable		7,178	-	-	-	7,178
Advances, deposits, prepayments and other receivables		200	-	-	-	200

	493,828	271,654	209,876	4,497	7,801
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#### Financial liabilities

Payable to the Management Company	1,002	-	-	-	1,002
Payable to MCB Financial Services Limited - Trustee	40	-	-	-	40
Accrued expenses and other liabilities	477	-	-	-	477
	1,519	-	-	-	1,519

### On-balance sheet gap

	492,309	271,654	209,876	4,497	6,282
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### Off-balance sheet financial instruments

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

	-	-	-	-	-
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# NAFA INCOME FUND

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

Yield / Interest rate	Total	Exposed to Yield / Interest risk			Not exposed to Yield / Interest rate risk
		Upto three months	More than three months and upto one year	More than 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 MCB Financial Services Limited - 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

## Off-balance sheet gap

	-	-	-	-	-
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## 25.1.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result 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, 2013.

## 25.2 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 counter party 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 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:

### Bank balances by rating category

A1+	98.80%
A1	1.20%

### Term finance certificates and sukuks by rating category

AAA, AAA-,AAA+	0.63%
AA, AA-,AA+	32.02%
A,A-,A+	8.46%
D	8.16%
Non-performing	50.72%

# NAFA INCOME FUND

The maximum exposure to credit risk before any credit enhancement as at June 30, 2013 is the carrying amount of the financial assets.

## Concentration of credit risk

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

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

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 may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. 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 reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

As at June 30, 2013

Total	Upto three months	Over three months and upto one year	Over one year
------(Rupees in '000)-----			
Payable to the Management Company	1,002	1,002	-
Payable to MCB Financial Services Limited - Trustee	40	40	-
Accrued expenses and other liabilities	477	477	-
<b>1,519</b>	<b>1,519</b>	<b>-</b>	<b>-</b>

### Financial Liabilities

Payable to the Management Company  
Payable to MCB Financial Services Limited - Trustee  
Accrued expenses and other liabilities

As at June 30, 2013

Total	Upto three months	Over three months and upto one year	Over one year
------(Rupees in '000)-----			
Payable to the Management Company	793	793	-
Payable to MCB Financial Services Limited - Trustee	34	34	-
Accrued expenses and other liabilities	415	415	-
<b>1,242</b>	<b>1,242</b>	<b>-</b>	<b>-</b>

### Financial Liabilities

Payable to the Management Company  
Payable to MCB Financial Services Limited - Trustee  
Accrued expenses and other liabilities



# NAFA INCOME FUND

## 26. 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' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns to the 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 investment where necessary.

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

According to the amendments to International Financial Reporting Standard 7, Financial Instruments: Disclosure - Improving disclosures about financial instruments, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

	----- As at June 30, 2013-----			
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
<b>ASSETS</b>				
Investment in securities	-	253,383	25,260	278,643
	----- 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

# NAFA INCOME FUND

## 28. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on 27 August, 2013.

## 29. NON-ADJUSTING EVENT AFTER THE REPORTING DATE

The Board of Directors of the Management Company in their meeting held on July 11, 2013 approved a final distribution for the year ended June 30, 2013 at the rate of 5.379% (2012: Nil). The financial statements of the Fund for the year ended June 30, 2013 do not include the effect of this final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2014.

## 30. GENERAL

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

31.2 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, 2013	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')	489,840	417,156	460,934	581,724	1,036,057	1,827,917
Net Income / (loss) (Rs. '000')	30,313	(35,764)	(20,181)	43,696	40,049	37,719
Net Asset Value per units (Rs.)	9.6652	9.0407	9.7109	10.4457	9.9537	10.0011
Offer price per unit	9.7619	9.1311	9.8080	10.5502	10.0549	10.1032
Redemption price per unit	9.6652	9.0407	9.7109	10.4457	9.9537	10.0011
Highest offer price per unit (Rs.)	9.7619	9.8339	10.6810	10.5539	9.9974	10.1032
Lowest offer price per unit (Rs.)	9.1327	8.8148	9.6993	9.7051	9.1366	9.8935
Highest redemption price per unit (Rs.)	9.6652	9.7365	10.5752	10.4494	9.8984	10.0011
Lowest redemption price per unit (Rs.)	9.0423	8.7275	9.6033	9.6090	9.0461	9.7955
Total return of the fund	6.91%	6.88%	-4.24%	8.69%	3.91%	2.11%
Capital growth	1.53%	-	-7.25%	4.94%	-0.46%	0.01%
Income distribution	5.38%	-	3.01%	3.75%	4.37%	2.10%
Interim distribution per unit	-	-	0.3140	-	0.2670	-
Final distribution per unit	0.5379	-	-	0.3733	0.1700	0.2096
Distribution dates						
Interim	-	-	19-Apr-11	-	16-Oct-08	-
Final	11-Jul-13	-	-	5-Jul-10	3-Jul-09	3-Jul-08
Average annual return (launch date 29-03-08)						
(Since inception to June 30, 2013)	1.81%					
(Since inception to June 30, 2012)		0.65%				
(Since inception to June 30, 2011)			3.09%			
(Since inception to June 30, 2010)				6.52%		
(Since inception to June 30, 2009)					6.10%	
(Since inception to June 30, 2008)						8.43%
Portfolio Composition (Please see Fund Manager Report)						
Weighted average portfolio duration	37 Days	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.						