



NBP Fullerton
Asset Management Ltd.

A Subsidiary of
National Bank of Pakistan

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

ANNUAL REPORT 2014



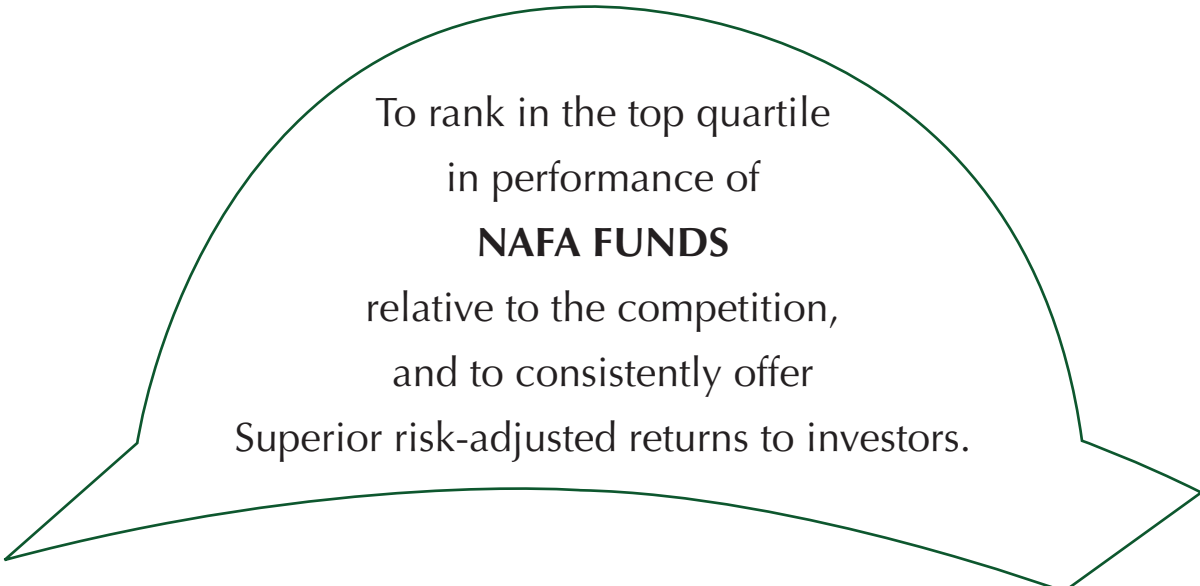
Your investments & "NAFA" grow together



**FULLERTON FUND
MANAGEMENT**

Joint - Venture Partners

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 ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

FUND'S INFORMATION

Management Company

NBP Fullerton Asset Management Limited – Management Company

Board of Directors of the Management Company

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

Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

Audit & Risk Committee

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

Human Resource Committee

| | |
|-----------------------|----------|
| Mr. Nausherwan Adil | Chairman |
| Mr. Wah Geok Sum | Member |
| Mr. Kamal Amir Chinoy | Member |

Trustee

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

Bankers to the Fund

Al-Baraka Islamic Bank
Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Bank Islami Pakistan Limited
Burj Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
NIB Bank Limited
Soneri Bank Limited
United Bank Limited
Bank Al-Habib Limited
The Bank of Khyber.
Standard Chartered Bank (Pakistan) Limited
Silk Bank Limited
Summit Bank Limited

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Auditors

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

Legal Advisor

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

Head Office:

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

Lahore Office:

7-Noon Avenue, Canal Bank,
Muslim Town, Lahore.
UAN: 042-111-111-632
Fax: 92-42-35861095

Islamabad Office:

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

Peshawar Office:

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

Multan Office:

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

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Board of Directors



Mr. Nausherwan Adil
Chairman



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. Kamal Amir Chinoy
Director



Mr. Koh Boon San
Director



Mr. Aamir Sattar
Director



Mr. Shehryar Faruque
Director



Mr. Wah Geok Sum
Director



Mr. Abdul Hadi Palekar
Director

Senior Management



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. M. Murtaza Ali
Chief Financial Officer
& Company Secretary



Mr. Sajjad Anwar, CFA
Chief Investment Officer



Mr. Zeeshan
Chief – Strategy &
Business Development



Mr. Samiuddin Ahmed
Country Head Corporate
Marketing & Sales



Mr. Ozair Khan
Chief Technology Officer



Mr. Muhammad Ali, CFA, FRM
Head of Fixed Income



Mr. Ahmad Nouman CFA, PRM
Head of Risk Management



Syed Suleman Akhtar CFA
Head of Research



Mr. Tahir Lateef
Head of Internal Audit

NAFA ISLAMIC ASSET ALLOCATION FUND

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DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Seventh Annual Report of NAFA Islamic Asset Allocation Fund (formerly: NAFA Islamic Multi Asset Fund) for the year ended June 30, 2014.

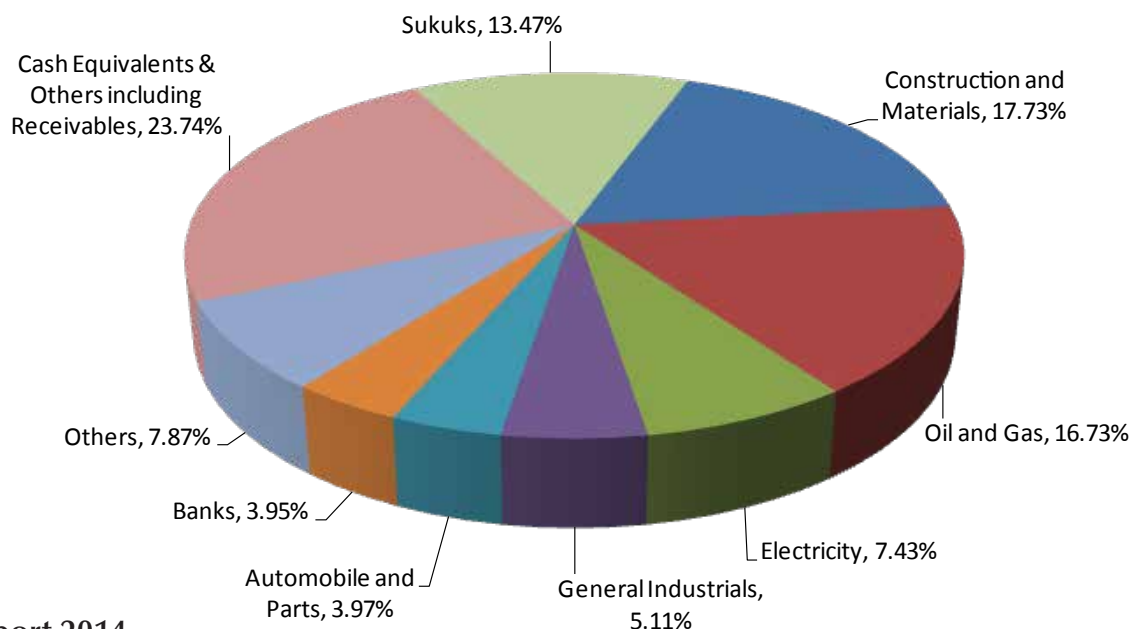
Fund's Performance

During FY2013-14, the stock market (KMI-30 Index) soared by 29.89%. The aforesaid solid performance was driven by positive developments on the economic front, such as Pakistan's entry into a fresh IMF program, significant improvement in country's external account which buttressed foreign exchange reserves and Pak rupee, controlled inflation, lower fiscal deficit and higher GDP growth supported by a revival in the industrial sector. The improvements on the economic front coupled with increase in Pakistan's weight in the MSCI Frontier Market Index resulted in sizable foreign buying in the local bourse, helping the Index touch new highs.

Due to a precarious external account position and expected increase in inflation, SBP increased the Policy Rate by 100 bps to 10% during FY14. The yields on bonds in the secondary market remained on the higher side due to increase in interest rates and tight liquidity conditions. On the corporate debt sphere, we have witnessed some increase in primary issuance of corporate debt amid a pick-up in economic activity. Trading activity in corporate sukuk remained skewed towards high quality issues, notably belonging to the Chemicals sector. Majority of the sukuk in the Fund are floating rate linked to KIBOR. Therefore, any increase in the interest rates will improve the coupon income of the Fund.

During the fiscal year, the return on NAFA Islamic Asset Allocation Fund (formerly: NAFA Islamic Multi Asset Fund) was 22.23% as against the benchmark (50% KMI-30 Index, 50% 3-Month Profit Rate of Islamic Banks) return of 17.72%. Thus an out-performance of 4.51% was witnessed during the year. NIMF out-performed on the back of timely asset allocation, strong performance of some of its key equity holdings and recovery against a partly provided corporate sukuk.

NAFA Islamic Asset Allocation Fund (formerly: NAFA Islamic Multi Asset Fund) has earned total income of Rs.110.53 million during the year. After deducting total expenses of Rs.18.57 million, the net income is Rs.91.96 million. The asset allocation of NAFA Islamic Multi Asset Fund as on June 30, 2014 is as follows:



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Income Distribution

The Board of Directors of the Management Company has approved distribution of 13% of opening ex-NAV (15.42% of the par value) during the year.

Taxation

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

Auditors

The present auditors, KPMG Taseer Hadi & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2015.

Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held six meetings during the current financial year. The attendance of all directors is disclosed in the note 22 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 21 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 18 to these financial statements.

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Acknowledgement

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

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

On behalf of the Board of
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: September 16, 2014
Place: Karachi.

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TRUSTEE REPORT TO THE UNIT HOLDERS NAFA ISLAMIC MULTI ASSET FUND

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

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Islamic Asset Allocation Fund [Formerly NAFA Islamic Multi Asset Fund] (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 in accordance with the provisions of the following:

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

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

Karachi: October 14, 2014

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STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2014

This statement is being presented by the Board of Directors of NBP Fullerton Asset Management Limited (Company), the Management Company of NAFA Islamic Asset Allocation Fund (formerly: NAFA Islamic Multi Asset 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, 2014, 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. Nausherwan Adil (Chairman) 2. Mr. Aamir Sattar 3. Mr. Abdul Hadi Palekar 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).
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. One casual vacancy was occurred on the board on October 10, 2013 which was filled up on the same date.
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.

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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 the Code requires every listed company to conduct formal orientation for directors. As per the Code, by June 30, 2014 a minimum of two directors should have attended director training program. As at year end, one of the directors has attended 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 the next 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. There was no new appointment of the Chief Financial Officer (CFO) and Company Secretary during the year. However, the Head of Internal Audit left the Company on March 07, 2014 and in his place a new appointment was made on April 08, 2014 with the approval of audit and risk committee including remuneration and terms and conditions. The appointment of the Head of Internal Audit has been ratified by the Board in its meeting held on September 16, 2014, subsequent to the year end.
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 18 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 committee has formed the terms of reference 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.

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18. The Board has set up an effective internal audit function.
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. Since there is no practical implication of closed period on the announcement of interim and final results of open end Fund. Therefore, 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. While the Code of Corporate Governance requires that a mechanism shall be put in place for the annual evaluation of the Board's own performance by April 2014, the Management Company is in the process of preparing a framework for this purpose and eventual approval by the Board of Directors of the Management Company.

For and behalf of the board

Karachi
September 16, 2014

Dr. Amjad Waheed
Chief Executive Officer

NAFA ISLAMIC ASSET ALLOCATION FUND

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FUND MANAGER REPORT

NAFA Islamic Asset Allocation Fund (Formerly: NAFA Islamic Multi Asset Fund)

NAFA Islamic Asset Allocation Fund (NIAAF) (Formerly: NAFA Islamic Multi Asset Fund) is an open-ended Shariah Compliant asset allocation fund

Investment Objective of the Fund

Objective of NIAAF is to provide investors with a combination of capital growth and income by investing in a variety of asset classes such as Shariah Compliant stocks, bonds, money market instruments etc. The risk profile of the fund is moderate.

Benchmark

The Benchmark of the Fund is Average of (i) average 3-month Islamic banks deposit rate (ii) 6-month KIBOR or its Shariah Compliant equivalent (iii) KMI 30 Index.

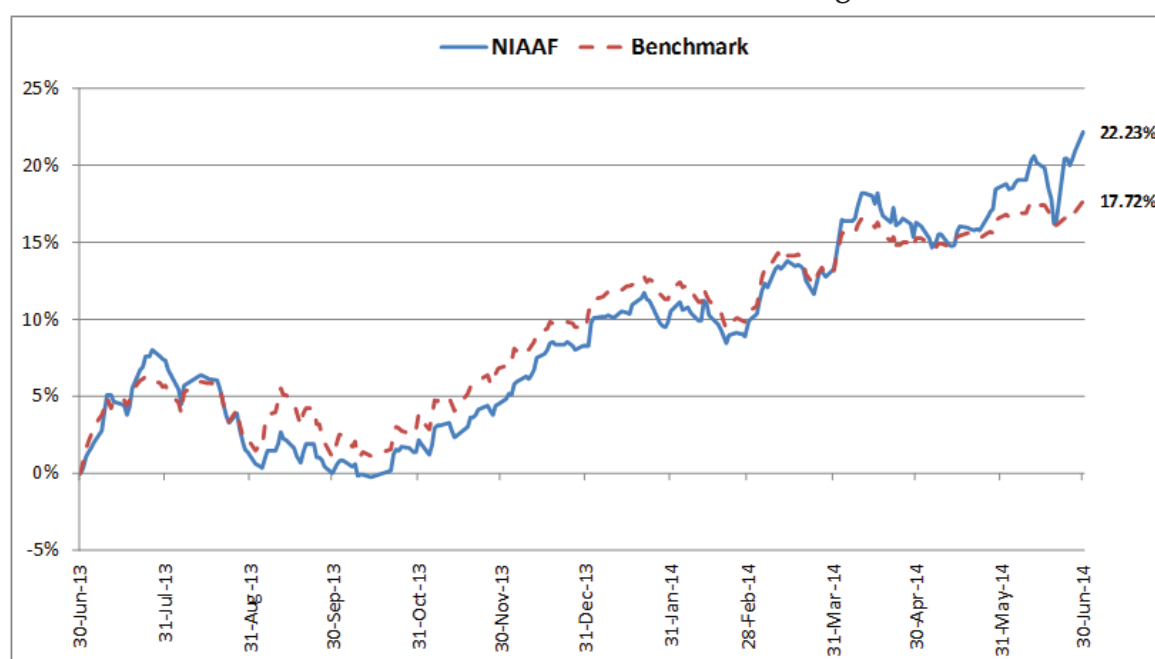
The fund category was changed to Islamic Asset Allocation from Islamic Balanced with effect from April 22, 2014. Consequently, allowed equity range is now 0% to 90% which previously was 30% to 70%. Previous benchmark was 50% KSE-30 Index & 50% 3-month KIBOR.

Fund performance review

This is the seventh annual report of the Fund. During the year under review, Net Asset Value (NAV) of NAFA Islamic Asset Allocation Fund (Formerly: NAFA Islamic Multi Asset Fund) (NIAAF) increased by 22.23%, whereas the benchmark increased by 17.72%, thus an outperformance of 4.51% was recorded. This outperformance is net of management fee and all other expenses. Thus, NIAAF has met its investment objective. During the year, the fund size of NIAAF increased by 28.66% to Rs 557mn.

NIAAF out-performed during the year on the back of timely asset allocation and better than market performance of its key holdings in the Construction & Materials, General Industrials, and Automobile and Parts sectors. Further, the Fund was under-weight in key stocks in Chemicals and Oil and Gas sectors that lagged the market, thereby contributing to the outperformance. In line with its strategy, the Fund is invested in high dividend yielding and defensive stocks.

NIAAF Performance vs. Benchmark during FY14



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NIAAF was around 32% invested in equities at the beginning of the year. During the year, we adjusted the allocation of the Fund based on our view on different asset classes. Towards the end of the year, allocation in equities was increased to around 63%.

The solid performance of the stock market was driven by positive developments on the economic front, such as Pakistan's entry into a fresh IMF program, significant improvement in country's external account which buttressed foreign exchange reserves and Pak rupee, controlled inflation, lower fiscal deficit and higher GDP growth supported by a revival in the industrial sector. The improvements on the economic front coupled with increase in Pakistan's weight in the MSCI Frontier Market Index resulted in sizable foreign buying in the local bourse, helping the Index touch new highs.

Due to a precarious external account position and expected increase in inflation, SBP increased the Policy Rate by 100 bps to 10% during FY14. The yields on bonds in the secondary market remained on the higher side due to increase in interest rates and tight liquidity conditions. On the corporate debt sphere, we have witnessed some increase in primary issuance of corporate sukuk amid a pick-up in economic activity. Trading activity in corporate sukuk remained skewed towards high quality issues, notably belonging to the Chemicals and Electricity sectors. All the sukuk in the Fund are floating rate linked to KIBOR. Therefore, any increase in the interest rates will improve the coupon income of the Fund.

Asset Allocation of the Fund (% of NAV)

| Particulars | 30-Jun-14 | 30-Jun-13 |
|----------------------------------|----------------|----------------|
| Equities / Stocks | 62.79% | 32.19% |
| Sukuks | 13.47% | 8.18% |
| Cash Equivalents | 23.32% | 59.57% |
| Other Net (Liabilities) / Assets | 0.42% | 0.06% |
| Total | 100.00% | 100.00% |

Details of Non-Compliant Investments

| Particulars | Type of Investment | Value of Investments before Provision | Provision held | Value of Investments after Provision | % of Net Assets | % of Gross Assets | Yield to Maturity per annum |
|------------------------------|--------------------|---------------------------------------|-------------------|--------------------------------------|-----------------|-------------------|-----------------------------|
| Eden Housing (Sukuk II) | SUKUK | 4,921,875 | 4,921,875 | - | - | - | - |
| Maple Leaf Cement (Sukuk I)* | SUKUK | 38,643,750 | - | 28,720,421 | 5.16% | 5.04% | 38.65% |
| Pak Elektron Limited (Sukuk) | SUKUK | 21,428,571 | 21,428,571 | - | - | - | - |
| Total | | 64,994,196 | 26,350,446 | 28,720,421 | 5.16% | 5.04% | |

*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.

Distribution for the Financial Year 2014

| Interim Period / Quarter | Dividend as a % of Par Value | Cum Dividend Price Per Unit (Rs.) | Ex- Dividend Price Per Unit (Rs.) |
|--------------------------|------------------------------|-----------------------------------|-----------------------------------|
| Half year ended Dec-2013 | 2.372 | 13.2832 | 13.046 |
| Qtr ended March-2014 | 2.372 | 13.5373 | 13.3001 |
| Qtr ended June-2014 | 10.675 | 13.8345 | 12.767 |

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Unit Holding Pattern of NAFA ISLAMIC ASSET ALLOCATION FUND (Formerly: NAFA Islamic Multi Asset Fund) as on June 30, 2014

| Size of Unit Holding (Units) | | No. of Unit Holders |
|------------------------------|------------|---------------------|
| 1 | 1,000 | 53 |
| 1,001 | 5,000 | 122 |
| 5,001 | 10,000 | 80 |
| 10,001 | 50,000 | 156 |
| 50,001 | 100,000 | 70 |
| 100,001 | 500,000 | 32 |
| 500,001 | 1,000,000 | 5 |
| 1,000,001 | 5,000,000 | 3 |
| 5,000,001 | 10,000,000 | 2 |
| Total | | 523 |

During the period under question:

- There have been no significant changes in the state of affairs of the Fund
- The Management Company or its delegates did not receive any soft commission (i.e. goods and services) from its broker(s)/dealer(s) by virtue of transactions conducted by the Fund.

Workers' Welfare Fund (WWF)

The scheme has maintained provision against Workers' Welfare Fund's liability to the tune of Rs.6,685,452/- If the same were not made the NAV per unit/return of scheme would have been higher by Rs.0.1561/1.47%. For details investors are advised to read the Note 11.2 of the Financial Statements of the Scheme for the year ended June 30, 2014.

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STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

NAFA Islamic Asset Allocation Fund (*Formerly; NAFA Islamic Multi Asset Fund*) (the Fund) has fully complied with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for its operations, investments and placements made during the year ended June 30, 2014. This has been duly confirmed by the Shariah Advisor of the Fund.

Dated : September 16, 2014
Karachi

Dr. Amjad Waheed, CFA
Chief Executive Officer

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Report of the *Shariah* Advisor

NAFA Islamic Asset Allocation Fund (Formerly: NAFA Islamic Multi Asset Fund)

September 15, 2014/Dhul Qa'adah 19, 1435 A.H

Alhamdulillah, the period from July 1, 2013 to June 30, 2014 was the seventh year of operations of NAFA Islamic Asset Allocation Fund (Formerly: NAFA Islamic Multi Asset Fund) (NIAAF). This report is being issued in accordance with clause 5.D.3 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shari'ah Compliance of the Fund's activity.

We have prescribed five criteria for Shari'ah compliance of equity investments which relate to (i) Nature of business, (ii) Debt to total assets, (iii) Investment in Shari'ah Non-Compliant activities (iv) Shari'ah Non-Income from Non-Compliant Investments, (v) Illiquid assets to total assets, and (vi) Net liquid assets per share vs. share price.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure Shari'ah compliance in line with the Shari'ah guidelines. Our responsibility is to express an opinion, based on our review, to the extent where such compliance can be objectively verified. A review is limited primarily to inquiries from the management company's personnel and review of various documents prepared by the management company to comply with the prescribed criteria.

- i. We have reviewed and approved the modes of equity investments of NIAAF in light of Shari'ah requirements. Following is a list of top investments of NIAAF as on June 30, 2014 and their evaluation according to the screening criteria established by us. (December 31, 2013 accounts of the Investee companies have been used)

| Company Name | (i) Nature of Business | (ii)*** Debt to Assets (<37%) | (iii) Non-Compliant Investments (<33%) | (iv) Non-Compliant Income to Gross Revenue (<5%) | (v) Illiquid Assets to Total Assets (>25%) | (vi) Net Liquid Assets vs. Share Price (B>A) | |
|------------------------------------|--------------------------------------|----------------------------------|---|---|---|---|-----------------|
| | | | | | | Net Liquid Assets per Share (A) | Share Price (B) |
| Pakistan State Oil Company Limited | Oil & Gas Distribution | 27.06 | 12.74 | 1.05 | 31.51 | (136.47) | 332.22 |
| Nishat Mills Ltd | Textile Products Manufacturer | 27.32 | 19.71 | 1.00 | 67.15 | (4.22) | 127.24 |
| Pakistan Petroleum Limited | Oil & Gas Exploration and Production | 0.13 | 28.53 | 3.87 | 44.17 | 41.32 | 213.96 |
| Oil and Gas Development Co.**** | Oil & Gas Exploration and Production | 0.00 | 41.49 | 6.01 | 34.65 | 44.55 | 276.36 |
| Pakistan Telecom Company Ltd | Telecom Services Provider | 5.50 | 9.58 | 2.06 | 69.61 | (9.31) | 28.44 |

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| | (i) | (ii)*** | (iii) | (iv) | (v) | (vi) | |
|----------------------------|--------------------------------------|---------|-------|------|-------|---------|--------|
| The Hub Power Co. Ltd | Electricity | 33.01 | 0.00 | 0.09 | 51.76 | (35.00) | 60.72 |
| Pakistan Oilfields Limited | Oil & Gas Exploration and Production | 0.00 | 0.01 | 0.88 | 74.85 | (30.43) | 497.71 |
| MBL | Commercial Banks | N/A | N/A | N/A | N/A | N/A | N/A |
| Pioneer Cement | Cement Manufacturer | 18.39 | 6.75 | 0.76 | 77.94 | (11.95) | 38.30 |

* ii, iii, iv & v are in percentages while vi & vii are in Rs.

** These ratios are for the calculation of non-Shari'ah Compliant Element in the business and are not relevant for Islamic Banks & Islamic Financial Institutions.

*** All interest based debts.

**** On Watch List due to being forced to invest in TFCs/PIBs by Government of Pakistan to settle their long standing circular debt resulting in surpassing the 'Non Compliant Income to Total Income' ratio and 'Non Compliant Investments to Total Investments' ratio.

- ii. On the basis of information provided by the management, the provisions of the Scheme and investments in equities made on account of NIAAF are Shari'ah Compliant and in accordance with the criteria established by us.
- iii. There are investments made by NIAAF where Investee companies have earned a part of their income from non-compliant sources (e.g. interest income received on bank deposits and etc). In such cases, the management company has been directed to set aside such proportion of the income from Investee companies as charity in order to purify the earnings of the Fund.

In light of the above, we hereby certify that nothing has come to our attention which causes to believe that the overall operations of NIAAF for the period ended June 30, 2014 are not in compliance with the Shari'ah principles.

During the period a provision of PKR 195,215 was created, out of which PKR 2,270 were adjusted on the basis of the annual financial statements, and therefore the same are to be disbursed into Charity. However, the rest of the provisional amount will be adjusted after the availability of their respective annual financial statements.

May Allah bless us with best Tawfeeq to accomplish our cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

For and on behalf of Meezan Bank Limited
 Shari'ah Technical Services and Support Provider

Bilal Ahmed Qazi
 Shari'ah Advisor

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

Independent Assurance Report to the Unit holders' on the Statement of Compliance with the Shariah Principles

We were engaged by the Board of Directors of NBP Fullerton Asset Management Limited, Management Company of **NAFA Islamic Asset Allocation Fund (formerly NAFA Islamic Multi Asset Fund)** ("the Fund"), to report on Fund's Compliance with the Shariah principles as set out in the annexed statement prepared by the management company for the year ended 30 June 2014 in the form of an independent reasonable assurance conclusion about whether the annexed statement presents fairly, in all material respects, the status of the Fund's compliance with Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor as required under clause 5.D.3 of the Trust Deed of the Fund.

Management Company's Responsibilities

The management company of the Fund is responsible for preparing the annexed statement that is free from material misstatement in accordance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor. This responsibility includes designing, implementing and maintaining internal control relevant to the operations of the Fund in accordance with the Shariah principles and to ensure that Fund's investments and placements are made in compliance with Shariah principles.

Our Responsibilities

Our responsibility is to examine the annexed statement prepared by the Management Company and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE 3000) 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board. That standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain reasonable assurance about whether the annexed statement fairly presents the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor.

The procedures selected depend on our judgment, including the assessment of the risks of material non-compliance with Shariah principles whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the operations of the Fund in accordance with the Shariah principles in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Fund's internal control.

The procedures performed included:

1. Checking compliance of specific guidelines issued by the Shariah Advisor relating to charity, maintaining bank accounts and for making investments of the Fund.
2. Check that the Shariah Advisor has certified that investments made by the Fund during the year ended 30 June 2014 are in compliance with the Shariah principles and where required purification of income from non-compliant sources has been made in consultation with the Shariah Advisor.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the annexed statement, in all material respects, presents fairly the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for the year ended 30 June 2014.

Date: September 16, 2014

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of NBP Fullerton Asset Management Limited, the Management Company of **NAFA Islamic Asset Allocation Fund (formerly NAFA Islamic Multi Asset Fund)** ("the Fund") for the year ended 30 June 2014 to comply with the requirements of 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 ("the Board") of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirement of the Code. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of 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.

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board for their review 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 and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code as applicable to the Fund for the year ended 30 June 2014.

Further, we highlight the below instances of non-compliances with the requirements of the Code as reflected in the paragraph references where these are stated in the Statement of Compliance:

- i) Paragraph 9 As per the Code, at least two directors were required to obtain training by 30 June 2014, however, only one director has obtained training so far.
- ii) Paragraph 21 As per the Code, there should be announcement of 'close period' prior to the announcement of interim / final results, however there was no such 'close period' announced during the year ended 30 June 2014.
- iii) Paragraph 23 A mechanism is in process of development for an annual evaluation of the Board's own performance.

Date: September 16, 2014

Place: Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

Report on the Financial Statements

We have audited the accompanying financial statements of **NAFA Islamic Asset Allocation Fund (formerly; NAFA Islamic Multi Asset Fund)** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2014 and the related income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in unit holders' fund for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund'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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2014 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Report on Other Legal and Regulatory Requirements

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

Date: September 16, 2014

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Nadeem

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

Statement of Assets and Liabilities As at 30 June 2014

| | Note | 2014 (Rupees in '000) | 2013 |
|--|------|--------------------------|------------|
| Assets | | | |
| Bank balances | 4 | 129,884 | 257,924 |
| Investments | 5 | 424,774 | 174,802 |
| Dividend and profit receivable | 6 | 6,205 | 5,546 |
| Deposits and advance | 7 | 6,034 | 2,632 |
| Receivable against sale of investments | | 1,176 | - |
| Total assets | | 568,073 | 440,904 |
| Liabilities | | | |
| Payable to NBP Fullerton Asset Management Limited - Management Company | 8 | 2,322 | 1,231 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 9 | 93 | 126 |
| Payable to Securities and Exchange Commission of Pakistan | 10 | 388 | 287 |
| Accrued expenses and other liabilities | 11 | 8,306 | 6,258 |
| Total liabilities | | 11,109 | 7,902 |
| Net Assets | | 556,964 | 433,002 |
| Unit holders' fund (as per statement attached) | | 556,964 | 433,002 |
| Contingency and commitment | 12 | | |
| | | (Number of units) | |
| Number of units in issue | 13 | 42,839,414 | 31,866,154 |
| | | (Rupees) | |
| Net assets value per unit | | 13.0012 | 13.5881 |

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

Income Statement For the year ended 30 June 2014

| | Note | 2014 (Rupees in '000) | 2013 |
|--|------|--------------------------|---------|
| Income | | | |
| Income from sukuk bonds | | 17,585 | 13,752 |
| Profit on saving accounts | | 14,629 | 6,650 |
| Dividend income | | 12,670 | 15,973 |
| Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss' | 5.4 | 29,913 | 30,454 |
| Capital gain on sale of investments - net | | 16,293 | 63,192 |
| Total income | | 91,090 | 130,021 |
| Expenses | | | |
| Remuneration of NBP Fullerton Asset Management Limited - Management Company | 8.1 | 9,139 | 7,712 |
| Sindh Sales Tax on remuneration of Management Company | 8.1 | 1,707 | 1,234 |
| Federal Excise Duty on remuneration of Management Company | 8.2 | 1,462 | 70 |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | 9.1 | 914 | 732 |
| Annual fee - Securities and Exchange Commission of Pakistan | | 388 | 287 |
| Amortisation of preliminary expenses and floatation costs | | - | 160 |
| Brokerage and other expenses | | 1,648 | 1,041 |
| Settlement and bank charges | | 353 | 535 |
| Annual listing fee | | 30 | 30 |
| Auditors' remuneration | 14 | 464 | 401 |
| (Reversal) / provision against non-performing sukuks classified as 'available for sale' - net | 5.6 | (19,435) | 10,202 |
| Fund rating fee | | 133 | 121 |
| Legal and professional charges | | 158 | 40 |
| Charity | | 195 | 232 |
| Printing charges | | 100 | 11 |
| Total expenses | | (2,744) | 22,808 |
| Net income from operating activities | | 93,834 | 107,213 |
| Provision for Workers' Welfare Fund | 11.2 | (1,877) | (2,144) |
| Net income before taxation | | 91,957 | 105,069 |
| Taxation | 15 | - | - |
| Net income for the year | | 91,957 | 105,069 |

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

Statement of Comprehensive Income For the year ended 30 June 2014

| | Note | 2014 (Rupees in '000) | 2013 |
|--|------|--------------------------|----------------|
| Net income for the year | | 91,957 | 105,069 |
| Other comprehensive income for the year | | | |
| <i>Items to be reclassified to income statement in subsequent periods:</i> | | | |
| Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'available for sale' | 5.5 | (8,028) | 2,103 |
| Total comprehensive income for the year | | <u>83,929</u> | <u>107,172</u> |

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

Distribution Statement For the year ended 30 June 2014

| | 2014 | 2013 |
|--|------------------|-------------|
| | (Rupees in '000) | |
| Undistributed income brought forward | | |
| Realised income | 87,228 | 3,099 |
| Unrealised income | 30,454 | 12,221 |
| | 117,682 | 15,320 |
| Net income for the year | 91,957 | 105,069 |
| Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net | 24,716 | 9,703 |
| Distributions: | | |
| <i>Final distribution:</i> | | |
| Declared on 11 July 2013: 17.269% (2012: Nil) | | |
| - Issue of 3,468,648 bonus units (2012: Nil) | (43,542) | - |
| - Cash distribution | (13,133) | - |
| <i>Interim distributions:</i> | | |
| Declared on 13 February 2014: 2.372% (26 February 2013: 2.062%) | | |
| - Issue of 572,553 bonus units (2013: 365,287 units) | (7,469) | (4,398) |
| - Cash distribution | (28) | (1,580) |
| Declared on 30 April 2014: 2.372% (26 April 2013: 2.062%) | | |
| - Issue of 645,606 bonus units (2013: 396,463 units) | (8,587) | (4,864) |
| - Cash distribution | (30) | (1,568) |
| Declared on 26 June 2014: 10.6750% (2013: Nil) | | |
| - Issue of 3,279,707 bonus units (2013: Nil) | (41,909) | - |
| - Cash distribution | (141) | - |
| Total Distributions | (114,839) | (12,410) |
| Undistributed income carried forward | 119,516 | 117,682 |
| Undistributed income comprising: | | |
| Realised income | 89,603 | 87,228 |
| Unrealised income | 29,913 | 30,454 |
| | 119,516 | 117,682 |

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

Statement of Movement in Unit Holders' Fund For the year ended 30 June 2014

| | 2014 | 2013 |
|--|------------------|----------|
| | (Rupees in '000) | |
| Net assets at beginning of the year | 433,002 | 268,191 |
| Issue of 38,963,316 units (2013: 10,814,562 units) | 509,362 | 131,565 |
| Issue of 7,966,508 bonus units (2013: 761,750 units) | 101,507 | 9,261 |
| Redemption of 35,956,564 units (2013: 5,723,227 units) | (455,997) | (70,777) |
| | 154,872 | 70,049 |
| Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net | (24,716) | (9,703) |
| Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'available for sale' | (8,028) | 2,103 |
| Capital gain on sale of investments - net | 16,293 | 63,192 |
| Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss' | 29,913 | 30,454 |
| Other net income for the year | 45,751 | 11,423 |
| Total comprehensive income for the year | 83,929 | 107,172 |
| Distributions: | | |
| <i>Final distribution:</i> | | |
| Declared on 11 July 2013: 17.269% (2012: Nil) | | |
| - Issue of 3,468,648 bonus units (2012: Nil) | (43,542) | - |
| - Cash distribution | (13,133) | - |
| <i>Interim distributions:</i> | | |
| Declared on 13 Feb 2014: 2.372% (26 Feb 2013: 2.062%) | | |
| - Issue of 572,553 bonus units (2013: 365,287 units) | (7,469) | (4,398) |
| - Cash distribution | (28) | (1,580) |
| Declared on 30 April 2014: 2.372% (26 April 2013: 2.062%) | | |
| - Issue of 645,606 bonus units (2013: 396,463 units) | (8,587) | (4,864) |
| - Cash distribution | (30) | (1,568) |
| Declared on 26 June 2014: 10.6750% (2013: Nil) | | |
| - Issue of 3,279,707 bonus units (2013: Nil) | (41,909) | - |
| - Cash distribution | (141) | - |
| Total distributions | (114,839) | (12,410) |
| Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net | 24,716 | 9,703 |
| Net assets at end of the year | 556,964 | 433,002 |
| | (Rupees) | |
| Net assets value per unit at beginning of the year | 13.5881 | 10.3099 |
| Net assets value per unit at end of the year | 13.0012 | 13.5881 |

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

Cash Flow Statement For the year ended 30 June 2014

| | Note | 2014 | 2013 |
|--|------|------------------|----------|
| | | (Rupees in '000) | |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Net income before taxation | | 91,957 | 105,069 |
| Adjustments: | | | |
| Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss' | | (29,913) | (30,454) |
| (Reversal) / provision against non-performing sukus classified as 'available for sale' - net | | (19,435) | 10,202 |
| Amortisation of preliminary expenses and floatation costs | | - | 160 |
| | | 42,609 | 84,977 |
| (Increase) / decrease in assets | | | |
| Investments | | (208,652) | 47,796 |
| Dividend and profit receivable | | (659) | 525 |
| Deposits and advance | | (3,402) | - |
| Receivable against sale of investments | | (1,176) | - |
| | | (213,889) | 48,321 |
| Increase / (decrease) in liabilities | | | |
| Payable to NBP Fullerton Asset Management Limited - Management Company | | 1,091 | 201 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | | (33) | 9 |
| Payable to Securities and Exchange Commission of Pakistan | | 101 | 66 |
| Payable against purchase of investments | | - | (13,562) |
| Accrued expenses and other liabilities | | 2,048 | 2,448 |
| | | 3,207 | (10,838) |
| Net cash (used in) / generated from operating activities | | (168,073) | 122,460 |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Proceeds received from issuance of units | | 509,362 | 131,565 |
| Payments against redemption of units | | (455,997) | (70,777) |
| Distributions paid | | (13,332) | (3,148) |
| Net cash flows from financing activities | | 40,033 | 57,640 |
| Net (decrease) / increase in cash and cash equivalents during the year | | (128,040) | 180,100 |
| Cash and cash equivalents at beginning of the year | | 257,924 | 77,824 |
| Cash and cash equivalents at end of the year | 4 | 129,884 | 257,924 |

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

Notes to and forming part of the Financial Statements For the year ended 30 June 2014

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Islamic Asset Allocation Fund (Formerly; NAFA Islamic Multi Asset Fund) ("the Fund") was established under a Trust Deed executed between NBP Fullerton Asset Management Limited as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 20 August 2007 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 03 September 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules 2003.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 7th floor, Clifton Diamond Building, Block No. 4, Scheme No. 5, Clifton, Karachi. The Management Company is also the member of MUFAP.

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

The Board of Directors had approved that the Fund should be categorized as "Shariah Compliant (Islamic) Scheme" and Balanced Fund as per the categories denoted by the Securities and Exchange Commission of Pakistan. With effect from 22 April 2014 the Fund shall be categorized as shariah compliant Asset Allocation scheme. Accordingly name of the fund shall be NAFA Islamic Asset Allocation Fund.

The Objective of the Scheme is to generate capital appreciation by investing in Shariah Compliant equity and equity related securities and income by investing in Shariah Compliant bank deposits, debt & money market securities.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of AM2 to the Management Company. Based on the performance of the Fund, it has assigned performance ranking of Four Star to the Fund.

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Accounting convention

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

2.3 Functional and presentation currency

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

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise their judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments and impairment thereagainst, if any (note 3.2.1 and 3.2.5).

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

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

There are new and amended standards and interpretations that are mandatory for accounting periods beginning 01 July 2013 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.6 Standards, interpretations and amendments to approved accounting standards, that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2014:

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.
- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.
- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.
- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.
- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.

Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.
- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.

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- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.
- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.
- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.
- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

The above amendments would have no impact on the financial statements of the Fund.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as set out below are consistently applied for all periods presented in these financial statements.

3.1 Cash and cash equivalents

Cash and cash equivalents comprise of deposits and current accounts maintained with banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.2 Financial Assets

3.2.1 Classification

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

a) Loans and receivables

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

b) Financial assets at fair value through profit or loss

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

c) Available for sale

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

3.2.2 Regular way contracts

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

3.2.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed as incurred 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:

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a) Basis of valuation of debt securities

The debt securities are valued on the basis of rates determined by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its Circular No. 33 of 2012 dated 24 October 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.

b) Basis of valuation of equity securities

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

c) Basis of valuation of Government Securities

The 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 from changes in the fair value of financial assets carried at fair value through profit or loss are taken to the 'income statement'.

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

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

Gain or loss is also recognised in the 'income statement' when financial assets carried at amortised cost are derecognised or impaired, and through the amortisation process.

3.2.5 Impairment of financial assets

The carrying value of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

a) Debt securities

In case of debt instruments classified as available-for-sale, if any such evidence exists, 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 through comprehensive income is reclassified through other comprehensive income to income statement. Impairment losses recognised on debt instruments in the income statement are reversed subsequently from income statement through comprehensive income.

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.

c) Equity Securities

The Management Company assesses at each reporting date whether there is objective evidence that the financial asset or a group of financial assets is impaired. In case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for- sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement is reclassified from other comprehensive income to income statement. Impairment losses recognised on equity securities in the income statement are not reversed subsequently, through income statement.

3.2.6 Derecognition

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

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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 to realise the assets and settle the liabilities simultaneously.

3.3 Financial liabilities

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

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

3.4 Derivatives

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

3.5 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.

3.6 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.

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

3.7 Proposed distribution

Dividend distributions are recognised in the financial statements in the period in which such distributions are declared / approved.

3.8 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 / Management Company during business hours on the date on which the funds are actually realized against application. The offer price represents the net assets value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption applications during business hours of that day. The redemption price represents the net assets 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.

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

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

The 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' account is credited with the amount representing net income / (loss) and capital gains / (losses) accounted for in the net assets value and included in the sale proceeds of units. Upon redemption of units, the 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' account is debited with the amount representing net income / (loss) and capital gains / (losses) accounted for in the net assets value and included in the redemption price.

The 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' during the year is included in the amount available for distribution to the unit holders.

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3.10 Earnings per unit

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

3.11 Net Assets Value Per Unit

The net assets value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

3.12 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised appreciation / (diminution) arising on remeasurement 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.
- Unrealised appreciation / (diminution) arising on remeasurement of investments classified as 'Available for sale investments' are included in the other comprehensive income in the period in which they arise.
- Profit on bank deposits, mark-up / return on investments in debt securities and income from government securities is recognised using the effective yield method.
- Dividend income is recognised when the right to receive the same is established i.e. on the date of book closure of the investee company / institution declaring the dividend.

| | Note | 2014 | 2013 |
|------------------------------|--|---------|---------|
| (Rupees in '000) | | | |
| 4 BALANCES WITH BANKS | | | |
| In current accounts | | 18,463 | 19,529 |
| In savings accounts | 4.1 | 111,421 | 238,395 |
| | | 129,884 | 257,924 |
| 4.1 | These accounts carry profit at rates ranging from 6% to 10% (2013: 6% to 11%) per annum. This includes pay orders in hand of Rs. 1.530 million as at 30 June 2014. | | |

| | Note | 2014 | 2013 |
|--|------|---------|---------|
| (Rupees in '000) | | | |
| 5 INVESTMENTS | | | |
| At fair value through profit or loss - held for trading | | | |
| Investment in shares of listed companies | 5.1 | 349,726 | 139,368 |
| Investment in sukuk bonds | 5.2 | 46,328 | - |
| Available for sale | | | |
| Investment in sukuk bonds | 5.3 | 28,720 | 35,434 |
| | | 424,774 | 174,802 |

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5.1 Investment in shares of listed companies at fair value through profit or loss

| Name of the investee company | As at July 1, 2013 | Purchases during the year | Bonus / right Issue | Sales during the year | As at June 30, 2014 | Market value at June 30, 2014 | Market value as a percentage of net assets | Market value as a percentage of total investment | Percentage of paid-up capital of the investee company held |
|--|------------------------------|---------------------------------|------------------------|--------------------------|---------------------------|-------------------------------------|--|--|---|
| | ----- Number of shares ----- | | | | | Rupees in '000 | ----- % ----- | | |
| Oil and Gas | | | | | | | | | |
| Shell Pakistan Limited | - | 16,500 | - | 16,500 | - | - | - | - | - |
| National Refinery Limited | - | 29,500 | - | 29,500 | - | - | - | - | - |
| Oil and Gas Development Company Limited | 40 | 258,600 | - | 200,600 | 58,040 | 15,165 | 2.72 | 3.57 | 0.00 |
| Pakistan Oil Fields Limited | 6,960 | 139,100 | - | 91,700 | 54,360 | 31,219 | 5.61 | 7.35 | 0.02 |
| Pakistan Petroleum Limited | 33,900 | 317,900 | 20,320 | 261,700 | 110,420 | 24,772 | 4.45 | 5.83 | 0.01 |
| Pakistan State Oil Company Limited | 145,660 | 192,300 | 9,936 | 291,200 | 56,696 | 22,046 | 3.96 | 5.19 | 0.02 |
| | | | | | <u>279,516</u> | <u>93,202</u> | | | |
| Chemicals | | | | | | | | | |
| Fauji Fertilizer Company Limited | 68 | 200,200 | - | 200,200 | 68 | 8 | - | - | 0.00 |
| Sitara Chemical Industries Limited | 72,775 | - | - | 72,775 | - | - | - | - | - |
| | | | | | <u>68</u> | <u>8</u> | | | |
| Construction and Materials | | | | | | | | | |
| Attock Cement Pakistan Limited | 7,176 | - | 11 | 7,100 | 87 | 14 | - | - | 0.00 |
| D.G. Khan Cement Company Limited | 43,500 | 738,000 | - | 646,500 | 135,000 | 11,875 | 2.13 | 2.80 | 0.03 |
| Lucky Cement Company Limited | 31,900 | 131,600 | - | 90,200 | 73,300 | 30,075 | 5.40 | 7.08 | 0.02 |
| Cherat Cement Company Limited | 295,000 | 17,000 | - | 312,000 | - | - | - | - | - |
| Kohat Cement Limited | 136,500 | 206,000 | 17,200 | 359,700 | - | - | - | - | - |
| Akzo Nobel Pakistan Limited | - | 57,700 | - | - | 57,700 | 9,749 | 1.75 | 2.30 | 0.12 |
| Fauji Cement Company Limited | - | 693,000 | - | 692,000 | 1,000 | 19 | - | - | 0.00 |
| Maple Leaf Cement Factory Limited | - | 1,479,000 | - | 809,500 | 669,500 | 20,118 | 3.61 | 4.74 | 0.13 |
| Pioneer Cement | - | 928,000 | - | 352,000 | 576,000 | 26,876 | 4.83 | 6.33 | 0.25 |
| | | | | | <u>1,512,587</u> | <u>98,726</u> | | | |
| General Industrials | | | | | | | | | |
| Ghani Glass Limited | - | 192,000 | - | - | 192,000 | 10,368 | 1.86 | 2.44 | 0.16 |
| Thal Limited | 24,497 | 74,199 | - | 11,500 | 87,196 | 18,084 | 3.25 | 4.26 | 0.11 |
| | | | | | <u>279,196</u> | <u>28,452</u> | | | |
| Personal Goods | | | | | | | | | |
| Nishat Mills Limited | 52,000 | 695,900 | - | 617,700 | 130,200 | 14,572 | 2.62 | 3.43 | 0.04 |
| | | | | | <u>130,200</u> | <u>14,572</u> | | | |
| Fixed Line Telecommunication | | | | | | | | | |
| Pakistan Telecommunication Company Limited | - | 2,072,000 | - | 1,418,000 | 654,000 | 16,657 | 2.99 | 3.92 | 0.02 |
| | | | | | <u>654,000</u> | <u>16,657</u> | | | |
| Electricity | | | | | | | | | |
| Hub Power Company Limited | 166,760 | 1,286,500 | - | 1,201,000 | 252,260 | 14,818 | 2.66 | 3.49 | 0.02 |
| Kot Addu Power Company Limited | - | 356,000 | - | - | 356,000 | 21,018 | 3.77 | 4.95 | 0.04 |
| K-Electric Limited | - | 655,000 | - | - | 655,000 | 5,561 | 1.00 | 1.31 | 0.00 |
| | | | | | <u>1,263,260</u> | <u>41,397</u> | | | |
| Banks | | | | | | | | | |
| Meezan Bank Limited | 311,783 | 416,498 | - | 465,500 | 262,781 | 11,363 | 2.04 | 2.68 | 0.03 |
| Bank Islami Pakistan Limited | - | 1,535,000 | - | 454,500 | 1,080,500 | 10,654 | 1.91 | 2.51 | 0.20 |
| | | | | | <u>1,343,281</u> | <u>22,017</u> | | | |
| AutoMobile and Parts | | | | | | | | | |
| Ghandhara Nissan Limited | - | 85,000 | - | - | 85,000 | 3,419 | 0.61 | 0.80 | 0.19 |
| Honda Atlas Cars (Pakistan) Limited | - | 209,000 | - | 46,500 | 162,500 | 15,127 | 2.72 | 3.56 | 0.11 |
| Pak Suzuki Motor Company | - | 13,000 | - | - | 13,000 | 3,560 | 0.64 | 0.84 | 0.02 |
| Sazgar Engineering Works | - | 156,500 | - | - | 156,500 | 5,477 | 0.98 | 1.29 | 0.87 |
| | | | | | <u>417,000</u> | <u>27,583</u> | | | |
| Industrial Transportation | | | | | | | | | |
| Pakistan National Shipping Corporation | - | 100,000 | - | - | 100,000 | 7,112 | 1.28 | 1.67 | 0.08 |
| | | | | | <u>100,000</u> | <u>7,112</u> | | | |
| | | | | | | <u>349,726</u> | | | |
| Carrying value as at 30 June 2014 | | | | | | <u>321,141</u> | | | |

5.1.1 All shares have a nominal face value of Rs 10 each except for the shares of Thal Limited and K-Electric Limited which have a face value of Rs.5 each and Rs. 3.5 respectively.

5.1.2 The above investments include securities with market value aggregating to Rs. 17.605 million (2013: Rs. 39.170 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of Circular no. 11 dated 23 October 2007 issued by SECP.

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5.2 Sukuk bonds - available for sale

| Name of the investee company | Number of bonds | | | | Market value / carrying value as at 30 June 2014 | Market value as a percentage of net assets | Market value as a percentage of total investment | Percentage of issue size of sukuk held |
|-----------------------------------|--------------------|---------------------------|---------------------------------|---------------------|--|--|--|--|
| | As at July 1, 2013 | Purchases during the year | Sales / Matured during the year | As at June 30, 2014 | | | | |
| -----Number of bonds----- | | | | | (Rupees in '000) | | | |
| K-Electric AZM Sukuk | - | 9,000 | - | 9,000 | 46,328 | 8.32% | 10.91% | 1.20% |
| | | | | | <u>46,328</u> | | | |
| Carrying value as at 30 June 2014 | | | | | <u>45,000</u> | | | |

5.3 Sukuk bonds - available for sale

| Name of the investee company | Number of bonds | | | | Market value / carrying value as at 30 June 2014 | Market value as a percentage of net assets | Market value as a percentage of total investment | Percentage of issue size of sukuk held |
|--|--------------------|---------------------------|---------------------------------|---------------------|--|--|--|--|
| | As at July 1, 2013 | Purchases during the year | Sales / Matured during the year | As at June 30, 2014 | | | | |
| -----Number of bonds----- | | | | | (Rupees in '000) | | | |
| Eden Housing Limited (Note 5.3.3.1) | 5,000 | - | - | 5,000 | - | 0.00% | 0.00% | 3.42% |
| Eden Builders Limited | 1,325 | - | 1,325 | - | - | 0.00% | 0.00% | 0.00% |
| Kohat Cement Company Limited | 10,000 | - | - | 10,000 | - | 0.00% | 0.00% | 2.00% |
| Maple Leaf Cement Factory Limited (1st Issue) (Note 5.3.3.2) | 10,000 | - | - | 10,000 | 28,720 | 5.16% | 6.76% | 0.63% |
| Pakistan Electron Limited (Note 5.3.3.3) | 10,000 | - | - | 10,000 | - | 0.00% | 0.00% | 4.17% |
| | | | | | <u>28,720</u> | | | |
| Carrying value as at 30 June 2014 | | | | | <u>64,993</u> | | | |
| Provision for Impairment loss as at 30 June 2014 | | | | | <u>26,350</u> | | | |

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

5.3.1 Significant terms and conditions of sukuk bonds outstanding as at 30 June 2014 are as follows:

| Name of security | Remaining principal (per TFC) | Mark-up rate (per annum) | Issue date | Maturity date |
|---|-------------------------------|--------------------------|-------------------|-------------------|
| Sukuk bonds | | | | |
| Eden Housing Limited | 984 | 2.5% + 6 Month KIBOR | 31 March 2008 | 31 March 2014 |
| Kohat Cement Company Limited | - | 2.5% + 6 Month KIBOR | 20 December 2007 | 20 December 2015 |
| Maple Leaf Cement Factory Limited (1st Issue) | 3,864 | 1% + 3 Month KIBOR | 03 December 2007 | 03 December 2018 |
| Pakistan Electron Limited | 2,143 | 1.75% + 3 Month KIBOR | 28 September 2007 | 28 September 2014 |
| K-Electric AZM Sukuk | 5,000 | 2.25% + 3 month KIBOR | 19 March 2014 | 19 March 2017 |

5.3.2 All sukuk bonds have a face value of Rs 5,000 each.

5.3.3 Fair value of all performing sukuk certificates, except for Maple Leaf Cement Factory Limited, classified as available for sale is determined using rates notified by the Mutual Funds Association of Pakistan (MUFAP). Sukuk certificates of Maple Leaf Cement Factory Limited are valued at discretionary rates within the limits specified by SECP circular no. 33 of 2012.

5.3.3.1 This represents investment in privately placed sukuk bonds issue with a term of five years. On 6 May 2011, these Sukuks have been classified as non performing by MUFAP. The investment has been fully provided. The income suspended on these sukuk bonds up to 30 June 2014 amounted to Rs. 0.269 million (30 June 2013: Rs. 0.005 million).

5.3.3.2 Maple Leaf Cement Factory Limited defaulted for the second time in the payment of principal and mark-up due on 03 September 2011 (earlier default on 03 December 2009). In accordance with the requirements of Circular No. 33 of 2012 dated 24 October 2012 issued by SECP, the exposure had been classified as non-performing (both by the fund and MUFAP). Upto 30 June 2013, a provision of 60% i.e. Rs. 26.936 million had been made in respect of the outstanding exposure and no further mark-up was being accrued. During the year, the status of these sukuk bonds has been changed from non-performing to performing based on compliance with terms and installments recognised on due dates. The Fund has received principal amounting to Rs. 6.25 million (5 installments of 1.25 million each) with mark up of Rs. 10.923 million. Therefore, provision for impairment made upto 30 June 2013 amounting to Rs. 26.936 million has been reversed. The income on these sukuk bonds has been recognised in accordance with the requirements of Circular No. 33 of 2012 issued by SECP.

5.3.3.3 This represents investment in privately placed sukuk bonds. On 27 December 2011 i.e. the scheduled redemption date, profit redemption of Rs. 0.8 million was not received by the Fund. The investment has been fully provided. The income suspended on these sukuk bonds up to 30 June 2014 amounted to Rs. 0.664 million (30 June 2013: Rs. 1.215 million).

5.3.3.4 The sukuk bonds held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the user.

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| | Note | 2014 | 2013 |
|---|-----------|------------------|-----------------|
| | | (Rupees in '000) | |
| 5.4 Net unrealised appreciation on remeasurement of investments classified as 'financial assets at fair value through profit or loss' | | | |
| Market value of investments | 5.1 & 5.2 | 396,054 | 139,368 |
| Less: Carrying value of investments | | <u>366,141</u> | <u>108,914</u> |
| | | <u>29,913</u> | <u>30,454</u> |
| 5.5 Net unrealised (diminution) / appreciation on remeasurement investments classified as 'available for sale' | | | |
| Market value of investments | 5.3 | 28,720 | 35,434 |
| Less: Carrying value of investments | | <u>64,993</u> | <u>79,117</u> |
| | | <u>(36,273)</u> | <u>(43,683)</u> |
| Provision against non-performing sukus | | | |
| Balance as at 1 July | | 45,785 | 35,583 |
| Provision made during the year | | 7,501 | 10,202 |
| Reversal of provision due to change in classification | | <u>(26,936)</u> | <u>-</u> |
| Balance as at 30 June | | <u>26,350</u> | <u>45,785</u> |
| Reversal of appreciation on maturity of investment classified as available for sale - net | | <u>1,895</u> | <u>-</u> |
| | | <u>(8,028)</u> | <u>2,103</u> |
| 5.6 Movement in provision against non-performing sukus | | | |
| Balance as at 1 July | | 45,785 | 35,583 |
| Provision made during the year | | 7,501 | 10,202 |
| Reversal of provision due to change in classification | | <u>(26,936)</u> | <u>-</u> |
| | | <u>(19,435)</u> | <u>10,202</u> |
| Balance as at 30 June | | <u>26,350</u> | <u>45,785</u> |
| 6 DIVIDEND AND PROFIT RECEIVABLE | | | |
| Dividend receivable on equity securities | | 1,350 | 218 |
| Profit receivable on savings deposits | | 284 | 1,241 |
| Income accrued on sukuk bonds - net | | <u>4,571</u> | <u>4,087</u> |
| | | <u>6,205</u> | <u>5,546</u> |
| 7 DEPOSITS AND ADVANCE | | | |
| Security deposits with: | | | |
| - National Clearing Company of Pakistan Limited | | 2,500 | 2,500 |
| - Central Depository Company of Pakistan Limited | | 100 | 100 |
| Advance tax | | 32 | 32 |
| Advance against special public offer subscription | | <u>3,402</u> | <u>-</u> |
| | | <u>6,034</u> | <u>2,632</u> |
| 8 PAYABLE TO NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY | | | |
| Management fee | 8.1 | 150 | 721 |
| Sindh Sales Tax | 8.1 | 28 | 115 |
| Federal Excise Duty | 8.2 | 1,336 | 70 |
| Sindh Sales Tax and Federal Excise Duty on front end load | | 346 | - |
| Front end load and others | | <u>462</u> | <u>325</u> |
| | | <u>2,322</u> | <u>1,231</u> |
| 8.1 | | | |
| Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. Currently, Management fee is being charged at the rate of two percent per annum of the annual net assets of the Fund. The Sindh Provincial Government has levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company through Sindh Sales Tax on Services Act 2011, effective from 1 July 2011. | | | |

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

8.2 As per the requirement of Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective 13 June 2013. The Management Company is of the view that since the remuneration is already subject to provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law. The matter has been taken up collectively by the Mutual Fund Association of Pakistan where various options are being considered. The High Court of Sindh in its order dated 09 September 2013 granted stay to the various funds for the recovery of FED. As a matter of abundant caution, the Management Company has made a provision with effect from 13 June 2013, aggregating to Rs. 1.532 million out of which Rs. 0.196 million have been paid to the Management Company. Had the provision not been made, the net assets value (NAV) per unit of the fund as at 30 June 2014 would have been higher by Rs. 0.0358 per unit.

| | Note | 2014 | 2013 |
|--|------|------|------|
| (Rupees in '000) | | | |
| 9 PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED | | | |
| Trustee fee | 9.1 | 93 | 75 |
| CDS charges | | - | 51 |
| | | 93 | 126 |

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at 30 June 2014 is as follows:

| Net Asset | Tariff per annum |
|---|---|
| Upto Rs 1,000 million | Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher |
| On an amount exceeding Rs 1,000 million | Rs 2 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million. |

| | | | |
|---|------|-----|-----|
| 10 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN | | | |
| Annual fee | 10.1 | 388 | 287 |

10.1 Under the provisions of the NBFC Regulations, a collective scheme categorized as an Islamic scheme is required to pay an annual fee to SECP, an amount equal to 0.085 percent of the average annual net assets of the Fund. The fee is paid annually in arrears.

| | | | |
|--|------|-------|-------|
| 11 ACCRUED EXPENSES AND OTHER LIABILITIES | | | |
| Auditors' remuneration | | 332 | 286 |
| Brokerage payable | | 229 | 491 |
| Bank charges payable | | 22 | 39 |
| Payable against printing charges | | 125 | 75 |
| Accrued NCCS charges | | 15 | 46 |
| Charity payable | 11.1 | 485 | 314 |
| Provision for Workers' Welfare Fund | 11.2 | 6,686 | 4,809 |
| Withholding tax | | 323 | 155 |
| Capital gain tax | | 2 | - |
| Others | | 87 | 43 |
| | | 8,306 | 6,258 |

11.1 In accordance with the instructions of the Shariah Advisor, any income earned by the Fund from investments whereby the portion of the investment of the investee company has been made in Shariah non-compliant avenues, such proportion of income of the Fund from those investments should be given away for charitable purposes directly by the Fund. During the year, Rs. 0.039 million (2013: Rs. 0.410 million) has been given out to charitable institutions.

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

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

During the year ended 30 June 2011, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However, on 14 December 2010, the Ministry filed its response against the constitutional petition requesting the Court to dismiss the petition. According to the legal counsel who is handling the case there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

During the year ended 30 June 2012, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, had declared the said amendments as unlawful and unconstitutional. In March 2013, a larger bench of the Sindh High Court (SHC) passed an order declaring that the amendments introduced in the WWF Ordinance, 1971 through the Finance Act 2006 and 2008 respectively do not suffer from any constitutional or legal infirmity. However, the Honourable High Court of Sindh has not addressed the other amendments made in the WWF Ordinance 1971 about applicability of WWF to the CISs which is still pending before the Court. The decisions of SHC (in against) and LHC (in favour) are pending before Supreme Court. However, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs. 6.686 million (including Rs. 1.877 million for the current year). Had the same not been made the net assets value per unit of the Fund as at 30 June 2014 would have been higher by Rs 0.1561 per unit.

12 CONTINGENCY AND COMMITMENT

There is no contingency and commitment outstanding as at 30 June 2014.

| | 2014 | 2013 |
|---|-------------------|-------------|
| | (Number of units) | |
| 13 NUMBER OF UNITS IN ISSUE | | |
| Total units in issue at beginning of the year | 31,866,154 | 26,013,069 |
| Add: units issued during the year | 38,963,316 | 10,814,562 |
| Add: bonus issued during the year | 7,966,508 | 761,750 |
| Less: units redeemed during the year | (35,956,564) | (5,723,227) |
| Total units in issue at end of the year | 42,839,414 | 31,866,154 |

| | 2014 | 2013 |
|---------------------------|------------------|------|
| | (Rupees in '000) | |
| 14 AUDITORS' REMUNERATION | | |
| Audit fee | 302 | 254 |
| Half yearly review fee | 116 | 102 |
| Out of pocket expenses | 46 | 45 |
| | 464 | 401 |

15 TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains / loss to the unit holders. The Fund during the year has distributed more than ninety percent of the Fund's accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders. Accordingly, no provision has been made in the financial statements for the year ended 30 June 2014.

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

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated 06 March 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. The Management Company had classified NAFA Islamic Asset Allocation Fund (Formerly; NAFA Islamic Multi Asset Fund) (the Fund) as 'Shariah Compliant (Islamic) Scheme' and 'Balanced Scheme' in accordance with the said circular. With effect from 22 April 2014 the Fund shall be categorized as shariah compliant Asset Allocation scheme. Accordingly name of the fund shall be NAFA Islamic Asset Allocation Fund. As at 30 June 2014, the Fund is compliant with all the requirements of the said circular except for clause 2(iv) which requires that rating of any debt security in the portfolio shall not be lower than A- (A minus). Non compliance of the said circular are as follows:

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

| Category of non-compliant investment | Type of investment / name of Company | Value of investment before provision | Provision held, if any | Value of investment after provision | Percentage of net assets | Percentage of gross assets |
|--------------------------------------|--------------------------------------|--------------------------------------|------------------------|-------------------------------------|--------------------------|----------------------------|
| ----- Rupees in '000' ----- | | | | | | |
| Investment in debt securities | a) Eden Housing Limited - Sukuk* | 4,922 | 4,922 | - | 0.00% | 0.00% |
| | b) Pak Electron Limited - Sukuk * | 21,429 | 21,429 | - | 0.00% | 0.00% |

* At the time of purchase, the said Sukuks were in compliance of the said circular (i.e. investment grade) and were subsequently downgraded due to default in payments of due principal and markup.

17 FINANCIAL INSTRUMENTS BY CATEGORY

-----as at June 30, 2014-----

| | Loans and receivables | Assets at fair value through profit or loss | Available for sale | Total |
|--|-----------------------|---|--------------------|----------------|
| ----- Rupees in '000' ----- | | | | |
| Assets | | | | |
| Bank balances | 129,884 | - | - | 129,884 |
| Investments | - | 396,054 | 28,720 | 424,774 |
| Dividend and profit receivable | 6,205 | - | - | 6,205 |
| Deposits and advance | 6,002 | - | - | 6,002 |
| Receivable against sale of investments | 1,176 | - | - | 1,176 |
| | <u>143,267</u> | <u>396,054</u> | <u>28,720</u> | <u>568,041</u> |

----- As at 30 June 2014 -----

| | Liabilities at fair value through profit or loss | Other financial liabilities | Total |
|--|--|-----------------------------|--------------|
| ----- Rupees in '000' ----- | | | |
| Liabilities | | | |
| Payable to NBP Fullerton Asset Management Limited - Management Company | - | 2,322 | 2,322 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | 93 | 93 |
| Accrued expenses and other liabilities | - | 1,295 | 1,295 |
| | <u>-</u> | <u>3,710</u> | <u>3,710</u> |

-----as at June 30, 2013-----

| | Loans and receivables | Assets at fair value through profit or loss | Available for sale | Total |
|--------------------------------|-----------------------|---|--------------------|----------------|
| ----- Rupees in '000' ----- | | | | |
| Assets | | | | |
| Bank balances | 257,924 | - | - | 257,924 |
| Investments | - | 139,368 | 35,434 | 174,802 |
| Dividend and profit receivable | 5,546 | - | - | 5,546 |
| Deposits | 2,600 | - | - | 2,600 |
| | <u>266,070</u> | <u>139,368</u> | <u>35,434</u> | <u>440,872</u> |

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

| | Liabilities at fair value through profit or loss | Other financial liabilities | Total |
|--|--|-----------------------------|--------------|
| ----- Rupees in '000' ----- | | | |
| Liabilities | | | |
| Payable to NBP Fullerton Asset Management Limited - Management Company | - | 1,231 | 1,231 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | 126 | 126 |
| Accrued expenses and other liabilities | - | 1,294 | 1,294 |
| | <u>-</u> | <u>2,651</u> | <u>2,651</u> |

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

18 TRANSACTIONS WITH CONNECTED PERSONS

18.1 Connected persons include NBP Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan (NBP) and its connected persons and Alexandra Fund Management Pte. Limited being the sponsors, other collective investment schemes managed by the Management Company, any person or company beneficially owning directly or indirectly ten percent or more of the capital of the Management Company or the net assets of the Fund and directors and officers of the Management Company and unit holders holding 10 percent or more units of the Fund.

18.2 The transactions with connected persons are at contracted rates and terms determined in accordance with market rates.

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

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

| 18.5 Details of transactions with connected persons are as follows: | 2014 | 2013 |
|---|------------------|--------|
| | (Rupees in '000) | |
| NBP Fullerton Asset Management Limited - Management Company | | |
| Management fee for the year | 9,139 | 7,712 |
| Sindh Sales Tax on management fee | 1,707 | 1,234 |
| Federal Excise Duty on management fee | 1,462 | 70 |
| Sindh Sales Tax on Front end load | 414 | - |
| Federal Excise Duty on front end load | 261 | - |
| Front end load for the year | 5,121 | 763 |
| National Bank of Pakistan - Sponsor | | |
| Cash dividend | 12,952 | 3,093 |
| Issue of 922,448 bonus units (2013: Nil) | - | - |
| Taurus Securities (Private) Limited | | |
| Brokerage | 147 | 64 |
| Alexandra Fund Management Pte. Limited | | |
| Issue of 1,278,646 bonus units (2013: 307,591 units) | - | - |
| Redemption of 10,573,174 units (2013: Nil) | 129,277 | - |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Trustee fee for the year | 914 | 732 |
| CDS charges | 66 | 64 |
| Employees of the Management Company | | |
| Issued / transfer of 252,228 units (2013: 33,489 units) | 3,285 | 392 |
| Redemption / transfer out of 226,268 units (2013: 31,190 units) | 2,928 | 367 |
| Issue of 6,515 bonus units (2013: 468 units) | - | - |
| Gul Ahmed Textile Mills Limited - EPF | | |
| Redemption of nil units (2013: 35,519 units) | - | 405 |
| Fauji Fertilizer Company Limited | | |
| Purchase of nil Equity Shares (2013: 442,800 shares) | - | 50,994 |
| Sale of nil Equity Shares (2013: 541,800 shares) | - | 61,773 |
| The Hub Power Company Limited | | |
| Purchase of nil Equity Shares (2013: 1,125,500 shares) | - | 56,002 |
| Sale of nil Equity Shares (2013: 1,526,500 shares) | - | 81,188 |
| Thal Limited | | |
| Purchase of 74,200 Equity Shares (2013: Nil) | 11,442 | - |
| Sale of 11,500 Equity Shares (2013: Nil) | 1,820 | - |
| Cherat Cement Company Limited | | |
| Purchase of 17,000 Equity Shares (2013: Nil) | 1,083 | - |
| Sale of 312,000 Equity Shares (2013: Nil) | 17,792 | - |
| Dawood Hercules Fertilizers Limited - Management Staff Gratuity Fund | | |
| Issued / transfer of 4,855,279 units | 64,523 | - |
| Redemption / transfer out of 1,739,835 units | 22,921 | - |
| Issue of 445,306 bonus units | - | - |
| Overseas Pakistanis Foundation Girls College - Welfare Fund | | |
| Issue of 1,223,178 bonus units | - | - |

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

| | 2014 | 2013 |
|--|------------------|---------|
| | (Rupees in '000) | |
| 18.6 Balances at year end | | |
| NBP Fullerton Asset Management Limited - Management Company | | |
| Management Fee payable | 150 | 721 |
| Sindh Sales tax payable on management fee | 28 | 115 |
| Federal Excise Duty Payable on management fee | 1,336 | 70 |
| Front end load payable | 462 | 325 |
| Sindh Sales tax payable on front end load | 86 | - |
| Federal Excise Duty Payable on front end load | 260 | - |
| National Bank of Pakistan | | |
| Investment held by the Sponsor in the Fund: 8,422,448 units (2013: 7,500,000 units) | 109,502 | 101,911 |
| Balance in current account | 67 | 42 |
| Taurus Securities (Private) Limited | | |
| Brokerage Payable | 3 | 12 |
| Alexandra Fund Management Pte. Limited | | |
| Investment held: Nil (2013: 9,294,527 units) | - | 126,295 |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Trustee fee payable | 93 | 75 |
| CDS charges payable | - | 51 |
| Security deposit | 100 | 100 |
| Employees of the Management Company | | |
| Units held in the Fund: 44,943 units (2013: 4,665 units) | 584 | 63 |
| Fauji Fertilizer Company Limited | | |
| Shares held by the Fund: Nil shares (2013: 68 shares) | - | 7 |
| The Hub Power Company Limited | | |
| Shares held by the Fund: Nil share (2013: 166,760 shares) | - | 10,281 |
| Thal Limited | | |
| Shares held by the Fund: 87,197 share (2013: Nil shares) | 18,084 | - |
| Summit Bank Limited | | |
| Balance held by the Fund | 500 | - |
| Dawood Hercules Fertilizers Limited - Management Staff Gratuity Fund | | |
| Units held in the Fund: 4,672,183 units | 60,744 | - |
| Overseas Pakistanis Foundation Girls College - Welfare Fund | | |
| Units held in the Fund: 5,631,297 units (2013: 4,408,119) | 73,214 | 59,898 |

19 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

| S.No. | Name | Qualification | Experience in years |
|-------|---------------------|--|---------------------|
| 1. | Dr. Amjad Waheed | MBA / Doctorate in Business Administration / CFA | 26 |
| 2. | Sajjad Anwar | CFA / MBA Finance | 14 |
| 3. | Syed Suleman Akhtar | CFA | 14 |
| 4. | Muhammad Ali Bhabha | MBA / MS (CS) /CFA / FRM | 19.5 |
| 5. | Asim Wahab Khan* | CFA | 8 |
| 6. | Muhammad Imran | CFA, ACCA | 8 |

19.1 * Asim Wahab Khan is the Fund Manager of the Fund. He is also the Fund Manager of NAFA Multi Asset Fund and NAFA Stock Fund.

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

| | | |
|----|---|-------------|
| 20 | TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID | 2014 |
| | 1. Taurus Securities Limited | 9.04% |
| | 2. Kasb Securites Limited | 7.37% |
| | 3. Summit Capital (Pvt) Limited | 7.12% |
| | 4. Aqeel Karim Dehdi Securities (Pvt) Limited | 5.95% |
| | 5. Foundation Securities | 5.38% |
| | 6. Arif Habib Securities Limited | 5.20% |
| | 7. Topline Securities (Pvt) Limited | 4.47% |
| | 8. Elixir Securities Pakistan (Pvt) Limited | 4.34% |
| | 9. Optimus Capital Management Limited | 4.01% |
| | 10. Habib Metropolitan Financial Services Limited | 3.89% |
| | | 2013 |
| | 1. KASB Securites Limited | 7.91% |
| | 2. Taurus Securities Limited | 7.50% |
| | 3. Foundation Securities | 6.85% |
| | 4. Arif Habib Securities Limited | 6.26% |
| | 5. Optimus Capital Management Limited | 6.22% |
| | 6. Aqeel Karim Dehdi Securities (pvt) Limited | 5.25% |
| | 7. Topline Securities (pvt) Limited | 5.11% |
| | 8. Fortune Securities | 5.07% |
| | 9. J.S. Global Capital Limited | 4.25% |
| | 10. First Capital Equities Limited | 4.05% |

21 **PATTERN OF UNIT HOLDING** **30 June 2014**

| Category | Number of unit holders | Investment amount | Percentage of investment |
|----------------------------------|------------------------|-------------------|--------------------------|
| (Rupees in '000) | | | |
| Category | | | |
| Individuals | 505 | 228,076 | 40.95% |
| Retirement Fund | 10 | 115,879 | 20.81% |
| Insurance Companies | 2 | 4,400 | 0.79% |
| Associated Companies / Directors | 1 | 109,502 | 19.66% |
| Others | 5 | 99,107 | 17.79% |
| | <u>523</u> | <u>556,964</u> | <u>100.00%</u> |

30 June 2013

| Category | Number of unit holders | Investment amount | Percentage of investment |
|----------------------------------|------------------------|-------------------|--------------------------|
| (Rupees in '000) | | | |
| Category | | | |
| Individuals | 389 | 117,505 | 27.14% |
| Associated Companies / Directors | 2 | 228,206 | 52.70% |
| Insurance Companies | 2 | 3,600 | 0.83% |
| Retirement Fund | 8 | 19,801 | 4.57% |
| Others | 2 | 63,890 | 14.76% |
| | <u>403</u> | <u>433,002</u> | <u>100.00%</u> |

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

22 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 42nd, 43rd, 44th, 45th, 46th, and 47th Board meetings were held on 11 July 2013, 27 August 2013, 30 October 2013, 13 February 2014, 30 April 2014 and 26 June 2014 respectively. Information in respect of attendance by directors in the meetings is given below:

| Name of Director | Number of Meetings | | | Meetings not attended |
|----------------------------|-------------------------|----------|---------------|-------------------------|
| | Number of meetings held | Attended | Leave granted | |
| Mr. Wah Geok Sum | 6 | 2 | 4 | 43rd, 44th, 46th & 47th |
| Mr. Koh Boon San | 6 | 6 | - | |
| Mr. Kamal Chinoy | 6 | 5 | 1 | 42nd |
| Mr. Shehryar Faruque | 6 | 3 | 3 | 42nd, 44th & 45th |
| Dr. Amjad Waheed | 6 | 6 | - | |
| Mr. Asif Hassan* | 1 | - | 1 | 42nd |
| Mr. Amir Shehzad** | 1 | - | 1 | 42nd |
| Mr. Aamir Sattar*** | 5 | 5 | - | |
| Mr. Abdul Hadi Palekar**** | 5 | 4 | 1 | 45th |
| Mr. Nausherwan Adil***** | 4 | 2 | 2 | 44th & 46th |
| Mr. Khalid Mahmood***** | 2 | 2 | - | |

*Mr. Asif Hasan retired in EOGM Held on 07 August 2013

**Mr. Aamir Shehzad retired in EOGM Held on 07 August 2013

*** Mr. Aamir Sattar elected in EOGM Held on 07 August 2013

**** Mr. Abdul Hadi Palekar elected in EOGM Held on 07 August 2013

***** Mr. Khalid Mahmood retried from Board with effect from 10 October 2013

***** Mr. Nausherwan Adil was co-opted on the Board with effect from 10 October 2013

23 FINANCIAL RISK MANAGEMENT

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are based on limits established by the Management Company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the Management Company supervises the overall risk management approach within the Fund.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed by Board of Directors and Audit Committee regularly to reflect changes in market conditions and the Fund's activities.

The management of these risks is carried out by the Investment Committee (IC) under policies approved by the Board of Directors of the Management Company. The IC is constituted and approved by the Board of Directors of the Management Company. IC is responsible to devise the investment strategy and manage the investment portfolio of the Fund in accordance with limits prescribed in the Non Banking Finance Companies and Notified Entities Regulations, 2008, offering document of the Fund in addition to Fund's internal risk management policies.

The Fund primarily invests in a portfolio of equity and money market investments such as shares of listed companies, investment-grade debt securities, government securities and other money market instruments. These activities are exposed to a variety of financial risks i.e market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk arising from the financial instruments it holds.

23.1 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk (equity price risk).

Management of market risk

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

23.1.1 Currency risk

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

23.1.2 Interest rate risk

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

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing sukuk bonds exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on 30 June 2014, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 0.416 million (2013: Rs 0.976 million)

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Further, in case of variable instruments, the sensitivity analysis has been performed from the last repricing date. Accordingly, the sensitivity analysis prepared as of 30 June 2014 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

b) Sensitivity analysis for fixed rate instruments

Presently, the Fund holds no fixed rate instruments.

The composition of the Fund's investment portfolio and rates announced by MUFAP is expected to change over time. Therefore, the sensitivity analysis prepared as of 30 June 2014 is not necessarily indicative of the effect on the Fund's net assets due to future movements in interest rates.

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

----- 30 June 2014 -----

| Yield / interest rate (%) | Exposed to yield/interest rate risk | | | Not exposed to Yield / Interest risk | Total |
|---------------------------|-------------------------------------|-------------------|---------------|--------------------------------------|-------|
| | Upto three months | Over three months | Over one year | | |

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

On-balance sheet financial instruments

Financial Assets

| | | | | | | |
|--|---------------|----------------|----------|---------------|----------------|----------------|
| Bank balances | 6 - 10 | 111,421 | - | - | 18,463 | 129,884 |
| Investments | 11.85 - 16.15 | - | - | 75,048 | 349,726 | 424,774 |
| Dividend and profit receivables | | - | - | - | 6,205 | 6,205 |
| Deposits | | - | - | - | 6,002 | 6,002 |
| Receivable against sale of investments | | - | - | - | 1,176 | 1,176 |
| Sub-total | | <u>111,421</u> | <u>-</u> | <u>75,048</u> | <u>381,572</u> | <u>568,041</u> |

Financial Liabilities

| | | | | | | |
|--|--|----------|----------|----------|--------------|--------------|
| Payable to NBP Fullerton Asset Management Limited - Management Company | | - | - | - | 2,322 | 2,322 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | | - | - | - | 93 | 93 |
| Accrued expenses and other liabilities | | - | - | - | 1,295 | 1,295 |
| Sub-total | | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,710</u> | <u>3,710</u> |

On-balance sheet gap

| | | | | | |
|--|----------------|----------|---------------|----------------|----------------|
| | <u>111,421</u> | <u>-</u> | <u>75,048</u> | <u>377,862</u> | <u>564,331</u> |
|--|----------------|----------|---------------|----------------|----------------|

Off-balance sheet financial instruments

| | | | | | |
|--|---|---|---|---|---|
| | - | - | - | - | - |
|--|---|---|---|---|---|

Off-balance sheet gap

| | | | | | |
|--|---|---|---|---|---|
| | - | - | - | - | - |
|--|---|---|---|---|---|

Total interest rate sensitivity gap

| | | | | | |
|--|----------------|----------|---------------|----------------|----------------|
| | <u>111,421</u> | <u>-</u> | <u>75,048</u> | <u>377,862</u> | <u>564,331</u> |
|--|----------------|----------|---------------|----------------|----------------|

Cumulative interest rate sensitivity gap

| | | | | | |
|--|----------------|----------------|----------------|----------------|--|
| | <u>111,421</u> | <u>111,421</u> | <u>186,469</u> | <u>564,331</u> | |
|--|----------------|----------------|----------------|----------------|--|

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

-----30 June 2013-----

| Yield / interest rate (%) | Exposed to yield/interest rate risk | | | Not exposed to Yield / Interest risk | Total |
|---------------------------|-------------------------------------|-------------------|---------------|--------------------------------------|-------|
| | Upto three months | Over three months | Over one year | | |

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

On-balance sheet financial instruments

Financial Assets

| | | | | | | |
|---------------------------------|---------------|----------------|--------------|----------|----------------|----------------|
| Balances with banks | 6 - 11 | 238,395 | - | - | 19,529 | 257,924 |
| Investments | 11.85 - 16.15 | 1,245 | 5,682 | - | 167,875 | 174,802 |
| Dividend and profit receivables | - | - | - | - | 5,546 | 5,546 |
| Deposits | - | - | - | - | 2,600 | 2,600 |
| Sub-total | | 239,640 | 5,682 | - | 195,550 | 440,872 |

Financial Liabilities

| | | | | | | |
|--|--|----------|----------|----------|--------------|--------------|
| Payable to the NBP Fullerton Asset Management Limited - Management Company | | - | - | - | 1,231 | 1,231 |
| Payable to the Central Depository Company of Pakistan Limited - Trustee | | - | - | - | 126 | 126 |
| Payable on redemption of units | | - | - | - | - | - |
| Accrued expenses and other liabilities | | - | - | - | 1,294 | 1,294 |
| Sub-total | | - | - | - | 2,651 | 2,651 |

On-balance sheet gap

| | | | | | |
|--|----------------|--------------|----------|----------------|----------------|
| | 239,640 | 5,682 | - | 192,899 | 438,221 |
|--|----------------|--------------|----------|----------------|----------------|

Off-balance sheet financial instruments

| | | | | | |
|--|---|---|---|---|---|
| | - | - | - | - | - |
|--|---|---|---|---|---|

Off-balance sheet gap

| | | | | | |
|--|---|---|---|---|---|
| | - | - | - | - | - |
|--|---|---|---|---|---|

Total interest rate sensitivity gap

| | | | | | |
|--|----------------|--------------|----------|----------------|----------------|
| | 239,640 | 5,682 | - | 192,899 | 438,221 |
|--|----------------|--------------|----------|----------------|----------------|

Cumulative interest rate sensitivity gap

| | | | | | |
|--|----------------|----------------|----------------|----------------|--|
| | 239,640 | 245,322 | 245,322 | 438,221 | |
|--|----------------|----------------|----------------|----------------|--|

23.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market.

The fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities 'at fair value through profit and loss'.

In case of 5% increase / decrease in KSE 100 index on 30 June 2014, with all other variables held constant, net assets for the year would increase / (decrease) by Rs. 0.353 million (2013: Rs 6.968 million) as a result of gains / (losses) on equity securities classified 'at fair value through profit and loss'.

The analysis is based on the assumption that equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index, having regard to the historical volatility of the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE 100 index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2014 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of the KSE 100 index.

23.2 Credit risk

Credit risk arising from the inability of the counterparties to fulfill their obligations in respect of financial instrument contracts, is generally limited to the principal amount and accrued income thereon.

Management of credit risk

The Fund's policy is to enter into financial contracts with reputable counterparties in accordance with the internal risk management policies and investment guidelines approved by the Board of Directors. The IC closely monitors the credit worthiness of the Fund's counterparties (e.g., issuer of the instruments, brokers, banks, etc.) by reviewing their credit ratings, financial statements and press releases on a regular basis. In addition the credit risk is also minimized due to the fact that the Fund only invests in the high quality financial assets, majority of which have been rated by a reputable rating agency. All transactions in debt securities are settled / paid upon delivery. The risk of default in such transactions is considered minimal, as delivery of securities is guaranteed by reputable brokers or the transactions are carried with counter parties of high reputation. Further, bank accounts are held only with reputable banks.

Concentration of the credit risk

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

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

The analysis below summarises the credit quality of the Fund's financial assets as at 30 June 2014.

| | 2014 | 2013 |
|--|------------------|----------------|
| | (Rupees in '000) | |
| Balances with banks | | |
| A1+, A-1+ | 23,874 | 24,813 |
| A1, A-1 | 105,505 | 233,096 |
| A2, A-2 | 5 | 15 |
| A-3 | 500 | - |
| | <u>129,884</u> | <u>257,924</u> |
| Investments - Term finance certificates and sukuk bonds | | |
| | 2014 | 2013 |
| | (Rupees in '000) | |
| A+, A, A- | 46,328 | 1,245 |
| BB+, BB, BB- | - | 17,957 |
| BBB | 28,720 | - |
| D | - | 10,548 |
| Non-rated | - | 5,684 |
| | <u>75,048</u> | <u>35,434</u> |

The maximum exposure to credit risk before any credit enhancement as at 30 June 2014 is the carrying amount of the financial assets.

23.3 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

Management of liquidity risk

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

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

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue.

Maturity analysis for financial liabilities

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

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

| | June 30, 2014 | | | |
|--|------------------|-------------------|-------------------------------------|---------------|
| | Total | Upto three months | Over three months and upto one year | Over one year |
| | (Rupees in '000) | | | |
| Financial Liabilities (excluding unit holders' fund) | | | | |
| Payable to NBP Fullerton Asset Management Limited - Management Company | 2,322 | 2,322 | - | - |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 93 | 93 | - | - |
| Accrued expenses and other liabilities | 1,295 | 1,295 | - | - |
| | <u>3,710</u> | <u>3,710</u> | <u>-</u> | <u>-</u> |
| Unit holders' fund | <u>556,964</u> | <u>556,964</u> | <u>-</u> | <u>-</u> |

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

| June 30, 2013 | | | | |
|--|----------------------|---|------------------|---|
| Total | Upto three months | Over three months and upto one year | Over one year | |
| (Rupees in '000) | | | | |
| Financial Liabilities (excluding unit holders' fund) | | | | |
| Payable to NBP Fullerton Asset Management Limited - Management Company | 1,231 | 1,231 | - | - |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 126 | 126 | - | - |
| Payable on redemption of units | - | - | | |
| Accrued expenses and other liabilities | 1,294 | 1,294 | - | - |
| | 2,651 | 2,651 | - | - |
| Unit holders' fund | 433,002 | 433,002 | - | - |

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The fair value of financial assets and liabilities traded in active markets are based on the quoted market prices at the close of trading on the year end date.

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

The fair value of financial assets (e.g. Treasury bills, Terms finance certificates and Sukuks) that are not traded in an active market is determined with reference to the rates quoted by Financial Market Association of Pakistan and MUFAP. The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular No. 33 of 2012 dated 24 October 2012 issued by the Securities and Exchange Commission of Pakistan (SECP).

If a security is not quoted by MUFAP due to it being 'non-performing status', its values is determined by applying discount in accordance with Circular No. 33 of 2012 dated 24 October 2012 issued by the SECP.

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

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

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

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

-----As at June 30, 2014-----

| Level 1 | Level 2 | Level 3 | Total |
|---------|---------|---------|-------|
|---------|---------|---------|-------|

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

ASSETS

| | | | | |
|---|----------------|---------------|----------|---------------|
| Investment in listed equity securities - held for trading | - | 46,328 | - | 396,054 |
| Investment in securities - available for sale | <u>349,726</u> | <u>28,720</u> | <u>-</u> | <u>28,720</u> |

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

| Level 1 | Level 2 | Level 3 | Total |
|---------|---------|---------|-------|
|---------|---------|---------|-------|

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

ASSETS

| | | | | |
|---|----------------|--------------|---------------|----------------|
| Investment in listed equity securities - held for trading | <u>139,368</u> | - | - | <u>139,368</u> |
| Investment in securities - available for sale | <u>-</u> | <u>6,927</u> | <u>28,507</u> | <u>35,434</u> |

The reconciliation of provision in respect of level 3 is stated in note 5.5 to the financial statements.

25 UNIT HOLDERS' FUND RISK MANAGEMENT

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

The Fund has no restrictions on the subscription and redemption of units.

The Fund meets the requirement of sub-regulation 54 (3a) which requires that the minimum size of an Open End Scheme shall be one hundred million rupees at all time during the life of the scheme.

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

In accordance with the risk management policies stated in note 23, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by shortterm borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.

26 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 16, 2014.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC ASSET ALLOCATION FUND

(Formerly; NAFA ISLAMIC MULTI ASSET FUND)

PERFORMANCE TABLE

| Particulars | For the year ended June 30, 2014 | 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 period from September 17, 2007 to June 2008 |
|---|---|---|---|---|---|---|---|
| Net assets at the year / period ended (Rs '000) | 556,964 | 433,002 | 268,191 | 288,582 | 387,112 | 535,384 | 697,586 |
| Net income for the year / period ended (Rs '000) | 91,957 | 105,069 | 1,380 | 74,783 | 54,422 | (51,713) | (33,878) |
| Net Asset Value per unit at the year / period ended (Rs) | 13.0012 | 13.5881 | 10.3099 | 10.8072 | 10.0702 | 8.5736 | 9.5360 |
| Offer price per unit | 13.5260 | 13.9957 | 10.6192 | 11.1314 | 10.3723 | 8.8308 | 9.82208 |
| Redemption price per unit | 13.0012 | 13.5881 | 10.3099 | 10.8072 | 10.0702 | 8.5736 | 9.536 |
| Highest offer price per unit (Rs) | 13.5260 | 14.2075 | 10.9870 | 11.4558 | 10.8081 | 9.8053 | 10.7612 |
| Lowest offer price per unit (Rs) | 12.3956 | 10.3630 | 9.2356 | 8.6488 | 8.9580 | 6.2801 | 9.5581 |
| Highest redemption price per unit (Rs) | 13.0012 | 13.7937 | 10.6670 | 11.1221 | 10.4933 | 9.5197 | 10.4478 |
| Lowest redemption price per unit (Rs) | 11.9146 | 10.0612 | 8.9666 | 8.3969 | 8.6971 | 6.0972 | 9.2797 |
| Opening Nav of Fiscal Year | 10.6366 | 9.9687 | 9.1039 | 8.4141 | 8.5736 | 9.536 | 10 |
| Total return of the fund | 22.23% | 36.31% | 13.25% | 28.44% | 17.46% | -10.09% | -4.64% |
| - capital growth | 7.73% | 14.85% | 13.25% | 1.89% | 3.21% | -10.09% | -4.64% |
| - income distribution as a % of ex nav | 14.50% | 21.46% | 0.00% | 26.55% | 14.25% | 0.00% | 0.00% |
| - income distribution as a % of par value | 15.42% | 21.39% | 0.00% | 22.34% | 12.22% | 0.00% | 0.00% |
| Distribution | | | | | | | |
| Interim distribution per unit (Rs) | 1.5419 | 0.4124 | - | 0.5310 | - | - | - |
| Final distribution per unit (Rs) | - | 1.7269 | - | 1.7033 | 1.2217 | - | - |
| Distribution Dates | | | | | | | |
| Interim | 13-Feb-14 | 26-Feb-13 | - | 18-Feb-11 | - | - | - |
| | 30-Apr-14 | 26-Apr-13 | - | 19-Apr-11 | - | - | - |
| | 26-Jun-14 | - | - | - | - | - | - |
| Final | - | 11-Jul-13 | - | 4-Jul-11 | 5-Jul-10 | - | - |
| Average annual return of the fund (launch date October 29, 2007) | | | | | | | |
| (Since inception to June 30, 2014) | 14.29% | | | | | | |
| (Since inception to June 30, 2013) | | 12.95% | | | | | |
| (Since inception to June 30, 2012) | | | 8.50% | | | | |
| (Since inception to June 30, 2011) | | | | 7.25% | | | |
| (Since inception to June 30, 2010) | | | | | 0.26% | | |
| (Since inception to June 30, 2009) | | | | | | -8.77% | |
| (Since inception to June 30, 2008) | | | | | | | -4.64% |
| Portfolio Composition (Please see Fund Manager Report) | | | | | | | |
| Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up | | | | | | | |



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