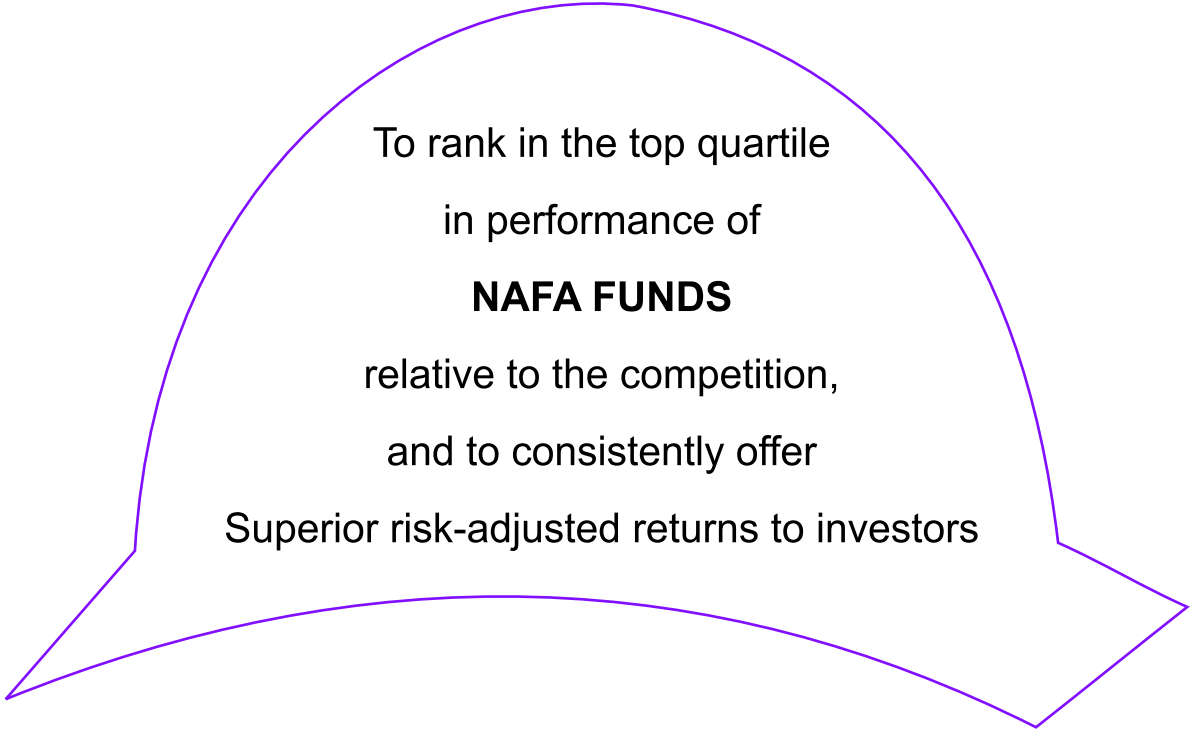


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# NAFA Income Fund

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## MISSION STATEMENT



To rank in the top quartile  
in performance of  
**NAFA FUNDS**  
relative to the competition,  
and to consistently offer  
Superior risk-adjusted returns to investors

# NAFA Income Fund

## FUNDS' INFORMATION

### Management Company

NBP Fullerton Asset Management Limited - Management Company  
(Formerly National Fullerton Asset Management Limited)

### Board of Directors of the Management Company

Mr. Qamar Hussain	Chairman
Mr. Shahid Anwar Khan	Director
Mr. Gerard Lee How Cheng	Director
Mr. Patrick Pang Chin Hwang	Director
Mr. Shehryar Farooque	Director
Mr. Kamal Amir Chinoy	Director
Dr. Amjad Waheed	Chief Executive Officer

### Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

### Audit & Risk Committee

Mr. Gerard Lee How Cheng	Chairman
Mr. Shahid Anwar Khan	Member
Mr. Shehryar Farooque	Member

### Trustee

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

### Bankers to the Fund

Allied Bank Limited  
Arif Habib Bank Ltd.  
Atlas Bank Limited  
Bank Alfalah Limited  
Faysal Bank Limited  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
JS Bank Limited  
KASB Bank Limited  
MCB Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Soneri Bank Limited  
Standard Chartered Bank(PAK)Ltd.  
The Bank of Khyber  
The Bank of Punjab  
United Bank Limited

# NAFA Income Fund

**Auditors**

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

**Legal Advisor**

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

**Head Office**

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

**Lahore Office :**

68-B-1, M.M. Alam Road,  
Gulberg 3, Lahore.  
Uan: 042-111-111-632  
Phone No. 042-35778248-63  
Fax: 042-35876806

**Islamabad Office:**

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

**Peshawar Office:**

1st Floor Haji Tehmas Centre,  
Near KFC, Tehkal Payan  
University Road, Peshwar.  
Phone No. 92-91-5711784, 5711782  
Fax: 92-91-5211780

**Multan Office:**

82 Khan Centre Near SP Chowk  
Abdali Road, Multan Cantt,  
Multan.

# NAFA Income Fund

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# NAFA Income Fund

## DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited (formerly: National Fullerton Asset Management Limited) is pleased to present the Third Annual Report of **NAFA Income Fund** for the year ended June 30, 2010.

### Fund's Performance

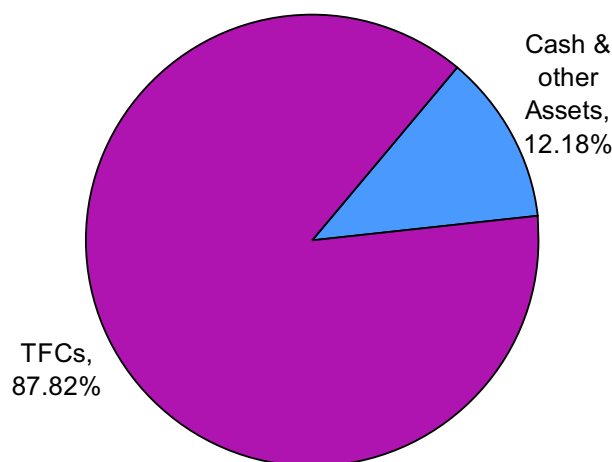
The prices of the TFCs, which constitute about 88% of the Fund's assets, remained depressed in FY 2009-10 as well due to the overall macro-economic situation and liquidity conditions. Higher than normal interest rate and inflation, excessive government borrowing, rising circular debt, widening fiscal deficit and ongoing war on terror has impacted various industrial sectors. Consequently, several TFCs/ Sukuks had to be re-scheduled during the year. The depressed TFC prices have resulted in the yield to maturity on the TFC portfolio in the Fund rising to an attractive 22.62 % per annum. The Fund Size of NAFA Income Fund has dropped to Rs.582 million by June 30, 2010.

The annualized return on NAFA Income Fund for the year was 8.69% as compared to its benchmark return (3-Month T-Bills) of 12.08% for the same period.

NAFA Income Fund has earned a total income of Rs.108.51 million during the year. After deducting total expenses of Rs.64.81 million, the net income is Rs.43.70 million. During the year, the unit price of NAFA Income Fund has increased from Rs.9.9537 on June 30, 2009 (Ex-Div) to Rs.10.8190 on June 30, 2010. The resultant per unit gain is Rs.0.8653.

The asset allocation of NAFA Income Fund as on June 30, 2010 is as follows:

### **Asset Allocation as on June 30, 2010**



# NAFA Income Fund

## Income Distribution

The Board of Directors of the Management Company has approved a final distribution of 3.75% of opening ex-NAV (3.733% of par value). After final distribution, the net asset value per unit will be Rs.10.4457 on June 30, 2010.

## Taxation

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

## Auditors

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

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

1. The financial statements, prepared by the management company of NAFA Income Fund, 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 NAFA Income Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon NAFA Income Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held five meetings during the current financial year. The attendance of all directors is disclosed in the note 27 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 26 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 23 to these financial statements.

# NAFA Income Fund

## Acknowledgement

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

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

On behalf of the Board of  
NBP Fullerton Asset Management Limited  
(formerly: National Fullerton Asset Management Limited)

Dr. Amjad Waheed, CFA  
Chief Executive

Qamar Hussain  
Chairman

Date: August 25, 2010  
Place: Karachi.

# NAFA Income Fund

## TRUSTEE REPORT TO THE UNIT HOLDERS

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

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

In our opinion, the management company has in all material respects managed the Fund during the year ended June 30, 2010 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

September 06, 2010



# NAFA Income Fund

## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2010

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

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

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

1. The Management Company encourages representation of independent non-executive directors. At present the Board consists of six non-executive directors including two independent directors. The Management Company is not listed on any stock exchange and therefore does not have minority interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred during the year in the Board of the Management Company due to resignation of Syed Naseer ul Hassan and Mr. Raymond H. Kotwal were filled by Mr. Kamal Amir Chinoy and Mr. Shehryar Faruque on May 17, 2010.
5. The Management Company has adopted a “Code of Business Ethics and Business Practices”, which has been acknowledged by all the directors and distributed to employees of the Management Company.
6. The Board has developed a vision/mission statement overall corporate strategy and significant policies of the Fund. A complete record of the particulars along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.

# NAFA Income Fund

8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
9. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justification for non arm's length transactions if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. All the members of Board are well aware of operations of the Fund and Management Company, therefore no orientation courses were arranged during the year.
11. The Board has approved the appointment of Head of Internal Audit and his terms of employment.
12. Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
14. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 23 to the financial statements "Transactions with Connected Persons".
15. The Management Company has complied with the corporate and financial reporting requirements of the Code with respect to the Fund.
16. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the chairman of the Committee.
17. The meetings of the Audit Committee were held at least once every quarter prior to approval of the interim and final results of the Fund as required by the Code. Terms of Reference of the Audit Committee have been prepared and advised to the Committee for compliance.
18. There exists an effective internal audit function within the Management Company. The Management Company has appointed the Head of Internal Audit, who is considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
19. The Statutory Auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.

# NAFA Income Fund

20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

Dated: September 14, 2010  
Karachi

Dr. Amjad Waheed, CFA  
Chief Executive Officer

# NAFA Income Fund

## FUND MANAGER REPORT

### NAFA Income Fund

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

### Investment Objective of the Fund

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

### Benchmark

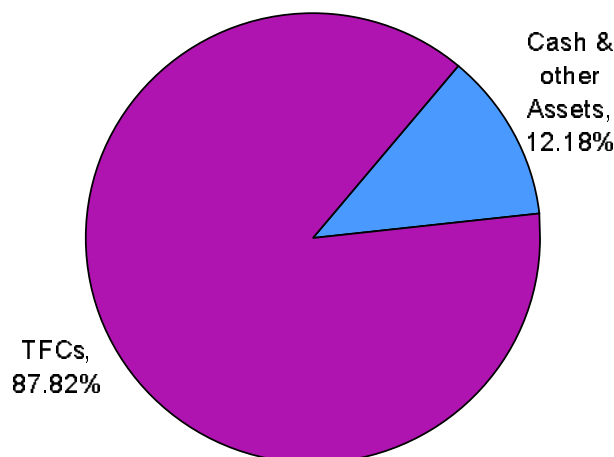
3-Month Treasury Bills (T-Bills)

### Fund's Performance Review

This is the third Annual report since the launch of the Fund on March 29, 2008. The Fund size as of June 30, 2010 is Rs. 582 million. The Fund's annualized return since inception is 6.52%. During the same period the benchmark return has been 12.11%. The Fund's annual return during FY 2010 is 8.69% thereby achieving the Fund's objective. During the same period the benchmark return has been 12.08%.

In the TFC market, liquidity has remained tight and trading activity remained limited throughout the Fiscal year. Economic situation has not been encouraging due to fiscal imbalances, circular debt, risk aversion and high interest rates. This kept prices depressed for some corporate TFCs/Sukuks.

During FY 2010 Eden Housing Sukuk became non-performing. However, subsequent to June 30, 2010 the company made the due payment and the issue was regularized. The weighted average yield to maturity of NAFA Income Fund is around 16.48% p.a. The weighted average maturity of NAFA Income Fund is 2.88 years. Thus the Fund is expected to perform well over a 3-year horizon.



# NAFA Income Fund

The Board of Directors of Management Company has approved a final distribution of 3.733% of the par value and 3.75% of the opening ex-dividend NAV. The Net Asset Value per unit before declaration was Rs.10.8190, which on ex-NAV basis became Rs.10.4457.

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

Following is the unit holder pattern of NAFA Income Fund by the size of unit holdings as of June 30, 2010.

Size of Unit holding (Units)	# of Unit Holders
1 - 1000	45
1001 - 5000	86
5001 - 10000	32
10001 - 50000	56
50001 - 100000	9
100001 - 500000	9
1000001 - 5000000	1
5000001 - 10000000	1
10000001 - 100000000	1
	240

# NAFA Income Fund

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

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

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

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2010.

A.F. Ferguson & Co.

Chartered Accountants

Karachi

Dated: September 15, 2010

# NAFA Income Fund

## **INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS**

We have audited the accompanying financial statements of **NAFA Income Fund**, which comprise the statement of assets and liabilities as at June 30, 2010, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the 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 misstatements.

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

### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2010 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### **Other matters**

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

A.F. Ferguson & Co.  
Chartered Accountants  
Engagement Partner: Rashid A. Jafer  
Dated: September 15, 2010  
Karachi.

# NAFA Income Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2010

	Note	2010	2009
		-----Rupees in '000-----	
<b>ASSETS</b>			
Balances with banks	4	48,844	179,595
Investments	5	510,859	823,944
Profit receivable	6	23,357	41,857
Advances, deposits, prepayments and other receivables	7	3,696	3,859
Preliminary expenses and floatation costs	8	2,744	3,744
<b>Total assets</b>		<u>589,500</u>	<u>1,052,999</u>
<b>LIABILITIES</b>			
Payable to the Management Company	9	4,737	6,805
Payable to the Trustee	10	96	167
Payable to the Securities and Exchange Commission of Pakistan	11	515	1,076
Payable on redemption of units	12	-	8,032
Accrued expenses and other liabilities	13	2,428	862
<b>Total liabilities</b>		<u>7,776</u>	<u>16,942</u>
<b>NET ASSETS</b>		<u>581,724</u>	<u>1,036,057</u>
<b>UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>		<u>581,724</u>	<u>1,036,057</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	14		
<b>Number of units in issue</b>		<u>53,768,935</u>	<u>102,339,874</u>
		<b>(Number of units)</b>	
<b>NET ASSET VALUE PER UNIT</b>	15	<u>10.8190</u>	<u>10.1237</u>
		<b>(Rupees)</b>	

The annexed notes 1 to 33 form an integral part of these financial statements.

**For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)**

Chief Executive

Chairman



# NAFA Income Fund

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

INCOME	Note	2010	2009
-----Rupees in '000-----			
Gain / (loss) on sale of investments - net		1,616	(7,325)
Income from term finance certificates, sukuk bonds and commercial papers		91,045	141,484
Income from certificates of deposits and clean placements		-	1,082
Income from Continuous Funding System (CFS) transactions		-	5,733
Profit on bank deposits	16	6,841	26,352
Unrealised appreciation / (diminution) on investments at fair value through profit or loss - net		<u>21,523</u>	<u>(85,401)</u>
<b>Total income</b>		<u>121,025</u>	<u>81,925</u>
<b>EXPENSES</b>			
Remuneration of the Management Company	9.1	10,306	18,525
Remuneration of the Trustee	10.1	1,372	2,235
Annual fee - Securities and Exchange Commission of Pakistan	11.1	515	1,076
Securities transaction cost		27	116
Settlement and bank charges		34	1,890
Annual listing fee		20	13
Auditors' remuneration	17	341	310
Amortisation of preliminary expenses and floatation costs	8	1,000	1,000
Printing and related cost		334	478
Legal and professional charges		364	518
Impairment loss on sukuk bonds	5.6	<u>48,792</u>	<u>23,083</u>
<b>Total expenses</b>		<u>63,105</u>	<u>49,244</u>
<b>Net income from operating activities</b>		57,920	32,681
Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed		(12,514)	7,368
Provision for Workers' Welfare Fund	18	<u>(1,710)</u>	<u>-</u>
<b>Net income for the year before taxation</b>		<u>43,696</u>	<u>40,049</u>
Taxation	19	-	-
<b>Net income for the year after taxation</b>		<u>43,696</u>	<u>40,049</u>
<b>Earnings per unit</b>	20		

The annexed notes 1 to 33 form an integral part of these financial statements.

**For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)**

Chief Executive

Chairman

# NAFA Income Fund

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		-----Rupees in '000-----	
Net income for the year after taxation		43,696	40,049
<b>Other comprehensive income</b>			
Net unrealised (diminution) / appreciation in the market value of investments classified as 'available for sale'	5.5	(1,800)	(8,874)
Reversal of unrealised diminution in the value of investments pertaining to impairment of non-performing assets		3,085	-
Total comprehensive income for the year		<u>44,981</u>	<u>31,175</u>

The annexed notes 1 to 33 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)

Chief Executive

Chairman

# NAFA Income Fund

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	-----Rupees in '000-----	
Undistributed income brought forward	21,284	37,719
Final distribution of Rs. 0.170 per unit for the year ended June 30, 2009 (2008: Rs 0.2096)		
- Bonus units	(16,900)	(31,331)
- Cash distribution	(497)	(6,191)
Net income for the year	43,696	40,049
Interim distribution of Rs. Nil during the year ended June 30, 2010 (2009: 0.267 per unit)		
- Bonus units	-	(36,591)
- Cash Distribution	-	(692)
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' fund	3,872	18,321
	47,568	21,087
Undistributed income carried forward	51,455	21,284

The annexed notes 1 to 33 form an integral part of these financial statements.

**For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)**

Chief Executive

Chairman

# NAFA Income Fund

## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2010

Note	2010	2009
	-----Rupees in '000-----	
Net assets at the beginning of the year	1,036,057	1,827,917
Issue of 17,525,005 units (2009: 124,148,405 units)	178,719	1,236,466
Redemption of 67,793,838 units (2009: 207,595,789 units)	(690,050)	(2,045,250)
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed	(511,331)	(808,784)
- amount representing loss / (income) and capital losses / (gains) - transferred to Income Statement	12,514	(7,368)
- amount representing income that form part of the unit holders' fund - transferred to Distribution Statement	(3,872)	(18,321)
	8,642	(25,689)
Final distribution: Issue of 1,697,894 bonus units for the year ended June 30, 2009 (2009: 3,132,743 bonus units)	16,900	31,331
Interim distribution: Nil (2009: 3,634,628 bonus units)	-	36,591
Net unrealised diminution in the market value of investments classified as available for sale'	5.5 (1,800)	(8,874)
Reversal of unrealised diminution in the value of investments pertaining to impairment of non-performing assets	3,085	-
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' fund	3,872	18,321
Gain / (loss) on sale of investments - net	1,616	(7,325)
Unrealised appreciation / (diminution) in the value of investments at fair value through profit or loss - net	21,523	(85,401)
Other net income for the year	20,557	132,775
Final distribution of Rs. 0.170 per unit for the year ended June 30, 2009 (2008: Rs 0.2096)		
- Bonus units	(16,900)	(31,331)
- Cash distribution	(497)	(6,191)
Interim distribution of Rs. Nil during the year ended June 30, 2010 (2009: 0.267)		
- Bonus units	-	(36,591)
- Cash distribution	-	(692)
	30,171	(16,435)
<b>Net assets as at the end of the year</b>	<b>581,724</b>	<b>1,036,057</b>

The annexed notes 1 to 33 form an integral part of these financial statements.

**For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)**

Chief Executive

Chairman

# NAFA Income Fund

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		-----Rupees in '000-----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net income for the year		43,696	40,049
<b>Adjustments</b>			
Unrealised loss on investments at fair value through profit or loss - net		(21,523)	85,401
Amortisation of preliminary expenses and floatation costs		1,000	1,000
Impairment loss on sukuk bond		48,792	23,083
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed		12,514	(7,368)
		84,479	142,165
<b>Decrease in assets</b>			
Investments		287,101	(19,879)
Loans and receivables		-	50,000
Receivable against Continuous Funding System (CFS) transactions		-	58,656
Profit receivable		18,500	(406)
Advances, deposits, prepayments and other receivables		163	3,060
		305,764	91,431
<b>Decrease / (increase) in liabilities</b>			
Payable to the Management Company		(2,068)	(1,937)
Payable to the Trustee		(71)	(84)
Payable to the Securities and Exchange Commission of Pakistan		(561)	371
Accrued expenses and other liabilities		1,566	(947)
		(1,134)	(2,597)
Payment made for preliminary expenses and floatation costs		-	-
<b>Net cash inflow from operating activities</b>		389,109	230,999
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Receipts from issue of units		178,719	1,236,466
Payments on redemption of units		(698,082)	(2,040,551)
Distributions paid		(497)	(6,883)
<b>Net cash outflow from financing activities</b>		(519,860)	(810,968)
<b>Net decrease in cash and cash equivalents during the year</b>		(130,751)	(579,969)
Cash and cash equivalents at the beginning of the year		179,595	759,564
<b>Cash and cash equivalents at the end of the year</b>	4	48,844	179,595

The annexed notes 1 to 33 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)

Chief Executive

Chairman

# NAFA Income Fund

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 1 LEGAL STATUS AND NATURE OF BUSINESS

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

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

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

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

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

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

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

#### 2.2 Changes in accounting policies and disclosure arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

- a) International Accounting Standard 1 (IAS 1) Revised, 'Presentation of Financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of other comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning of the comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and the comparative period.

The Fund has applied IAS 1 (revised) from July 1, 2009, and has elected to present two performance statements. As a result non-owner changes in equity which were previously credited directly in the statement of movement in unit holders' fund are now shown as other comprehensive income in the performance statement (referred to as statement of comprehensive income in these financial statements). The change in presentation has not affected the values of the net assets of the Fund for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented. The adoption of this standard has resulted in increase in certain disclosures.

- b) International Financial Reporting Standard (IFRS) 7 (amendment) 'Financial instruments: Disclosures' (effective from January 1, 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures, but does not have an impact on the Fund's financial position or performance.

#### 2.3 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

The following new standards and amendments to existing standards that are mandatory for the first time for the financial year beginning July 1, 2009:

- a) IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of this amendment did not have a significant impact on the Fund's financial statements.
- b) IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of

# NAFA Income Fund

instruments that is subordinate to all other instruments have identical features. One of the particular feature is that apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity. In this connection, Regulation 63 of the NBFC Regulations mandates the payment of 90% of the Fund's income for the year as dividend, therefore the amendment has not changed the classification of units in the financial statements.

- c) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. This amendment is not expected to have a significant effect on the Fund's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2009 but were considered not to be relevant did not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

## 2.4 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after July 1, 2010:

- a) IAS 7 (Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Fund's financial statements.
- b) IAS 24 related party Disclosures (revised) (effective from January 1, 2011). The revised standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party.

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

## 2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies for classification and valuation of investments (note 3.2 and 5).

## 2.6 Accounting convention

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

## 2.7 Functional and presentation currency

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.2 to the financial statements.

### 3.1 Cash and cash equivalents

Cash and cash equivalents include demand deposits with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

### 3.2 Financial assets

#### 3.2.1 Classification

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

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

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

#### b) Loans and receivables

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

# NAFA Income Fund

## c) Available for sale

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

### 3.2.2 Regular way contracts

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

### 3.2.3 Initial recognition and measurement

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

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

### 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:

#### Basis of valuation of Debt Securities

Investment in term finance certificates are valued in accordance with the methodology for valuation of debt securities prescribed in the SECP's circular no. 1/2009 dated January 06, 2009. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. Accordingly, investment in term finance certificates have been valued at the rates determined and announced by MUFAP based on the methodology prescribed in the circular.

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

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

Loans and receivables are carried at amortised cost using the effective interest method.

### 3.2.5 Impairment

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

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.

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

### 3.2.6 Derecognising

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

### 3.2.7 Offsetting of financial assets and liabilities

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

## 3.3 Financial liabilities

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

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



# NAFA Income Fund

## 3.4 Derivatives

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

## 3.5 Preliminary expenses and floatation costs

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

## 3.6 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours of that date. The offer price represents the Net Asset Value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the Management Company, Investment facilitators or distributors. Transaction costs are recorded as the income of the Fund.

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

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

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

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

## 3.8 Provisions

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

## 3.9 Taxation

The income of the Fund is exempt from Income Tax as per clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders.

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

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

## 3.10 Proposed distributions

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

## 3.11 Revenue recognition

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

# NAFA Income Fund

## 3.12 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

	Note	2010	2009
		-----Rupees in '000-----	
<b>4 BALANCES WITH BANKS</b>			
Current accounts		96	3,047
Savings accounts		48,748	176,548
		<u>48,844</u>	<u>179,595</u>
<b>5 INVESTMENTS</b>			
<b>At fair value through profit or loss - held for trading</b>			
Term finance certificates - listed	5.1.1	88,421	236,875
Term finance certificates - unlisted	5.1.1	252,598	349,049
Sukuk bonds	5.1.2	-	26,917
		341,019	612,841
<b>Available for sale</b>			
Term finance certificates - listed	5.2	112,340	114,188
Sukuk bonds	5.2	57,500	96,915
		169,840	211,103
		<u>510,859</u>	<u>823,944</u>

## 5.1 Terms finance certificates and Sukuk bonds.

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

Name of the investee company	Number of certificates				Market value as at June 30, 2010	Investment as a percentage of		
	As at July 1, 2009	Purchases during the year	Sales during the year	As at June 30, 2010		Net assets	Market value of total investments	Issue size
(Rs in '000)								
<b>Term finance certificates - listed</b>								
Engro Chemical Pakistan Limited	8,000	-	8,000	-	-	-	-	-
NIB Bank Limited	1,000	-	1,000	-	-	-	-	-
Saudi Pak Leasing Company Limited	15,000	-	-	15,000	40,924	7.03	8.01%	10.00%
United Bank Limited	30,000	-	20,000	10,000	47,497	8.16	9.30%	2.50%
				<b>25,000</b>	<b>88,421</b>	<b>15.19</b>	<b>17.31%</b>	
<b>Term finance certificates - unlisted</b>								
Engro Chemical Pakistan Limited	20,000	-	-	20,000	89,238	15.34	17.47%	2.50%
Agritech Limited. (Formerly Pak American Fertilizer)	30,000	-	-	30,000	138,742	23.85	27.16%	2.17%
Pakistan Mobile Communications Limited	30,000	-	20,000	10,000	24,618	4.23	4.82%	4.29%
				<b>60,000</b>	<b>252,598</b>	<b>43.42</b>	<b>49.45%</b>	
				<b>85,000</b>	<b>341,019</b>	<b>58.61</b>	<b>66.75%</b>	
Carrying cost of investments as at June 30, 2010					<u>319,496</u>			

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

Name of the investee company	Number of certificates				Market value as at June 30, 2010	Investment as a percentage of		
	As at July 1, 2009	Purchases during the year	Sales during the year	As at June 30, 2010		Net assets	Market value of total investments	Issue size
(Rs in '000)								
New Allied Electronics Industries (Private) Limited (note 5.1.4)	10,000	-	-	10,000	-	-	-	6.67%
				<b>10,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Carrying cost of investments as at June 30, 2010					<u>26,917</u>			
Impairment loss recognised					<u>26,917</u>			

# NAFA Income Fund

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

5.1.4 This represents investment in privately placed sukuk bonds with a term of five years. On December 3, 2008, the investee company had defaulted on its obligation on account of profit repayment. The minimum amount of provision required as per SECP Circular no.01 of 2009 amounts to Rs 50 million. The management has made the said provision till June 30, 2010.

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

Name of the investee company	Number of certificates /bonds				Market value as at June 30, 2010	Investment as a percentage		
	As at July 1, 2009	Purchases during the year	Sales during the year	As at June 30, 2010		Net assets	Market value of total investments	Issue size
(Rs in '000)								
<b>Term finance certificate - listed</b>								
Worldcall Telecom Limited	24,000	-	-	24,000	112,340	19.31	21.99%	3.00%
				<u>24,000</u>	<u>112,340</u>	<u>19.31</u>	<u>21.99%</u>	
<b>Carrying cost of investments as at June 30, 2010</b>					<u>114,140</u>			
<b>Sukuk bonds</b>								
Eden Housing Limited (note 5.2.2)	20,000	-	-	20,000	57,500	9.88	11.26%	13.70%
				<u>20,000</u>	<u>57,500</u>	<u>9.88</u>	<u>11.26%</u>	
<b>Carrying cost of investments as at June 30, 2010</b>					<u>79,375</u>			
<b>Impairment loss recognised</b>					<u>21,875</u>			

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

5.2.2 This represents investment in privately placed sukuk bonds issue with a term of five years. On March 31, 2010 i.e. the scheduled redemption date, principal redemption of Rs. 4.375 million was not received by the Fund. The minimum amount of provision required as per SECP Circular no.01 of 2009 also amounts to Rs 17.375 million. However, as a matter of prudence the management has recognised an additional amount of provision Rs 4.5 million till June 30, 2010. The income suspended on these bonds amounted to Rs 2.819 million

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

	Note	2010	2009
-----Rupees in '000-----			
<b>5.4 Net unrealised diminution in value of investments at 'fair value through profit or loss'</b>			
Market value of investments	5.1.1 & 5.1.2	341,019	612,841
Less: carrying value of investments		<u>346,413</u>	<u>721,325</u>
		(5,394)	(108,484)
Provision against non-performing TFCs and sukuk		<u>26,917</u>	<u>23,083</u>
		<u>21,523</u>	<u>(85,401)</u>
<b>5.5 Unrealised appreciation/(diminution) in value of investments classified as available for sale - net</b>			
Market value of investments	5.2	169,840	211,103
Less: Carrying of investments		<u>193,515</u>	<u>219,977</u>
		(23,675)	(8,874)
Provision against non-performing TFCs and sukuk		<u>21,875</u>	-
		<u>(1,800)</u>	<u>(8,874)</u>
<b>5.6 Movement in provision against debt securities</b>			
Opening balance		23,083	-
Charge for the year		<u>48,792</u>	<u>23,083</u>
Closing balance		<u>71,875</u>	<u>23,083</u>
<b>6 PROFIT RECEIVABLE</b>			
Profit on savings and term deposit accounts		10	184
Income accrued on term finance certificates and sukuk bonds		<u>39,725</u>	<u>47,684</u>
Less: Suspended Income		<u>(16,378)</u>	<u>(6,011)</u>
		<u>23,347</u>	<u>41,673</u>
		<u>23,357</u>	<u>41,857</u>

# NAFA Income Fund

	Note	2010	2009
-----Rupees in '000-----			
<b>7</b>	<b>ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>		
	Security deposit with:		
	- National Clearing Company of Pakistan Limited	3,500	3,500
	- Central Depository Company of Pakistan Limited	100	100
	Advance tax	96	57
	Receivable from NAFA Islamic Income Fund on transfer-in of units	-	202
		<u>3,696</u>	<u>3,859</u>
<b>8</b>	<b>PRELIMINARY EXPENSES AND FLOATATION COSTS</b>		
	Preliminary expenses and floatation costs	8.1	3,744
	Less: Amortisation during the year		1,000
	Balance as at June 30		<u>2,744</u>
			<u>3,744</u>

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from March 28, 2008 as per the requirements set out in the Trust Deed of the Fund.

	Note	2010	2009
-----Rupees in '000-----			
<b>9</b>	<b>PAYABLE TO THE MANAGEMENT COMPANY</b>		
	Management fee	9.1	717
	Front-end load		20
	Formation cost payable		4,000
			<u>4,737</u>
			<u>1,265</u>
			<u>565</u>
			<u>4,975</u>
			<u>6,805</u>

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

	Note	2010	2009
-----Rupees in '000-----			
<b>10</b>	<b>PAYABLE TO THE TRUSTEE</b>		
	Trustee fee	10.1	96
			<u>167</u>

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2010 is as follows:

Amount of Funds Under Management (Average NAV)	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 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million

The remuneration is paid to the trustee monthly in arrears.

# NAFA Income Fund

	Note	2010	2009
-----Rupees in '000-----			
<b>11</b>	<b>PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>		
	Annual fee	515	1,076
11.1	Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), the Fund is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund with effect from November 21, 2008.		
<b>12</b>	<b>PAYABLE ON REDEMPTION OF UNITS</b>		
	This includes an amount of Rs Nil (2009: Rs 8.032 million) payable to NAFA Cash Fund on transfer-out of units.		
		2010	2009
-----Rupees in '000-----			
<b>13</b>	<b>ACCRUED EXPENSES AND OTHER LIABILITIES</b>		
	Auditor's remuneration	235	210
	Settlement charges payable	16	139
	Bank charges payable	72	170
	Payable to brokers	19	65
	WWF	1,710	-
	Printing charges payable	376	278
		<u>2,428</u>	<u>862</u>
<b>14</b>	<b>CONTINGENCIES AND COMMITMENTS</b>		
	There were no contingencies and commitments outstanding as at June 30, 2010.		
<b>15</b>	<b>NET ASSET VALUE PER UNIT</b>		
	The Net Asset Value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.		
		2010	2009
-----Rupees in '000-----			
<b>16</b>	<b>PROFIT ON BANK DEPOSITS</b>		
	Income on saving deposits	6,841	15,506
	Income on term deposits	-	10,846
		<u>6,841</u>	<u>26,352</u>
<b>17</b>	<b>AUDITORS' REMUNERATION</b>		
	Annual Audit fee	210	200
	Half yearly review fee	85	80
	Out of pocket expenses	46	30
		<u>341</u>	<u>310</u>
<b>18</b>	<b>PROVISION FOR WORKERS' WELFARE FUND</b>		
	The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund (WWF) Ordinance, 1971, whereby the definition of "industrial establishment" was amended to include therein, any establishment to which the West Pakistan Shops and Establishment Ordinance, 1969 (Ordinance of 1969) applies. Management Company of the Fund, based on a legal advice obtained through Mutual Funds Association of Pakistan (MUFAP) was of a firm view that Collective Investment Scheme (CIS) were not establishments and therefore, the WWF Ordinance should not be applicable to such schemes. The MUFAP had also filed a constitutional petition in the High Court of Sindh (the Court) on behalf of the members, challenging the applicability of WWF to the CIS. The said petition was dismissed by the Court vide its order dated May 25, 2010 on the main ground that the MUFAP (Petitioner) could not be held entitled to maintain a petition in respect of its members as it was not the aggrieved party. The Judgment recognises that the Trusts are covered by the scope of the definition of commercial establishment as contained in Ordinance of 1969 and, therefore, mutual funds and other funds appear to be covered unless it can be established that they fall with in the scope of exemption set out in Section 5 (1)(iii) of the Ordinance of 1969 i.e. the Trusts not run for profit or in the course of business does not make any profit. This could be examined when the aggrieved parties directly approached the Court for redressal.		

# NAFA Income Fund

In the meantime, clarification has been obtained by the MUFAP from the Ministry of Labour & Manpower, Workers' Welfare Fund, Govt. of Pakistan, which, through their letter nos. WWF (A - II)11.(5)/2010 dated July 8, 2010 and July 15, 2010, has clarified that the WWF Ordinance, 1971 does not have any provisions for the applicability of WWF on those entities whose income are exempt from income tax under any provisions of any law, and that mutual funds are a product being managed / sold by asset management companies which are liable to contribute towards the said WWF levy.

Various legal opinions are available on this matter. Some legal advisors are of the view that this levy is not applicable on CIS and therefore provision is not required to be created while there is also a contrary view according to which this levy has become applicable on the fund and the letter issued by the Ministry of Labour, Government of Pakistan has no legal significance.

Because of ambiguity created based on conflicting opinions by lawyers and as a matter of abundant caution the Management Company of the Fund has decided to recognize a provision for WWF in these financial statements.

Current year	-----Rupees in '000-----
Prior period	908
	802
	<u>1,710</u>

## 19 TAXATION

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

## 20 EARNINGS PER UNIT

Earnings per unit (EPU) for the year ended June 30, 2010 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

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

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

In accordance with clause (iii) of the investment criteria laid down for 'Income Schemes', the Fund is required to invest atleast 25% of the net assets in cash and near cash instruments which include cash in bank accounts(excluding TDRs), treasury bills not exceeding 90 days maturity . Clause (v) of the categorization criteria requires that the ratings of any security in the portfolio of the Fund shall not be lower than investment grade. However, as at June 30, 2010, the Fund is in non-compliance with the above-mentioned requirement in respect of the following:

Type of Investment	Name of Non-Compliant investment	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
Cash and near cash instruments - (note 21.1)	N/A	48,844	-	48,844	8.40%	8.29%
Investment in Debt Securities - (note 21.2)	Saudi Pak Leasing Company Limited	40,924	-	40,924	7.03%	6.94%
	New Allied Electronics Industries (Pvt.) Limited	50,000	(50,000)	-	-	-
	Eden Housing Limited	79,375	(21,875)	57,500	9.88%	9.75%

21.1 SECP vide circular no. 16 of 2010 dated July 7, 2010 requires that a scheme presently non-compliant with this requirement complies with this requirement by December 31, 2010.

21.2 At the time of purchase, the above Term Finance Certificates were in compliance with the circular (i.e. investment grade) and was subsequently downgraded. In case of New Allied Electronics Industries (Pvt.) Limited and Eden Housing Limited the downgrading has been made due to default in payments of due principal and markup.

# NAFA Income Fund

## 22 FINANCIAL INSTRUMENTS BY CATEGORY

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

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

-----As at June 30, 2009-----			
Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
-----Rupees in '000-----			
<b>Assets</b>			
Balances with banks	179,595	-	179,595
Investments	-	-	-
Profit receivable	612,841	211,103	823,944
Advances, deposits and other receivables	41,857	-	41,857
	3,802	-	3,802
	<u>225,254</u>	<u>211,103</u>	<u>1,049,198</u>

-----As at June 30, 2009-----		
Liabilities at fair value through profit or loss	Other financial liabilities	Total
-----Rupees in '000-----		
<b>Liabilities</b>		
Payable to the Management Company	-	6,805
Payable to the Trustee	-	167
Payable on redemption of units	-	8,032
Accrued expenses and other liabilities	-	862
	<u>-</u>	<u>15,866</u>

## 23 TRANSACTIONS WITH CONNECTED PERSONS

- 23.1** Connected persons include NBP Fullerton Asset Management Limited (Formerly National Fullerton Asset Management Limited) being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan and Alexandra Fund Management Pte. Limited being the sponsors, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.
- 23.2** On March 31, 2010, NIB Bank Limited sold out its shareholding of NAFA to NBP. Accordingly, thereafter NIB is no longer a connected person for the Management Company.
- 23.3** The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 23.4** Remuneration and front-end load payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.
- 23.5** Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.

# NAFA Income Fund

23.6	Details of the transactions with connected persons are as follows:	For the year ended June 30, 2010	For the year ended June 30, 2009
		-----Rupees in '000-----	
	<b>NBP Fullerton Asset Management Limited (Formerly National Fullerton Asset Management Limited) - Management Company</b>		
	Management fee expense for the year	10,306	18,525
	Units redeemed / transferred out (5,575,532 units; 2009: Nil units)	56,825	-
	Bonus units issued (178,995 units; 2009: 480,345 units)		
	<b>NIB Bank Limited</b>		
	Profit on bank deposits	3,892	7,212
	Income from term finance certificates	255	697
	<b>Chief Executive Officer</b>	314	-
	Units redeemed / transferred out (31,338 units; 2009: Nil units)		
	Bonus units issued (526 units; 2009: 1,412 units)		
	<b>Employees of the Management Company</b>	1,969	8,165
	Units issued / transferred in (192,936 units; 2009: 820,580 units)	1,976	8,334
	Units redeemed / transferred out (193,365 units; 2009: 848,309 units)		
	Bonus units issued (73 units; 2009: 6,969 units)		
	<b>Central Depository Company of Pakistan Limited - Trustee</b>	1,372	2,235
	Remuneration	-	50
	CDS charges		
	<b>NAFA Multi Asset Fund</b>	-	90,000
	Units issued / transferred in (Nil units; 2009: 8,708,694 units)	-	140,046
	Units redeemed / transferred out (Nil units; 2009: 14,574,359 units)		
	Bonus units issued (Nil units; 2009: 346,629 units)	-	175,000
	Term finance certificate sold		
	<b>NAFA Cash Fund</b>	-	75,613
	Units redeemed / transferred out (Nil units; 2009: 7,546,476 units)		
	Bonus units issued (Nil units; 2009: 154,910 units)		
	<b>NAFA Employees Provident Fund</b>	-	2,545
	Units issued / transferred in (Nil units; 2009: 248,337 units)	2,500	-
	Units redeemed / transferred out (239,560 units; 2009: Nil units)		
	Bonus units issued (4,354 units; 2009: 6,586 units)		
	<b>NAFA Cash Fund - Investment held by the Fund</b>	-	140,000
	Investment made (Nil units; 2009: 13,615,160 units)	-	133,954
	Investment redeemed / transferred out (Nil units; 2009: 13,860,404 units)		
	Bonus units received (Nil units; 2009: 245,244 units)		
23.7	Amounts outstanding as at year	As at June 30, 2010	As at June 30, 2009
		-----Rupees in '000-----	
	<b>NBP Fullerton Asset Management Limited (Formerly National Fullerton Asset Management Limited) - Management Company</b>		
	Management fee payable	717	1,265
	Investment held by management company in the Fund (5,083,807 units; 2009: 10,480,345 units)	55,002	106,100
	Front end load payable	20	565
	Preliminary charges and floatation cost	4,000	4,975
	<b>National Bank of Pakistan - Sponsor</b>		
	Balance in current account	92	1,406
	<b>Chief Executive Officer</b>		
	Investment held in the Fund (Nil units; 2009: 30,812 units)	-	312
	<b>Employees of the Management Company</b>		
	Investment held in the Fund (4,401 units; 2009: 17,481 units)	48	177
	<b>NAFA Employees Provident Fund</b>		
	Investment held in the Fund (19,717 units; 2009: 254,923 units)	213	2,581
	<b>Central Depository Company of Pakistan Limited - Trustee</b>		
	Remuneration payable	96	167
	CDC charges	1	1
	Security deposit	100	100



# NAFA Income Fund

## 24 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of the 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	22
2	Sajjad Anwar	CFA / MBA Finance	10
3	Irfan Malik	CFA / MBA	13
4	Tanvir Abid	CFA / MBA	11
5	Ahmed Noman	EMBA, CFA	14

24.1 Ms. Irfan Malik is the fund manager of the Fund. He is also the fund manager of NAFA Islamic Income Fund, NAFA Cash Fund and NAFA Savings Plus Fund.

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

		2010
1	Alfalah Securities (Private) Limited	37.93%
2	KASB Securities	34.48%
3	Jahangir Siddiqui Capital Markets	27.59%
		2009
1	Dawood Equities Limited	46.69%
2	Moosani Securities (Private) Limited	24.92%
3	Alfalah Securities (Private) Limited	13.48%
4	Global Securities Pakistan Limited	9.14%
5	First Capital Equities Limited	3.22%
6	Elixir Securities Pakistan (Private) Limited	1.99%
7	First Dawood Investment Bank Limited	0.56%

## 26 PATTERN OF UNIT HOLDING

Category
----------

Individuals  
Associated companies / Directors  
Insurance companies  
Bank / DFIs  
NBFCs  
Retirement funds  
Public Limited companies  
Others

As at June 30, 2010		
Number of unit holders	Investment amount	Percentage investment
-----Rupees in '000-----		
227	33,580	5.77%
2	55,215	9.49%
-	-	-
1	27,047	4.65%
-	-	-
5	460,848	79.22%
2	202	0.04%
3	4,832	0.83%
<u>240</u>	<u>581,724</u>	<u>100.00%</u>

Category
----------

Individuals  
Associated companies / Directors  
Insurance companies  
Bank / DFIs  
NBFCs  
Retirement funds  
Public Limited companies  
Others

As at June 30, 2009		
Number of unit holders	Investment amount	Percentage investment
-----Rupees in '000-----		
466	142,001	13.71%
3	108,993	10.52%
-	-	-
1	25,309	2.44%
-	-	-
15	497,422	48.01%
10	245,279	23.67%
5	17,053	1.65%
<u>500</u>	<u>1,036,057</u>	<u>100.00%</u>

# NAFA Income Fund

## 27 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 22nd, 23rd, 24th, 25th and 26th Board meetings were held on July 03, 2009, August 31, 2009, October 28, 2009, February 17, 2010 and April 29, 2010 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Masood Karim Shaikh*	2	1	1	23rd meeting
Dr. Amjad Waheed	5	5	-	
Mr. Gerard Lee How Cheng	5	3	2	23rd & 26th meeting
Mr. Patrick Pang Chin	5	5	-	
Mr. Shahid Anwar Khan	5	3	2	24th & 26th meeting
Mr. Qamar Hussain**	3	2	1	25th meeting
Mr. Raymond H. Kotwal	5	5	-	
Mr. Syed Naseer Ul Hasan	5	5	-	

\* Mr. Masood Karim Shaikh retired from office on October 16, 2009.

\*\* Mr. Qamar Hussain was elected as director on October 16, 2009.

## 28 FINANCIAL RISK MANAGEMENT

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

### 28.1 Market risk

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

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

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

#### 28.1.1 Currency risk

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

#### 28.1.2 Interest rate risk

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

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

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates and Sukuk bonds exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2010, 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 1.675 million (2009: Rs 2.730 million).

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

Presently, the Fund holds no fixed rate instruments. As a result, the net assets of the Fund and net income for the year would remain unaffected in case of 100 basis points increase / decrease in interest rates announced by Financial Market Association on June 30, 2010.

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by the Financial Market Association are expected to change over time. Further, in case of variable instruments, the sensitivity analysis has been done from the last repricing date. Accordingly, the sensitivity analysis prepared as of June 30, 2010 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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

# NAFA Income Fund

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

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

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

## On-balance sheet financial instruments

### Financial Assets

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

### Financial Liabilities

Payable to the Management Company		4,737	-	-	-	4,737
Payable to the Trustee		96	-	-	-	96
Payable on redemption of units		-	-	-	-	-
Accrued expenses and other liabilities		718	-	-	-	718
		<u>5,551</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,551</u>
<b>On-balance sheet gap</b>		<u>581,109</u>	<u>48,748</u>	<u>453,359</u>	<u>-</u>	<u>79,002</u>

## Off-balance sheet financial instruments

### Off-balance sheet gap

		-	-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

-----As at June 30, 2009-----

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

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

## On-balance sheet financial instruments

### Financial Assets

Balances with banks	5.00 - 12.50	179,595	176,548	-	-	3,047
Investments	13.69-17.67	823,944	513,217	310,727	-	-
Profit receivable	-	41,857	-	-	-	41,857
Advances, deposits and other receivables	-	3,802	-	-	-	3,802
		<u>1,049,198</u>	<u>689,765</u>	<u>310,727</u>	<u>-</u>	<u>48,706</u>

### Financial Liabilities

Payable to the Management Company		6,805	-	-	-	6,805
Payable to the Trustee		167	-	-	-	167
Payable on redemption of units		8,032	-	-	-	8,032
Accrued expenses and other liabilities		862	-	-	-	862
		<u>15,866</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,866</u>
<b>On-balance sheet gap</b>		<u>1,033,332</u>	<u>689,765</u>	<u>310,727</u>	<u>-</u>	<u>32,840</u>

## Off-balance sheet financial instruments

### Off-balance sheet gap

		-	-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

# NAFA Income Fund

## 28.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2010.

## 28.2 Credit risk

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

The analysis below summarises the credit quality of the Fund's financial assets as at June 30, 2010 and June 30, 2009:

Term finance certificates and sukuk bonds by rating category	2010	2009
AAA, AAA-, AAA+	-	-
AA, AA-, AA+	26.77%	63.82%
A, A-, A+	53.97%	26.18%
BBB, BBB+, BBB-	8.01%	6.73%
Non performing	11.25%	3.27%
Bank balances by rating category	2010	2009
A1+, A-1+	97.02%	98.68%
A1	1.85%	0.70%
A2-, A-2	1.13%	0.62%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2010 is the carrying amount of the financial assets.

### Concentration of credit risk

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

## 28.3 Liquidity risk

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

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

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

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

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

# NAFA Income Fund

-----As at June 30, 2010-----				
	Total	Upto three months	Over three months and upto one year	Over one year
(Rupees in '000)				
<b>Liabilities</b>				
Payable to the Management Company	4,737	4,737	-	-
Payable to the Trustee	96	96	-	-
Accrued expenses and other liabilities	718	718	-	-
	<u>5,551</u>	<u>5,551</u>	-	-

-----As at June 30, 2009-----				
	Total	Upto three months	Over three months and upto one year	Over one year
(Rupees in '000)				
<b>Liabilities</b>				
Payable to the Management Company	6,805	6,805	-	-
Payable to the Trustee	167	167	-	-
Payable on redemption of units	8,032	8,032	-	-
Accrued expenses and other liabilities	862	862	-	-
	<u>15,866</u>	<u>15,866</u>	-	-

## 29 UNITHOLDERS' FUND RISK MANAGEMENT

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

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

In accordance with the risk management policies stated in note 28, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

## 30 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

# NAFA Income Fund

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

Level 1	Level 2	Level 3	Total
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(Rupees in '000)

## ASSETS

Investment in securities

-	453,359	57,500	510,859
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## 31 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 05, 2010 have approved distribution at the rate of 3.7330 % (2009: 1.70%). The financial statements of the Fund for the year ended June 30, 2010 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2011.

## 32 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 25, 2010.

## 33 GENERAL

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

33.2 No significant rearrangements or reclassification were made in these financial statements except as required because of the changes in accounting policies as more fully explained in notes 2.2 to these financial statements.

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

For NBP Fullerton Asset Management Limited  
(Formerly National Fullerton Asset Management Limited)  
(Management Company)

Chief Executive

Chairman

# NAFA Income Fund

## PERFORMANCE TABLE

Particulars	For the year ended June 30, 2010	For the year ended June 30, 2009	For the period from March 07, 2008 to June 30, 2008
Net assets (Rs. '000')	581,724	1,036,057	1,827,917
Net Income (Rs. '000')	43,696	40,049	37,719
Net Asset Value per units (Rs.)	10.4457	9.9537	10.0011
Offer price per unit	10.5502	10.0549	10.1032
Redemption price per unit	10.4457	9.9537	10.0011
Highest offer price per unit (Rs.)	10.5539	9.9974	10.1032
Lowest offer price per unit (Rs.)	9.7051	9.1366	9.8935
Highest redemption price per unit (Rs.)	10.4494	9.8984	10.0011
Lowest redemption price per unit (Rs.)	9.6090	9.0461	9.7955
Total return of the fund	8.69%	3.91%	2.11%
Capital growth	4.94%	-0.46%	0.01%
Income distribution	3.75%	4.37%	2.10%
Interim distribution per unit	-	0.2670	-
Final distribution per unit	0.3733	0.1700	0.2096
Distribution dates			
Interim	-	16-Oct-08	-
Final	5-Jul-10	3-Jul-09	3-Jul-08
Average annual return (launch date 29-03-08) (Since inception to June 30, 2010)	6.52%	6.10%	8.43%
Portfolio Composition (Please see Fund Manager Report)			
Weighted average portfolio duration	57 Days	2 Years	2 Years
"Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up."			