NBP Fullerton Asset Management Ltd.
A Subsidiary of National Bank of Pakistan

NAFA INCOME OPPORTUNITY FUND

ANNUAL REPORT 2014

Your investments & "NAFA" grow together

NBP National Bank of Pakistan | FULLERTON FUND MANAGEMENT

Joint - Venture Partners

MISSION STATEMENT

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

FUND'S INFORMATION

Management Company

NBP Fullerton Asset Management Limited – Management Company

Board of Directors of the Management Company

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

Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

Audit & Risk Committee

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

Human Resource Committee

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

Trustee

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

Bankers to the Fund

Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Bank Al-Habib 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
SILK Bank Limited
Soneri Bank Limited
Standard Chartered Bank (PAK) Limited
The Bank of Khyber
The Bank of Panjab
Summit Bank Limited
United Bank Limited
Samba Bank Limited
UBL Ameen
Sindh Bank Limited
Al Baraka Bank Limited
Bujr Bank Limited
Barclays Bank Limited

Auditors

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

Legal Advisor

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

Head Office:

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

Lahore Office:

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

Islamabad Office:

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

Peshawar Office:

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

Multan Office:

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

Contents

Board of Directors

Mr. Nausherwan Adil
Chairman

Dr. Amjad Waheed, CFA
Chief Executive Officer

Mr. Kamal Amir Chinoy
Director

Mr. Koh Boon San
Director

Mr. Aamir Sattar
Director

Mr. Shehryar Faruque
Director

Mr. Wah Geok Sum
Director

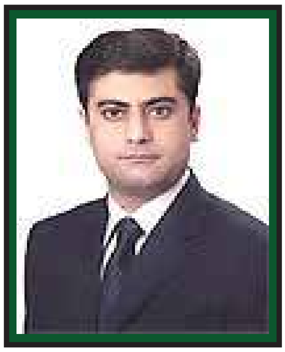
Mr. Abdul Hadi Palekar
Director

Senior Management

Dr. Amjad Waheed, CFA
Chief Executive Officer

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

Mr. Sajjad Anwar, CFA
Chief Investment Officer



Mr. Zeeshan
Chief – Strategy &
Business Development

Mr. Samiuddin Ahmed
Country Head Corporate
Marketing & Sales

Mr. Ozair Khan
Chief Technology Officer

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

Mr. Ahmad Nouman CFA, PRM
Head of Risk Management

Syed Suleman Akhtar CFA
Head of Research

Mr. Tahir Lateef
Head of Internal Audit

DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Ninth Annual Report of **NAFA Income Opportunity Fund** for the year ended June 30, 2014.

Fund's Performance

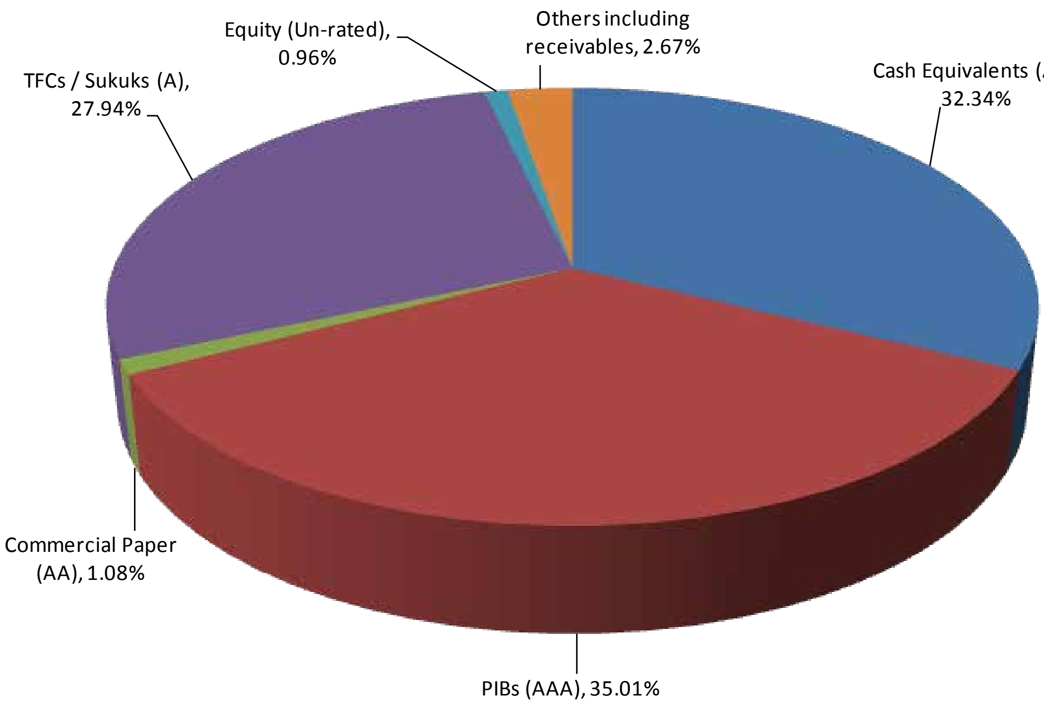
The size of NAFA Income Opportunity Fund has increased from Rs. 1,869 million to Rs. 4,353 million during the period, i.e. a growth of 132.91%. During the said period, the unit price of the Fund has increased from Rs. 8.9972 (Ex-Div) on June 30, 2013 to Rs. 10.4676 on June 30, 2014, thus posting a return of 16.60% as compared to its Benchmark (6-Month KIBOR) return of 9.82% for the same period. The return of the Fund is net of management fee and all other expenses.

NIOF is categorized as an Income Scheme and has been awarded stability rating of A-(f) by PACRA(BBB+ as at 30th June 14). On the corporate debt sphere, we have witnessed some increase in primary issuance of corporate debt amid a pick-up in economic activity. Trading activity in TFCs remained skewed towards high quality issues, notably belonging to the Chemicals and Banking sectors. Majority of the TFCs in the Fund are floating rate linked to KIBOR. Therefore, any increase in the interest rates will improve the coupon income of the Fund.

The State Bank of Pakistan increased the policy rate by100bps to 10% during first half of FY14, citing downside risks to the external account, depleting FX reserves, and rising inflation expectations. However, since then positive developments were witnessed in the form of (i) a sharp recovery of Pak rupee against the US dollar, due to significant improvement in forex reserves bolstered by aid from Saudi Arabia, extremely successful Eurobond issue, auction of 3G and 4G licenses, two large SPOs and higher loan receipts; and (ii) Inflation as measured by CPI clocked in at 8.6%, significantly below initial projections of 11-12%, due to subdued commodity prices, lower money supply growth and strong rupee performance in the second half of the fiscal year.

The Fund has earned a total income of Rs.539.29 million during the year. After accounting for total expenses of Rs.64.87 million, the net income is Rs.474.42 million.

The asset allocation of NAFA Income Opportunity Fund as on June 30, 2014 is as follows:



Income Distribution

The Board of Directors of the Management Company has approved distribution of 11.90% of opening ex-NAV (11.93% of the par value) during the year.

Taxation

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

Auditors

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

Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.

2. Proper books of account of the Fund have been maintained.

3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.

4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.

5. The system of internal control is sound in design and has been effectively implemented and monitored.

6. There are no significant doubts upon the Fund's ability to continue as a going concern.

7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.

8. A performance table/ key financial data is given in this annual report.

9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.

10. The Board of Directors of the Management Company held six meetings during the current financial year. The attendance of all directors is disclosed in the note 22 to these financial statements.

11. The detailed pattern of unit holding is disclosed in the note 21 to these financial statements.

12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 18 to these financial statements.

Acknowledgement

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

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

On behalf of the Board of
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: September 16, 2014
Place: Karachi.

TRUSTEE REPORT TO THE UNIT HOLDERS
NAFA INCOME OPPORTUNITY FUND

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

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

(i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;

(ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and

(iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

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

Karachi: October 14, 2014

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE NAFA INCOME OPPORTUNITY FUND FOR THE YEAR ENDED JUNE 30, 2014

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

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

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

1. The Company encourages representation of independent non-executive directors on its Board of Directors. The Company, being an un-listed company, does not have any minority interest. As at June 30, 2014, the Board included:

Category	Names
Independent Directors	1. Mr. Kamal Amir Chinoy 2. Mr. Shehryar Faruque
Executive Directors	Dr. Amjad Waheed (Chief Exectuive Officer)
Non- Executive Directors	1. Mr. Nausherwan Adil (Chairman) 2. Mr. Aamir Sattar 3. Mr. Abdul Hadi Palekar 4.Mr. Wah Geok Sum 5.Mr. Koh Boon San

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

2. The directors have confirmed that none of them is serving as a director of more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. One casual vacancy was occurred on the board on October 10, 2013 which was filled up on the same date.

5. The Management Company has prepared a “Code of Conduct” and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.

6.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board. There is no other executive-director of the Company besides CEO.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. In order to apprise the directors on their duties and responsibilities the Code requires every listed company to conduct formal orientation for directors. As per the Code, by June 30, 2014 a minimum of two directors should have attended director training program. As at year end, one of the directors has attended the director's training program offered by Pakistan Institute of Corporate Governance. The Company has started the process for training of other directors and it is expected that some of other directors may also obtain certification of the director's training program in the next year. However, the directors are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities.

10. There was no new appointment of the Chief Financial Officer (CFO) and Company Secretary during the year. However, the Head of Internal Audit left the Company on March 07, 2014 and in his place a new appointment was made on April 08, 2014 with the approval of audit and risk committee including remuneration and terms and conditions. The appointment of the Head of Internal Audit has been ratified by the Board in its meeting held on September 16, 2014, subsequent to the year end.

11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.

12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.

13. The Directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in note 18 to the financial statements "Transactions with Connected Persons".

14. The Company has complied with all the corporate and financial reporting requirements of the CCG.

15. The Board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the committee is an independent director.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The committee has formed the terms of reference for compliance.

17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. All the members are non-executive directors and the chairman of the committee is a non-independent director.

18. The Board has set up an effective internal audit function.

19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. Since there is no practical implication of closed period on the announcement of interim and final results of open end Fund. Therefore, there was no 'closed period' prior to the announcement of interim/final results.

22. Material / price sensitive information has been disseminated amongst all market participants at once through stock exchange.

23. We confirm that all other material principles contained in the CCG have been complied with. While the Code of Corporate Governance requires that a mechanism shall be put in place for the annual evaluation of the Board's own performance by April 2014, the Management Company is in the process of preparing a framework for this purpose and eventual approval by the Board of Directors of the Management Company.

For and behalf of the board

Karachi
September 16, 2014

Dr. Amjad Waheed
Chief Executive Officer

FUND MANAGER REPORT

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

Investment Objective of the Fund

The objective of NIOF is to seek preservation of capital and earn a reasonable rate of return via investing in money market and debt securities with investment-grade rating, CFS and spread transactions.

Benchmark

6 Month - KIBOR

Fund Performance Review

This is the ninth Annual report since the launch of the Fund on April 22, 2006. The Fund size increased by 132.84% during FY14 and stands at Rs 4.35 billion as on June 30, 2014. The Fund's annualized return since inception is 7.92% versus the benchmark return of 11.31%. During FY14 the Fund posted a return of 16.60% as compared to the benchmark return of 9.82%. This translates into an out-performance of 6.78%. This out-performance is net of management fee and all other expenses. Hence, the Fund has achieved its stated objectives.

Key factor that contributed to the superior performance of the Fund during the year was mark to market gain in a Cement Sector Sukuk which was reclassified as performing during the year and profit payment of a non-performing Household Goods sector sukuk. The Yield to Maturity of your Fund at year end FY14 is around 12.41% while that of TFC portfolio is 18.6%. The yield does not include potential recovery in fully provided TFCs (Face Value of Rs. 947 million), which is potential upside for the Fund. The Fund's TFC portfolio allocation is fairly diversified with exposure to Telecom, Fertilizer, cement, Financial Services, Banking, and Leisure (Hotel) sub-sectors.

Regarding the corporate bond market, despite pick-up in the private sector credit off-take we have witnessed few fresh issuance during FY14. This dearth of fresh issuance and hunt for yields in the secondary market depressed the yields on high credit quality TFCs. Trading activity in TFCs remained skewed towards high quality issues, notably belonging to the Chemicals and Banking sectors. All the TFCs in the Fund are floating rate linked to KIBOR. Therefore, any increase in the interest rates will improve the coupon income of the Fund.

State Bank of Pakistan increased the policy rate to 10% from 9% during FY14 premised on rising inflation expectation, pressure on external account and reduction in FX reserves. However, in the second half of FY 14, significant improvement was observed in the external account mainly due to aid from Saudi Arabia, issuances of Eurobond, successful SPOs of UBL & PPL and auction of 3G & 4G licenses. This resulted in unexpected recovery of Pak rupee against the US dollar. Inflation also remained below initial projections due to lower money supply growth and depressed commodity prices. However, State Bank of Pakistan restrained from easing policy rate highlighting law and order situation and power shortages as the prime factors affecting investment in economy.

During the period under review Government has shifted its borrowing from short term T-Bills to long term PIBs thus reducing rollover or refinancing risk. However this shift in borrowing from short term to long term has came at a significant cost as PIBs are an expensive source of borrowing. This shift in borrowing is evident from below mentioned table:

Source of Borrowing	Jun-13		Jun-14	
	Rs. In Bn	%	Rs. In Bn	%
PIBs	1,321.9	26.8%	3,223.5	59.4%
T-Bills	3,151.0	63.9%	1,878.9	34.6%
GOP Ijara Sukuk	459.2	9.3%	326.4	6.0%
Total	**4,932.1**	**100.0%**	**5,428.8**	**100.0%**

Asset Allocation of Fund (% of NAV)

Particulars	30-Jun-14	30-Jun-13
PIBs	35.01%	-
Placements with DFIs	-	2.67%
TFCs / Sukuks	27.94%	45.02%
Money Market Placements	1.08%	7.28%
Equity	0.96%	2.50%
Cash Equivalents & Other Assets	35.01%	42.53%
Total	**100.00%**	**100.00%**

Distribution for the Financial Year 2014

Interim Period	Dividend as a % of Par Value (Rs.10)	Cummlative Div. Price / Unit	Ex- Div. Price
Half Year Ended Dec 2013	2.0040%	10.7460	10.5456
Mar Qtr 2014	2.0040%	11.1082	10.9078
Jun Qtr 2014	7.9170%	11.2350	10.4433

Details of Non-Compliant Investments

Particulars	Type of Investment	Value of Investments before Provision	Provision held	Value of Investments after Provision	% of Net Assets	% of Gross Assets	Yield to Maturity per annum
BRR Guardian Modaraba***	SUKUK	35,781,250	-	26,746,484	0.61%	0.54%	53.74%
Escort Investment Bank Limited***	TFC	2,497,980	-	1,841,901	0.04%	0.04%	18.00%
Saudi Pak Leasing	TFC	41,321,115	41,321,115	-	n/a	n/a	n/a
World Call Telecom Limited	TFC	96,370,722	96,370,722	-	n/a	n/a	n/a
Eden Housing (Sukuk II)	SUKUK	9,056,250	9,056,250	-	n/a	n/a	n/a
Pak Elektron Limited (Sukuk)	SUKUK	51,428,571	51,428,571	-	n/a	n/a	n/a
Agritech Limited I	TFC	149,860,200	149,860,200	-	n/a	n/a	n/a
Agritech Limited V	TFC	32,320,000	32,320,000	-	n/a	n/a	n/a
Azgard Nine Limited III	TFC	108,376,850	108,376,850	-	n/a	n/a	n/a
Azgard Nine Limited V	TFC	82,180,000	82,180,000	-	n/a	n/a	n/a
Dewan Cement Limited	TFC	150,000,000	150,000,000	-	n/a	n/a	n/a
New Allied Electronics (PPTFC)	TFC	31,706,536	31,706,536	-	n/a	n/a	n/a
New Allied Electronics (Sukuk II)	SUKUK	44,148,934	44,148,934	-	n/a	n/a	n/a
PACE Pakistan Limited	TFC	149,820,000	149,820,000	-	n/a	n/a	n/a
Azgard Nine Limited (Non-Voting Ordinary Shares)	Equity	12,854	12,854	-	n/a	n/a	n/a
Agritech Limited Shares	Equity	141,403,150	99,830,624	41,572,526	0.96%	0.84%	n/a
Total		**1,126,284,412**	**1,046,432,656**	**70,160,911**	**1.61%**	**1.42%**	

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

Unit Holding Pattern of NAFA Income Opportunity Fund as on 30th June 2014

Size of Unit Holding (Units)	# of Unit Holders
1-1000	206
1001-5000	205
5001-10000	65
10001-50000	134
50001-100000	76
100001-500000	68
500001-1000000	14
1000001-5000000	20
5000001-10000000	10
10000001-100000000	9
	807

During the period under question:

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

Workers' Welfare Fund (WWF)

The scheme has maintained provisions against Workers' Welfare Fund's liability to the tune of Rs. 25,065,517, if the same were not made the NAV per unit/ FY 2014 return of scheme would be higher by Rs. 0.0603/0.67%. For details investors are advised to read note 12.1 of the latest Financial Statement of the Scheme for the year ended June 30, 2014.

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of NBP Fullerton Asset Management Limited, the Management Company of **NAFA Income Opportunity Fund** ("the Fund") for the year ended 30 June 2014 to comply with the requirements of the Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange Limited where the Fund is listed.

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

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

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

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

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

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

Date: September 16, 2014

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Independent Auditors' Report to the Unit Holders

Report on the Financial Statements

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

Date: September 16, 2014

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Nadeem

Statement of Assets and Liabilities
As at 30 June 2014

	Note	2014	2013
		(Rupees in '000)	
Assets			
Bank balances	4	1,407,789	716,381
Investments	5	2,828,529	1,074,391
Profit receivable	6	163,639	97,241
Advance, deposit, prepayment and other receivable	7	464,990	464,978
Total assets		4,864,947	2,352,991
Liabilities			
Payable to NBP Fullerton Asset Management Limited - Management Company	8	6,690	2,838
Payable to Central Depository Company of Pakistan Limited - Trustee	9	358	198
Payable to Securities and Exchange Commission of Pakistan	10	1,817	1,243
Payable against redemption of units	11	453,578	440,064
Accrued expenses and other liabilities	12	49,934	39,296
Total liabilities		512,377	483,639
Net assets		4,352,570	1,869,352
Unit holders' fund (as per statement attached)		4,352,570	1,869,352
Contingency and commitment	13		
		(Number of units)	
Number of units in issue	14	415,812,394	175,369,497
		(Rupees)	
Net assets value per unit		10.4676	10.6595

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive **Director**

Income Statement
For the year ended 30 June 2014

	Note	2014	2013
		(Rupees in '000)	
Income			
Income from term finance certificates and sukuk bonds		188,824	266,865
Income from Pakistan investment bonds		38,898	-
Income from treasury bills		8,196	14,441
Income from commercial papers and term deposits		11,101	-
Profit on saving accounts		87,107	32,865
Income from money market placements		1,113	2,798
Net unrealised appreciation / (diminution) on remeasurement of investments classified as financial assets at fair value through profit or loss	5.6	34,041	(19,423)
Recovery on partial settlement of liability	5.5.4	-	49,693
Capital gain / (loss) on sale of investments - net		2,739	(587)
Total income		372,019	346,652
Expenses			
Remuneration of NBP Fullerton Asset Management Limited - Management Company	8.1	36,343	24,870
Sindh Sales Tax on remuneration of Management Company	8.1	6,780	3,979
Federal Excise Duty on remuneration of Management Company	8.2	5,815	219
Remuneration of Central Depository Company of Pakistan Limited - Trustee	9	2,909	2,259
Annual fee - Securities and Exchange Commission of Pakistan	10	1,817	1,244
Securities transaction cost		140	7
Settlement and bank charges		326	234
Annual listing fee		40	40
Auditors' remuneration	15	573	501
Fund rating fee		254	121
Legal and professional charges		82	40
Printing charges		102	10
(Reversal) / provision against non-performing term finance certificate and sukuks - net	5.7.1	(167,268)	155,433
Total expenses		(112,087)	188,957
Net income from operating activities		484,106	157,695
Provision for Workers' Welfare Fund	12.1	(9,682)	(3,154)
Net income before taxation		474,424	154,541
Taxation	16`	-	-
Net income for the year		474,424	154,541

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive **Director**

Statement of Comprehensive Income
For the year ended 30 June 2014

	Note	2014	2013
		(Rupees in '000)	
Net income for the year		**474,424**	154,541
Other comprehensive income for the year			
Items to be reclassified to income statement in subsequent periods:			
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'available for sale'	*5.7*	**(68,157)**	15,806
Total comprehensive income for the year		**406,267**	170,347

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive **Director**

Distribution Statement
For the year ended 30 June 2014

	2014	2013
	(Rupees in '000)	
Undistributed income brought forward		
Realised income	187,507	472,917
Unrealised income / (loss)	114	(444,464)
	187,621	28,453
Net income for the year	474,424	154,541
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net	177,627	4,627
Distributions:		
Final distribution:		
Declared on 11 July 2013: 6.337% (2012: Nil)		
- Issue of 5,732,351 bonus units (2012: Nil)	(57,480)	-
- Cash distribution	(51,458)	-
Interim distributions:		
Declared on 13 February 2014: 2.004% (2013: Nil)		
- Issue of 2,384,490 bonus units (2013: Nil)	(25,146)	-
- Cash distribution	(15,167)	-
Declared on 30 April 2014: 2.004% (2013: Nil)		
- Issue of 4,215,438 bonus units (2013: Nil)	(45,981)	-
- Cash distribution	(17,265)	-
Declared on 26 June 2014: 7.9170% (2013: Nil)		
- Issue of 21,986,611 bonus units (2013: Nil)	(229,641)	-
- Cash distribution	(68,209)	-
Total distributions	(510,347)	-
Undistributed income carried forward	329,325	187,621
Undistributed income comprising:		
Realised income	321,620	187,507
Unrealised income	7,705	114
	329,325	187,621

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive **Director**

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

	2014	2013
	(Rupees in '000)	
Net assets at beginning of the year	1,869,352	1,545,532
Issue of 286,617,646 units (2013: 21,534,730 units)	3,092,727	214,643
Issue of 34,318,065 bonus units (2013: Nil)	358,248	-
Redemption of 80,492,814 units (2013: 6,129,099 units)	(863,677)	(61,170)
	2,587,298	153,473
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net	(177,627)	(4,627)
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'available for sale'	(68,157)	15,806
Capital gain / (loss) on sale of investments - net	2,739	(587)
Unrealised appreciation on remeasurement of investments classified as financial assets at fair value through profit or loss - net	34,041	(19,423)
Other net income for the year	437,644	174,551
Total comprehensive income for the year	406,267	170,347
Distributions:		
Final distribution:		
Declared on 11 July 2013: 6.337% (2012: Nil)		
- Issue of 5,732,351 bonus units (2012: Nil)	(57,480)	-
- Cash distribution	(51,458)	-
Interim distributions:		
Declared on 13 February 2014: 2.004% (2013: Nil)		
- Issue of 2,384,490 bonus units (2013: Nil)	(25,146)	-
- Cash distribution	(15,167)	-
Declared on 30 April 2014: 2.004% (2013: Nil)		
- Issue of 4,215,438 bonus units (2013: Nil)	(45,981)	-
- Cash distribution	(17,265)	-
Declared on 26 June 2014: 7.9170% (2013: Nil)		
- Issue of 21,986,611 bonus units (2013: Nil)	(229,641)	-
- Cash distribution	(68,209)	-
Total distributions	(510,347)	-
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net	177,627	4,627
Net assets at end of the year	4,352,570	1,869,352
	(Rupees in '000)	
Net assets value per unit at beginning of the year	10.6595	9.6618
Net assets value per unit at end of the year	10.4676	10.6595

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive **Director**

Cash Flow Statement
For the year ended 30 June 2014

	Note	2014	2013
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income before taxation		474,424	154,541
Adjustments:			
Net unrealised (appreciation) / diminution on remeasurement of investments classified as financial assets at fair value through profit or loss		(34,041)	19,423
Reversal / (provision) against non-performing term finance certificate and sukuks - net		(167,268)	155,433
Provision for Workers' Welfare Fund		9,682	3,154
Recovery on partial settlement of liability		-	(49,693)
		282,797	282,858
(Increase) / decrease in assets			
Investments		(1,620,986)	13,144
Profit receivable		(66,398)	4,832
Advance, deposit, prepayment and other receivable		(12)	(121)
		(1,687,396)	17,855
Increase / (decrease) in liabilities			
Payable to NBP Fullerton Asset Management Limited - Management Company		3,852	648
Payable to Central Depository Company of Pakistan Limited - Trustee		160	21
Payable to Securities and Exchange Commission of Pakistan		574	(261)
Accrued expenses and other liabilities		956	(54)
		5,542	354
Net cash (used in) / generated from operating activities		(1,399,057)	301,067
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds received from issuance of units		3,092,727	214,643
Payments against redemption of units		(850,163)	(61,170)
Distributions paid		(152,099)	-
Net cash generated from financing activities		2,090,465	153,473
Net increase in cash and cash equivalents during the year		691,408	454,540
Cash and cash equivalents at beginning of the year		716,381	261,841
Cash and cash equivalents at end of the year	4	1,407,789	716,381

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive **Director**

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

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Income Opportunity Fund ("the Fund") was established under a Trust Deed executed between NBP Fullerton Asset Management Limited as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 11 February 2006 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 30 January 2006 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. The Trust Deed was amended through first supplemental trust deed executed for the change of name and categorisation of the Fund as an Income Scheme as per the criteria for categorisation of open end collective investment scheme as specified by Securities and Exchange Commission of Pakistan (SECP) and other allied matters.

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

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

The core objective of the Fund is to seek maximum preservation of capital and a reasonable rate of return. The principal activity of the Fund is to make investments in money market and debt securities having a good credit rating and liquidity subject to the guidelines prescribed by SECP. Other avenues of investments include ready future arbitrage in listed securities and transactions under Continuous Funding System.

The Pakistan Credit Rating Agency Limited has assigned an asset manager rating of AM2 to the Management Company and a stability rating of BBB+(f) to the Fund.

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Accounting convention

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

2.3 Functional and presentation currency

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

2.4 Critical accounting estimates and judgments

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

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

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

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

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

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.

- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria.

- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.

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

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.

- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.

- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

- Amendments to IAS 16'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset. IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

3.1 Cash and cash equivalents

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

3.2 Financial Assets

3.2.1 Classification

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

a) **Loans and receivables**

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

b) **Financial assets at fair value through profit or loss**

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

c) **Available for sale**

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

3.2.2 Regular way contracts

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

3.2.3 Initial recognition and measurement

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

3.2.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued as follows:

a) **Basis of valuation of debt securities**

The debt securities are valued on the basis of rates determined by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its Circular No. 33 of 2012 dated 24 October 2012. In the determination of the rates, MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

b) **Basis of valuation of equity securities**

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

c) **Basis of valuation of Government Securities**

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

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

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

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

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

3.2.5 Impairment of financial assets

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

a) **Debt securities**

In case of debt instruments classified as available-for-sale, if any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised through comprehensive income is reclassified through other comprehensive income to income statement. Impairment losses recognised on debt instruments in the income statement are reversed subsequently from income statement through comprehensive income.

b) **Loans and receivables**

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

c) **Equity Securities**

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

3.2.6 Derecognition

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

3.2.7 Offsetting of financial assets and financial liabilities

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

3.3 Financial liabilities

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

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

3.4 Derivatives

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

3.5 Provisions

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

3.6 Taxation

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

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

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

3.7 Proposed distribution

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

3.8 Issue and redemption of units

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

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

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

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

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

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

3.10 Earnings per unit

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

3.11 Net Assets Value Per Unit

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

3.12 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.

- Unrealised appreciaiton / (diminution) arising on remeasurement of investments classified as Financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.

- Unrealised appreciation / (diminution) arising on remeasurement of investments classified as Available for sale investments' are included in the other comprehensive income in the period in which they arise.

- Profit on bank deposits, mark-up / return on investments in debt securities and income from government securities is recognised using the effective yield method.

- Dividend income is recognised when the right to receive the same is established i.e. on the date of book closure of the investee company / institution declaring the dividend.

4 BALANCES WITH BANKS

	Notes	**2014**	2013
		(Rupees in '000)	
In current accounts		3,928	372
In savings accounts	4.1	1,403,861	716,009
		1,407,789	716,381

4.1 These accounts carry profit at rates ranging from 5% to 12% (2013: 5% to 12%) per annum. This includes pay orders in hand of Rs. 859.147 million as at 30 June 2014.

5 INVESTMENTS

Financial assets 'at fair value through profit or loss' - held for trading			
Equity securities - listed	5.1	-	-
Market Treasury bills	5.2	-	-
Pakistan Investment Bonds	5.2	1,523,760	-
Term finance certificates	5.3	587,132	293,978
		2,110,892	293,978
Available for sale			
Equity Securities - listed	5.4	41,573	46,784
Term finance certificates - listed	5.5	65,426	232,201
Term finance certificates - unlisted	5.5	307,245	215,830
Sukuk bonds	5.5	256,509	235,596
		670,753	730,411
Loans and receivable - Commercial paper			
Commercial paper - Pair Investment	5.8	46,884	50,002
		2,828,529	1,074,391

5.1 Equity securities - listed

Name of the investee company	Number of shares: As at 01 July 2013	Purchases during the year	Bonus	Sales during the year	As at 30 June 2014	Value as at 30 June 2014 (Rupees in '000)	Investment as a percentage of: Net assets	Market value of total investments	Paid-up capital of investee company
Fully paid ordinary shares of Rs 10 each.									
Azgard Nine Limited (Non-voting)	308	-	-	-	308	-	-	-	-
					308	-	-	-	-

Cost of investment as at 30 June 2014	13
Provision as at 30 June 2014	(13)
	-

5.2 Market Treasury Bills

Issue Date	Tenure	Face value: As at 1 July 2013	Purchases during the year	Sales during the year	As at 30 June 2014	Market value as at 30 June 2014	Investment as a %age of: Market value of net assets	Market value of total investments
24 January 2013	6 Months	-	40,000	40,000	-	-	-	-
26 January 2012	12 Months	-	600,000	600,000	-	-	-	-
19 September 2013	3 Months	-	250,000	250,000	-	-	-	-
28 November 2013	3 Months	-	70,000	70,000	-	-	-	-
26 December 2013	3 Months	-	100,000	100,000	-	-	-	-
20 February 2014	3 Months	-	540,000	540,000	-	-	-	-
28 February 2014	6 Months	-	140,000	140,000	-	-	-	-
20 March 2014	3 Months	-	105,000	105,000	-	-	-	-
15 May 2014	3 Months		200,000	200,000	-	-	-	-
						-		
Pakistan Investment Bond (PIB)								
18 July 2013	3 Years	-	1,869,500	325,000	1,544,500	1,523,760	-	-
						1,523,760		
Carrying value of investments as at 30 June 2014						**1,520,129**		

5.3 Term finance certificates - Financial assets 'at fair value through profit or loss' - held for trading

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

Name of the investee company	As at 01 July 2013	Purchases during the year	Sales / *Matured during the year	As at 30 June 2014	Market value / carrying value* as at 30 June 2014	Market value as a percentage of net assets	Market value as a percentage of total investments	Percentage of issue size of debt security held
	----------Number of certificates---------				(Rupees in '000)			
Term finance certificates								
Bank Alfalah Limited - V	20,000	-	-	20,000	101,284	2.33%	2.08%	0.40%
Bank Al-Habib Limited	500	-	-	500	2,501	0.06%	0.05%	0.20%
Engro Fertilizers Limited	5,200	20,562	-	25,762	127,346	2.93%	2.62%	0.65%
Escort Investment Bank Limited	10,000	-	-	10,000	1,842	0.04%	0.04%	10.00%
Gharibwal Cement Limited	5,000	-	5,000	-	-	0.00%	0.00%	0.00%
Jahangir Siddiqui and Company Limited III	-	15,000	-	15,000	75,000	1.72%	1.54%	10.00%
Jahangir Siddiqui and Company Limited II	-	18,400	-	18,400	57,199	1.31%	1.18%	9.20%
Pace (Pakistan) Limited (note 5.3.4)	30,000	-	-	30,000	-	-	-	10.00%
Saudi Pak Leasing Company Limited (note 5.3.5)	15,000	-	-	15,000	-	-	-	10.00%
Islamic sukuk bond								
K-Electric Limited - AZM Sukuk	-	43,120	-	43,120	221,960	5.10%	4.56%	3.59%
Short term islamic sukuks - unlisted								
HUBCO Islamic Sukuk (13 March 13 to 12 September 13)	10,200	-	10,200	-	-	0.00%	0.00%	0.44%
HUBCO Islamic Sukuk (14 February 13 to 14 August 13)	17,000	-	17,000	-	-	0.00%	0.00%	0.77%
				177,782	587,132			
Carrying value of investments as at 30 June 2014					770,625			
Provision for impairment losses as at 30 June 2014					191,141			

5.3.2 Significant terms and conditions of term finance certificates and sukuk bonds outstanding as at 30 June 2014 are as follows:

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
Escort Investment Bank Limited	250	8% fixed rate	15 March 2007	September 15, 2014
Engro Fertilizer Limited	4987	1.55% + 6 month KIBOR	30 November 2007	30 November 2015
K-Electric Limited - AZM Sukuk	5000	2.25% + 3 month KIBOR	19 March 2014	19 March 2017
Pace (Pakistan) Limited II	4994	2% + 6 month KIBOR	15 February 2008	15 February 2013
Saudi Pak Leasing Company Limited	2755	6% fixed rate	13 March 2008	13 March 2017
Bank Alfalah Limited - V	4998	1.25% + 6 month KIBOR	20 February 2013	20 February 2021
Bank Al-Habib Limited	4986	1.95% + 6 month KIBOR	7 February 2007	7 February 2015
Jahangir Siddiqui and Company Limited III	5000	1.25% + 6 month KIBOR	8 April 2014	8 April 2019
Jahangir Siddiqui and Company Limited II	3125	1.25% + 6 month KIBOR	30 October 2012	30 October 2016

5.3.3 Fair value of all performing term finance certificates classified as investments at fair value through profit or loss is determined using rates notified by the Mutual Funds Association of Pakistan (MUFAP).

5.3.4 This represents investment in listed term finance certificates with a term of five years. On 15 August 2011, the scheduled profit payment date, principal redemption of Rs.30 thousands and profit redemption of Rs.11.806 million were not received by the Fund. The investment has been fully provided. The income suspended on these term finance certificates up to 30 June 2014 amounted to Rs. 67.041 million (30 June 2013: Rs. 49.628 million).

5.3.5 This represents investment in listed term finance certificates with a term of five years. On 30 April 2014, the scheduled profit payment date, principal redemption of Rs.0.6 million and profit redemption of Rs. 4.405 million were not received by the Fund. The investment has been fully provided. The income suspended on these term finance certificates up to 30 June 2014 amounted to Rs. 5.019 million (30 June 2013: Rs. 2.483 million).

5.4 Equity Seceurities - available for sale

Name of the investee company	Number of shares				Market value / Carrying value as at 30 June 2014	Investment as a %age of		
	As at 1 July 2013	Purchases during the year	Sales during the year	As at 30 June 2014		Market value of net assets	Market value of total investments	Paid up capital of investee company
Fully paid ordinary shares of Rs 10 each								
Chemicals								
Agritech Limited (note 5.4.1)	4,040,090	-	-	4,040,090	41,573	0.96%	0.85%	1.03%
Carrying value as at 30 June 2014					46,784			

5.4.1 This represents shares received in partial settlement against TFC of Azgard Nine limited as more fully explained in note 5.5.4. These shares have been marked to market at prevailing market price as of 30 June 2014 after obtaining approval from Securities and Exchange Commission of Pakistan.

5.5 Term finance certificates and sukuk bonds - Available for sale

Name of the investee company	As at 01 July 2013	Purchases during the year	Sales / *Matured during the year	As at 30 June 2014	Market value / carrying value* as at 30 June 2014 (Rupees in '000)	Market value as a percentage of net assets	Market value as a percentage of total investments	Percentage of issue size of debt security held
	----------Number of certificates---------							
Term finance certificate - listed								
Pakistan Mobile Communications (Private) Limited	30,600	-	30,600	-	-	0.00%	0.00%	0.00%
World Call Telecom Limited (note 5.5.3)	45,000	-	-	45,000	-	0.00%	0.00%	5.63%
Allied Bank Limited	13,400	-	-	13,400	65,426	1.50%	1.34%	2.23%
					65,426			
Term finance certificate - unlisted								
Avari Hotels International	35,040	-	-	35,040	50,330	1.16%	1.78%	5.57%
Azgard Nine Limited III (note 5.5.4)	50,000	-	-	50,000	-	0.00%	0.00%	10.00%
Azgard Nine Limited V (note 5.5.5)	16,436	-	-	16,436	-	-	-	4.34%
Dewan Cement Limited (note 5.5.6)	30,000	-	-	30,000	-	-	-	7.50%
Engro Chemical Pakistan Limited-PRP-I)	31,800	22,570	1,400	52,970	256,915	5.90%	9.08%	6.62%
New Allied Electronics Industries (Private) Limited (note 5.5.7)	15,000	-	-	15,000	-	0.00%	0.00%	8.33%
Agritech Limited I (note 5.5.8)	30,000	-	-	30,000	-	0.00%	0.00%	10.00%
Agritech Limited V (note 5.5.9)	6,464	-	-	6,464	-	0.00%	0.00%	10.00%
					307,245			
Sukuk bonds								
Eden Builders Limited	7,956	-	7,956	-	-	0.00%	0.00%	1.59%
Eden Housing Limited (note 5.5.10)	9,200	-	-	9,200	-	0.00%	0.00%	-
Kohat Cement Company Limited	50,000	-	-	50,000	-	0.00%	0.00%	10.00%
Maple Leaf Cement Factory Limited (note 5.5.11)	80,000	-	-	80,000	229,763	5.28%	8.12%	5.00%
New Allied Electronics Industries (Private) Limited (note 5.5.7)	9,000	-	-	9,000	-	-	-	-
Pak Elektron Limited (note 5.5.12)	24,000	-	-	24,000	-	0.00%	0.00%	10.00%
BRR Guardian Modaraba	10,000	-	-	10,000	26,746	0.61%	0.95%	6.25%
					256,509			
					629,180			
Carrying value of investments as at 30 June 2014					**1,457,069**			
Provision for impairment losses as at 30 June 2014					**755,448**			

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

5.5.1 Significant terms and conditions of term finance certificates and sukuk bonds outstanding as at 30 June 2014 are as follows:

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
Term finance certificate - listed				7 October 2013
World Call Telecom Limited	2142	1.60% + 6 Month KIBOR	7 October 2008	28 August 2019
Allied Bank Limited	4991	0.85% + 6 Month KIBOR	28 August 2009	
Term finance certificate - unlisted				1 November 2014
Avari Hotels International	1385	2.5% + 6 Month KIBOR	30 April 2009	4 December 2014
Azgard Nine Limited	2168	2.25% + 6 Month KIBOR	4 December 2007	31 March 2017
Azgard Nine Limited	5000	-	31 March 2012	14 January 2014
Dewan Cement Limited	5000	2% + 6 Month KIBOR	14 January 2008	18 March 2018
Engro Chemical Pakistan Limited	5000	1.7% + 6 Month KIBOR	18 March 2008	15 May 2011
New Allied Electronics Industries (Private) Limited	2114	3% + 3 Month KIBOR	15 May 2007	30 November 2014
Agritech Limited I	4995	1.75% + 6 Month KIBOR	30 November 2007	28 April 2017
Agritech Limited V	5000	11% fixed rate	28 October 2011	
Sukuk bonds				7 December 2016
BRR Guardian Modaraba	3578	1 Month KIBOR	7 July 2008	29 September 2014
Eden Housing Limited	984	2.5% + 6 Month KIBOR	29 March 2008	20 December 2015
Kohat Cement Company Limited	-	2.5% + 6 Month KIBOR	20 December 2007	3 December 2018
Maple Leaf Cement Factory Limited	3864	1% + 3 Month KIBOR	3 December 2007	3 December 2012
New Allied Electronics Industries (Private) Limited	4905	2.2% + 6 Month KIBOR	3 December 2007	28 September 2012
Pak Elektron Limited	2143	1.75% + 3 Month KIBOR	28 September 2007	

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

5.5.3 MUFAP, on 8 November 2012 classified the TFCs as non-performing due to non payment during extended period. Subsequently, on 26 December 2012 a restructuring agreement was approved by the TFCs holders. In accordance with the terms of restructuring, repayment period has been extended by two years and the principle amount is to be settled in three equal installments starting from 7 October 2014. Payment of accrued markup as at 7 October 2012 along with regular markup payments is to be made in eleven installments starting from 7 January 2013 with major payments due on 7 July 2014 and afterwards. The investment has been fully provided. The income suspended on these term finance certificates up to 30 June 2014 amounted to Rs. 9.231 million (30 June 2013: Rs. 10.178 million).

5.5.4 On 12 April 2012, a share transfer and debt swap agreement was entered into between the Financial Institutions and Azgard Nine Limited (the issuer), whereby the issuer agreed to transfer its entire holding in Agritech Limited to the existing lenders / creditors, including the Term Finance Certificate (TFC) holders at the agreed settlement price, in partial settlement of the outstanding principal / redemption obligations. As part of the above arrangement, the Fund settled its investment in TFC of Azgard Nine Limited amounted to Rs. 141,403,150 in consideration of 4,040,090 ordinary shares at the value of Rs.35 per share of Agritech Limited against the partial settlement of its outstanding exposure. The fair value of an ordinary share was Rs. 12.30 at transaction date i.e. 31 October 2012. Accordingly, the same have been recorded at fair value and the resultant effect recorded through income statement as recovery on partial settlement of investment.

As per the terms of the Share Transfer and Debt Swap Agreement, Agritech Limited shares shall be held by the respective trustees for the TFC issues in their name for and on behalf of the TFC Holders who shall be the beneficial owners of the subjected shares in proportion to their holdings.

The Trustees for the TFC issue are authorized pursuant to shareholders investors agreement to hold the said ordinary shares for and on behalf of TFC holders for a period of five years from the date of transfer. During the lock in period of five years, shares can be sold to an outside buyer subject to a prior written approval of the investors, however, no such approval is required for inter financier sale.

5.5.5 These zero coupon privately placed term finance certificates (PPTFCs) were issued against the interest receivable on TFCs of Azgard Nine Limited (disclosed in note 5.5.4) under an agreement dated 28 June 2012 between the Management Company of the Fund and Azgard Nine Limited. These PPTFCs are issued against the non performing securities, therefore the management, as a matter of prudence has recognised the above PPTFCs at nil value. The principal outstanding against these PPTFCs is to be redeemed in seven equal semi-annual instalments starting from 31 March 2014 and will mature on 31 March 2017. These PPTFCs were classified as non performing by MUFAP on 07 December 2012.

5.5.6 The Fund had advanced an amount of Rs 150 million in respect of Pre-IPO placement of Dewan Cement Limited (DCL) under an agreement, which required public offering to be completed within 270 days of the date of agreement (which was 09 January 2008). DCL failed to complete the public offering within the said time period and has also defaulted in payment of principal and profit. The investment has been fully provided. The income suspended on these term finance certificates up to 30 June 2014 amounted to Rs.136.128 million (30 June 2013: Rs. 118.726 million).

5.5.7 These represent investments in privately placed Term Finance Certificates and Sukuk bonds of the investee company. The investment has been fully provided. The income suspended on these term finance certificate and sukuk up to 30 June 2014 amounted to Rs. 30.125 million (30 June 2013: Rs. 26.116 million) and Rs. 36.452 million respectively (30 June 2013: Rs. 31.117 million).

5.5.8 Agritech Limited defaulted in payment of principal and mark-up due on 30 May 2010. The investment has been fully provided. The income suspended on these term finance certificates up to 30 June 2014 amounted to Rs.61.263 million (30 June 2013: Rs. 43.856 million).

5.5.9 This represents investment in privately placed term finance certificates of Agritech V received against due markup of Agritech I. MUFAP has classified these PPTFC's as non-performing. The investment has been fully provided. The income suspended on these term finance certificates up to 30 June 2014 amounted to Rs.8.869 million (30 June 2013: Rs. 5.323 million).

5.5.10 This represents investment in privately placed sukuk bonds issue with a term of five years. On 6 May 2011, these Sukuks have been classified as non performing by MUFAP. The investment has been fully provided. The income suspended on these sukuk bonds up to 30 June 2014 amounted to Rs. 0.590 million (30 June 2013: Rs. 0.005 million).

5.5.11 Maple Leaf Cement Factory Limited defaulted for the second time in the payment of principal and mark-up due on 03 September 2011 (earlier default on 03 December 2009). In accordance with the requirements of Circular No. 33 of 2012 dated 24 October 2012 issued by SECP, the exposure had been classified as non-performing (both by the fund and MUFAP). Upto 30 June 2013, a provision of 60% i.e. Rs. 215.490 million had been made in respect of the outstanding exposure and no further mark-up was being accrued. During the year, the status of these sukuk bonds has been changed from non-performing to performing based on compliance with terms and installments recognised on due dates. The Fund has received principal amounting to Rs. 50 million (5 installments of 10 million each) with mark up of Rs. 87.382 million. Therefore, provision for impairment made upto 30 June 2013 amounting to Rs. 215.490 million has been reversed. The income on these sukuk bonds has been recognised in accordance with the requirements of Circular No. 33 of 2012 issued by SECP.

5.5.12 This represents investment in privately placed sukuk bonds. On 27 December 2011 i.e. the scheduled redemption date, profit redemption of Rs. 1.93 million was not received by the Fund. The investment has been fully provided. The income suspended on these sukuk bonds up to 30 June 2014 amounted to Rs.1.594 million (30 June 2013: Rs. 2.197 million).

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

			2014	2013
			(Rupees in '000)	
5.6	**Net unrealised appreciation / (diminution) on remeasurement of investments classified as financial assets at fair value through profit or loss**			
	Market value of investments		2,110,892	293,978
	Less: carrying value of investments		(2,290,754)	(487,577)
			(179,862)	(193,599)
	Provision against non-performing TFCs			
	Balance as at 1 July		174,176	191,092
	Provision / (reversal) made during the year		41,322	(16,916)
	Less: Reversal of provision due to recovery		(24,357)	-
	Balance as at 30 June		191,141	174,176
	Less: Reversal of unrealised loss		22,762	-
			34,041	(19,423)
5.7	**Unrealised appreciation on remeasurement of investments classified as available for sale - net**			
	Market value of investments		670,753	730,411
	Less: Carrying of investments		(1,503,853)	(1,654,286)
			(833,100)	(923,875)
	Provision against non-performing TFCs and sukuks			
	Balance as at 1 July		939,681	908,755
	Provision made during the year		31,257	191,819
	Written off during the year		-	(91,730)
	Reversal of provision due to recovery		-	(49,693)
	Reversal of provision due to change in classification	5.5.11	(215,490)	
	Reversal of provision due to redemption of principal		-	(19,470)
	Balance as at 30 June		755,448	939,681
	Reversal of appreciation on maturity of investment classified as available for sale - net		9,495	-
			(68,157)	15,806
5.7.1	**Movement in provision against non-performing term finance certificates and sukuks**			
	Balance as at 1 July		1,113,857	1,099,847
	Charge for the year		72,579	174,903
	Reversal of provision due to recovery		(24,357)	
	Reversal of provision due to change in classification		(215,490)	-
	Reversal of provision due to redemption of principal		-	(19,470)
			(167,268)	155,433
	Reversal of provision due to recovery		-	(49,693)
	Written off during the year		-	(91,730)
	Balance as at 30 June		946,589	1,113,857

5.8 This represents commercial paper of Pair Investment Company carrying markup rate of 9.99% and will mature on 18 November 2014.

			2014	2013
6	PROFIT RECEIVABLE		(Rupees in '000)	
	Profit on savings account		51,809	53,755
	Profit on Certificate of investments		-	78
	Profit on Pakistan Investment Bond		78,072	-
	Provsion against accrued profit	7.1	(17,012)	(17,012)
			112,869	36,821
	Income accrued on term finance certificates and sukuk bonds - net		50,770	60,420
			163,639	97,241

7	ADVANCE, DEPOSIT, PREPAYMENT AND OTHER RECEIVABLE			
	Advance tax		1,532	1,532
	Security deposits with Central Depository Company of Pakistan Limited		100	100
	Prepaid rating fee		133	121
	Receivable from KASB Bank Limited	7.1	463,225	463,225
			464,990	464,978

7.1 This represents receivable of Rs. 463.225 million on account of deposit maintained with KASB Bank ("the Bank").

The Fund claims profit at the rate 13 percent on its Mahana Khazan account maintained with the Bank, since 23 June 2008 to 10 February 2011. Whereas, the Bank did not credit / pay the due mark up at agreed rate, as the Bank did not get expected profit on its investment in units of the Fund for the same period. Based on said presumption, the Bank credited profit at the rate of 5 percent per annum, whereas, no guarantee / commitment was given to the Bank by the Fund in respect of rate of return. The Fund, on a prudent basis, accrued the mark up for the said period at 8 percent per annum, a minimum rate which the Bank offered to all its corporate customers. Subsequently, the management has been engaged in continuous efforts for recovery of profit at the rate of 13 percent and had several meeting with the official of the Bank.

On 10 February 2011, the Fund requested to the Bank to withdraw its entire deposit. The Bank has also filed for the redemption of their entire investment in the Fund on the same date. The Bank declined to honour the Fund’s withdrawal request linking it with paying their redemption amount before releasing the Fund’s deposit. On 01 April 2011, the Bank unilaterally set off the redemption value of the Bank’s investment in the Fund with the Fund’s deposit with the Bank and credited the principal of Rs 187.008 million plus profit of Rs. 24.64 million at the rate of around 5 percent after making an adjustment of Rs 463.225 million on account of redemption of its units which includes contingent load of Rs. 23.161 million. The Fund accepted the amount under protest, being part payment of total amount receivable and referred this case to the Banking Mohtasib for resolution while claiming profit at the rate of 13 percent. The management, at parallel, continued its negotiation with the Bank through the Trustee. The Trustee informed to the Fund that the Bank offered the rate of 7 percent from retrospective affect to settle the transaction. The Trustee advised to the management to meet with the Bank officials once again on this issue and try to recover the profit at better rate. The Management Company was making every effort for recovery of profit at the rate higher than 7 percent. However on prudent basis, it brought down the accrued profit at 7 percent and has maintained provision of Rs. 17 million there against.

In this regard, the management has filed a recovery suit against the Bank with the Sindh High Court. The Securities and Exchange Commission of Pakistan (SECP) vide its Order dated 12 August 2011 under Section 282J (1) and 282J (2) of the Companies Ordinance, 1984, required the Management Company to make the loss of Rs.19 million good to the Fund’s unit holders in addition to a penalty of Rs. 1 million.

Unexpectedly, the Management Company received above order while the management was pursuing this case with the Banking Mohtasib and the High Court for the benefits of the unit holders and therefore was unable to understand as to how SECP without having final discussion issued such an order. Moreover, the Management is of the view that the regulators’ second-guessing of decisions of the management based on the hindsight information would be detrimental to the business. The Management Company filed an appeal with the Appellate Bench of SECP on 26 August 2011 and the Bench suspended the said order till the issuance of final order.

During the year ended 30 June 2012, the Management Company has filed petition before the Honorable High Court of Sindh for resolution of dispute with the Bank. The hearing of the case is pending to date. However, the Management Company is confident that the matter would be resolved in the Fund’s favour.

		2014	2013
		(Rupees in '000)	
8 PAYABLE TO NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY			
Management fee	8.1	884	2,257
Sindh Sales Tax	8.1	164	362
Federal Excise Duty	8.2	5,454	219
Sale load payable to Management Companay		69	-
Sindh Sales Tax and Federal Excise Duty on Sale Load payable		119	-
		6,690	2,838

8.1 Under the provisions of 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. Currently, Management fee is being charged at the rate of one and a half percent per annum of the average annual net assets of the Fund. The Sindh Provincial Government has levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company and sales through Sindh Sales Tax on Services Act, 2011, effective from 1 July 2011.

8.2 As per the requirement of Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective 13 June 2013. The Management Company is of the view that since the remuneration is already subject to provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law. The matter has been taken up collectively by the Mutual Fund Association of Pakistan where various options are being considered. The High Court of Sindh in its order dated 09 September 2013 granted stay to the various funds for the recovery of FED. As a matter of abundant caution, the Management Company has made a provision with effect from 13 June 2013, aggregating to Rs. 6.034 million out of which Rs. 0.580 million have been paid to the Management Company. Had the provision not been made, the net assets value (NAV) per unit of the fund as at 30 June 2014 would have been higher by Rs. 0.0145 per unit.

9 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

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

Based on the Trust Deed, the tariff structure applicable to the Fund is as follows:

Net Assets	Tariff per annum
Upto Rs 1,000 million	0.17% p.a. of net assets
On an amount Rs 1,000 million to 5,000 million	Rs 1.7 million plus 0.085% p.a. of net assets exceeding Rs 1,000 million.
On an amount exceeding Rs 5,000 million	Rs 5.1 million plus 0.07% p.a. of net assets exceeding Rs 5,000 million.

10 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the NBFC Regulations, a collective scheme categorized as an income scheme is required to pay an annual fee to SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund. The fee is paid annually in arrears.

11 PAYABLE AGAINST REDEMPTION OF UNITS

This includes Rs. 440.064 million payable on account of redemption of units KASB Bank Limited (refer note 7.1)

12 ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2014	2013
		(Rupees in '000)	
Auditors' remuneration		401	354
Settlement charges payable		12	20
Payable to brokers		-	-
Dividend payable to brokers		-	-
Printing charges		125	85
Workers' Welfare Fund	*12.1*	25,066	15,384
Contingent load	*7.1*	23,161	23,161
Legal Fee		50	40
Withholding tax		364	157
Capital gain tax		508	-
Others		247	95
		49,934	39,296

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

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

During the year ended 30 June 2012, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, had declared the said amendments as unlawful and unconstitutional. In March 2013, a larger bench of the Sindh High Court (SHC) passed an order declaring that the amendments introduced in the WWF Ordinance, 1971 through the Finance Act 2006 and 2008 respectively do not suffer from any constitutional or legal infirmity. However, the Honourable High Court of Sindh has not addressed the other amendments made in the WWF Ordinance 1971 about applicability of WWF to the CISs which is still pending before the Court. The decisions of SHC (in against) and LHC (in favour) are pending before Supreme Court. However, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs. 25.066 million (including Rs. 9.682 million for the current year). Had the same not been made the net assets value per unit of the Fund as at 30 June 2014 would have been higher by Rs 0.0603 per unit.

13 CONTINGENCY AND COMMITMENT

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

14 NUMBER OF UNITS IN ISSUE

	2014	2013
	(Number of units)	
Total units in issue at the beginning of the year	**175,369,497**	159,963,866
Add: units issued during the year	**286,617,646**	21,534,730
Add: bonus units issued during the year	**34,318,065**	-
Less: units redeemed during the year	**(80,492,814)**	(6,129,099)
Total units in issue at the end of the year	**415,812,394**	175,369,497

15 AUDITORS' REMUNERATION

	2014	2013
	(Rupees in '000)	
Audit fee	**351**	319
Half yearly review	**141**	128
Out of pocket expenses	**81**	54
	573	501

16 TAXATION

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

17 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 30 June 2014			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
Assets	Rupees in '000			
Bank balances	1,407,789	-	-	1,407,789
Investments	46,884	2,110,892	670,753	2,828,529
Profit receivable	163,639	-	-	163,639
Deposit and other receivable	463,325	-	-	463,325
	2,081,637	2,110,892	670,753	4,863,282

	As at 30 June 2014		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities	Rupees in '000		
Payable to NBP Fullerton Asset Management Limited - Management Company	-	6,690	6,690
Payable to Central Depository Company of Pakistan Limited - Trustee	-	358	358
Payable on redemption of units	-	453,578	453,578
Accrued expenses and other liabilities	-	23,996	23,996
	-	484,622	484,622

	As at 30 June 2013			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
Assets	Rupees in '000			
Bank balances	716,381	-	-	716,381
Investments	50,002	293,978	730,411	1,074,391
Profit receivable	97,241	-	-	97,241
Deposit and other receivable	463,325	-	-	463,325
	1,326,949	293,978	730,411	2,351,338

	As at 30 June 2013		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities	------------------Rupees in '000------------------		
Payable to NBP Fullerton Asset Management Limited -			
Management Company	-		
Payable to Central Depository Company of Pakistan		2,838	2,838
Limited - Trustee	-		
Payable on redemption of units	-	198	198
Accrued expenses and other liabilities	-	440,064	440,064
	-	23,755	23,755
	-	466,855	466,855

18 TRANSACTIONS WITH CONNECTED PERSONS

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

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

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

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

18.5 Details of the transactions with connected persons are as follows:	**2014**	2013
	(Rupees in '000)	
NBP Fullerton Asset Management Limited - Management Company		
Remuneration of the Management Company	36,343	24,870
Sindh Sales Tax on management remuneration	6,780	3,979
Federal Excise Duty on management remuneration	5,815	219
Sale load during the period	703	
Federal Excise Duty on sale load	106	-
Sale tax on sale load	123	-
National Bank of Pakistan - Sponsor		
Market treasury bills purchased	-	350,000
Market treasury bills sold	542,672	-
Issue of 419,214 bonus units (2013: Nil)	-	-
NBP Employees Pension Fund		
Issue of 10,493,307 bonus units (2013: Nil)	-	-
Summit Bank Limited		
Bank profit	109	72
Mr. Shahid Anwar Khan - Director		
Units redeemed: Nil (2013: 3,288 units)	-	34
Employees of Management Company --NAFA		
Issue / transfer in of 1,920,256 units (2013: 8,331 units)	20,826	86
Redemption / transfer out of 1,094,129 units (2013: 8331 units)	11,866	86
Issue of 80,170 bonus units (2013: Nil)	-	-

	2014	2013
	(Rupees in '000)	
Central Depository Company of Pakistan Ltd. - Trustee		
Remuneration of the Trustee	2,909	2,259
The Hub Power Company Limited		
Investment purchased	-	136,000
Investment matured	136,000	-
Pak Arab Refinery Limited - Staff Gratuity Fund		
Purchase of market treasury bills	-	5,500
Sale of market treasury bills	29,890	-
Thal Limited Employees Provident Fund		
Market treasury PIB purchased	2,069	-
Sale of market treasury bills	28,929	-
International Industries Ltd. Employees Gratuity Fund		
Sale of market treasury bills	5,420	-
NAFA Government Securities Liquid Fund		
Sale of market treasury bills	165,146	-
NAFA Asset Allocation Fund		
Purcahse of market treasury bills	39,851	-
Allied Bank Limited		
Redemption of 7,042,916 units (2013: nil)	75,000	-

18.6 Amounts outstanding at year end

	2014	2013
NBP Fullerton Asset Management Limited - Management Company		
Management remuneration payable	884	2,257
Sindh Sales Tax payable	164	362
Federal Excise Duty payable	5,454	219
Sale load payable	69	-
Sindh Sales tax on sale load	13	-
Federal excise duty on tax on sale load	106	-
National Bank of Pakistan - Sponsor		
Investment held by the sponsor in the Fund 4,020,905 units (2013: 3,601,691 units)	42,089	38,392
Balances in current account	1,683	639
Central Depository Company of Pakistan Ltd. - Trustee		
Remuneration payable	358	198
Security deposit	100	100
NBP Employees Pension Fund		
Investment held in the Fund 66,489,763 units (2013: 55,996,457 units)	695,988	596,894
Mr. Shahid Anwar Khan - Director		
Investment held in the Fund Nil units (2013: 94,454 units)	-	1,008
NBP Employees Benevolent Fund Trust		
Investment held in the Fund 2,291 units (2013: 1,929 units)	24	21
The Hub Power Company Limited		
Investment held	-	136,000
Employees of Management Company --NAFA		
Investment held in the Fund 906,321 units (2013: Nil)	9,487	-
Summit Bank Limited		
Balance in account	3,089	6,888
Allied Bank Limited		
Investment held in the Fund 49,464,433 units (2013: 56,507,349)	517,774	602,340

19 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	Qualification	Experience
1. Dr. Amjad Waheed	MBA/ Doctorate in Businesss Administration / CFA	26
2. Sajjad Anwar	CFA / MBA Finance	14
3. Syed Suleman Akhtar	CFA	14
4. Muhammad Ali Bhabha	MBA / MS (CS) /CFA / FRM	19
5. Muhammad Imran	CFA, ACCA	8

19.1 Muhammad Imran is the fund manager of the fund. He is also the fund manager of NAFA Asset Allocation Fund and NAFA Islamic Aggressive Income Fund.

20 BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2014
1. J.S. Global Capital Limited	10.08%
2. ICON Securities Pvt. Ltd.	1.47%
3. Invest One Markets Limited	3.82%
4. KASB Securities Limited	20.06%
5. Elixer Securities Paksitan Limited	11.77%
6. BMA Capital Management Limited	11.21%
7. Arif Habib Securities Limited	2.42%
8. Invest Capital Markets Limited	8.07%
9. Global Securities Pakistan Limited	0.19%
10.Vector Capital (Pvt.) Limited	30.17%

	2013
1. Summit Capital Pvt Limited (Formerly Atlas Capital Markets (Pvt) Limited)	26.83%
2. Elixir Securities Pakistan (Pvt) Limited	10.43%
3. Invest One Markets Limited	3.67%
4. OPTIMUS Capital Management Limited	59.07%

21 PATTERN OF UNIT HOLDING

	As at 30 June 2014		
	Number of unit holders	Investment amount	Percentage investment
		(Rupees in '000)	
Category			
Individuals	**723**	**459,418**	**10.56**
Retirement funds	**27**	**1,521,458**	**34.96**
Bank / DFIs	**4**	**1,199,214**	**27.55**
Insurance companies	**3**	**133,109**	**3.06**
Public limited companies	**2**	**45**	**0.00**
Associated companies / Directors	**1**	**42,089**	**0.97**
Others	**47**	**997,237**	**22.91**
	807	**4,352,570**	**100.00**

Category	Number of unit holders	Investment amount	Percentage investment
	As at 30 June 2013		
		(Rupees in '000)	
Individuals	477	52,634	2.82
Retirement funds	15	232,074	12.41
Bank / DFIs	2	865,300	46.29
Insurance companies	2	44,699	2.39
Public limited companies	2	22	0.00
Associated companies / Directors	3	635,307	33.99
Others	26	39,316	2.10
	527	1,869,352	100.00

22 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

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

Name of Director	Number of Meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Wah Geok Sum	6	2	4	43rd, 44th, 46th & 47th
Mr. Koh Boon San	6	6	-	
Mr. Kamal Chinoy	6	5	1	42nd
Mr. Shehryar Faruque	6	3	3	42nd, 44th & 45th
Dr. Amjad Waheed	6	6	-	
Mr. Asif Hassan*	1	-	1	42nd
Mr. Amir Shehzad**	1	-	1	42nd
Mr. Aamir Sattar***	5	5	-	
Mr. Abdul Hadi Palekar****	5	4	1	45th
Mr. Nausherwan Adil*****	4	2	2	44th & 46th
Mr. Khalid Mahmood******	2	2	0	

*Mr. Asif Hasan retired in EOGM Held on 07 August 2013
**Mr. Aamir Shehzad retired in EOGM Held on 07 August 2013
*** Mr. Aamir Sattar elected in EOGM Held on 07 August 2013
**** Mr. Abdul Hadi Palekar elected in EOGM Held on 07 August 2013
***** Mr. Nausherwan Adil was co-opted on the Board with effect from 10 October 2013
****** Mr. Khalid Mahmood retried from Board with effect from 10 October 2013

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

As at 30 June 2014, the Fund is compliant with all the requirements of The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009, except for clause 9 (v) requires that the rating of any security in the portfolio shall not be lower than investment grade. Non compliance of the said circular are as follows:

Category of non-compliant investment	Type of investment / name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
		----------------------------- Rupees in '000'	-----------------------------			
Investment in Debt securities	Azgard Nine Limited III**	108,377	108,377	-	-	-
	Azgard Nine Limited V**	82,180	82,180	-	-	-
	Agritech Limited I **	149,860	149,860	-	-	-
	Agritech Limited V **	32,320	32,320	-	-	-
	BRR Guardian Modaraba***	35,781	-	26,746	0.61	0.55
	Dewan Cement Limited - **	150,000	150,000	-	-	-
	Eden Housing Ltd. Sukuk II **	9,056	9,056	-	-	-
	Escort Investment Bank Limited***	2,498	-	1,842	0.04	0.04
	New Allied Electronics Industries (Private) Limited - PPTFC **	31,707	31,707	-	-	-
	New Allied Electronics Industries				-	
	(Private) Limited - Sukuk II **	44,149	44,149	-	-	-
	PACE Pakistan Limited **	149,820	149,820	-	-	-
	Pak Elektron Limited - Sukuk **	51,428	51,428	-	-	-
	Saudi Pak Leasing Company Limited	41,321	41,321	-	-	-
	Worldcall Telecom Limited **	96,371	96,371	-	-	-
Investment in Equity securities	Azgard Nine Limited (Non-voting) Agritech Limited*	46,784	-	41,573	0.96	0.85

* These shares are received in partial settlement against TFC of Azgard Nine limited as fully explained in note 5.5.4.

** At the time of purchase, the TFCs and sukuks were in compliance with the aforementioned circular. However, subsequently due to defaults these were downgraded to non investment grade.

*** Book Value, performing but without investment grade.

24 FINANCIAL RISK MANAGEMENT

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

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

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

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, secured privately placed instruments, spread transactions, continuous funding system transactions and investments in other money market instruments (including the clean placements). Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to market risk, credit risk and liquidity risk.

24.1 Market risk

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

Management of market risk

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

24.2 Currency risk

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

24.3 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 30 June 2014, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 4.231 million (2013: Rs 8.633 million).

(b) Sensitivity analysis for fixed rate instruments

As at 30 June 2014, the Fund holds certificate of investment and term finance certifciates, exposing the Fund to fair value interst rate risk. In case of 100 basis points increase / decrease in interest rates on 30 June 2014, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 1.82 million (2013: Rs. 0.395 million).

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

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

	30 June 2014					
	Yield / interest rate	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
		Upto three months	Over three months and upto one year	Over one year		
		(Rupees in '000)				
On-balance sheet financial instruments						
Financial assets						
Bank balances	5% - 12%	1,403,861	-	-	3,928	1,407,789
Investments	6.9% - 16.70%	1,842	2,501	2,782,613	41,573	2,828,529
Profit receivable		-	-	-	163,639	163,639
Receivable from KASB Bank Limited		-	-	-	463,325	463,325
		1,405,703	2,501	2,782,613	672,465	4,863,282
Financial liabilities						
Payable to NBP Fullerton Asset Management Limited - Management Company		-	-	-	6,690	6,690
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	358	358
Payable against redemption of units		-	-	-	453,578	453,578
Accrued expenses and other liabilities		-	-	-	23,996	23,996
		-	-	-	484,622	484,622
On-balance sheet gap		1,405,703	2,501	2,782,613	187,843	4,378,660
Off-balance sheet financial instruments		-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-
Total interest rate sensitivity gap		1,405,703	2,501	2,782,613	187,843	4,378,660
Cumulative interest rate sensitivity gap		1,405,703	1,408,204	4,190,817	4,378,660	

	Yield / interest rate	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
		Upto three months	Over three months and upto one year	Over one year		
		30 June 2013				
		(Rupees in '000)				
On-balance sheet financial instruments						
Financial assets						
Bank balances	5% - 12%	716,009	-	-	372	716,381
Investments	6.9% - 16.70%	17,179	853,926	-	203,286	1,074,391
Profit receivable		-	-	-	97,241	97,241
Receivable from KASB Bank Limited		-	-	-	463,225	463,225
		733,188	853,926	-	764,124	2,351,238
Financial liabilities						
Payable to NBP Fullerton Asset Management Limited - Management Company		-	-	-	2,838	2,838
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	198	198
Payable against redemption of units		-	-	-	440,064	440,064
Accrued expenses and other liabilities		-	-	-	23,755	23,755
		-	-	-	466,855	466,855
On-balance sheet gap		733,188	853,926	-	297,269	1,884,383
Off-balance sheet financial instruments		-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-
Total interest rate sensitivity gap		733,188	853,926	-	297,269	1,884,383
Cumulative interest rate sensitivity gap		733,188	1,587,114	1,587,114	1,884,383	

24.4 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 risk of currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

In case of 5% increase / decrease in KSE 100 index on 30 June 2014, with all other variables held constant, net income for the year would not be affected as the Fund does not have any security which is classified at fair value through profit or loss. Net assets of the Fund would increase / (decrease) by Rs. 0.827 million (2013: Rs. 2.339 million) as a result of gains / (losses) on equity securities classified as available for sale.

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

24.5 Credit risk

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

Management of credit risk

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

Concentration of the credit risk

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

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

Balances with banks	2014	2013
	(Rupees in '000)	
Balances with banks		
A1+, A-1+	**379,460**	400,216
A1, A-1	**1,024,737**	308,939
A2, A-2	**546**	7,216
A	**5**	-
A-	**3,041**	-
P-1	**-**	10
	1,407,789	716,381

Investments - Term finance certificates and sukuk bonds

	2014	2013
AA+, AA, AA-	**523,370**	457,834
A+, A, A-	**434,591**	248,906
BBB+, BBB, BBB-	**229,763**	-
BB+, BB, BB-	**-**	149,186
D	**-**	27,313
Non-rated	**28,588**	94,366
	1,216,312	977,605

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

24.6 Liquidity risk

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

Management of liquidity risk

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

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

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

Maturity analysis for financial liabilities

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

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

	30 June 2014			
	Total	**Upto three months**	**Over three months and upto one year**	**Over one year**
	--------------------(Rupees in '000)--------------------			
Financial Liabilities				
Payable to NBP Fullerton Asset Management Limited - Management Company	6,690	6,690	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	358	358	-	-
Payable on redemption of units	453,578	453,578	-	-
Accrued expenses and other liabilities	23,996	23,996	-	-
	484,622	484,622	-	-
	4,352,570	4,352,570	-	-

	30 June 2013			
	Total	Upto three months	Over three months and upto one year	Over one year
	--------------------(Rupees in '000)--------------------			
Financial Liabilities				
Payable to NBP Fullerton Asset Management Limited - Management Company	2,838	2,838	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	198	198	-	-
Payable on redemption of units	440,064	440,064	-	-
Accrued expenses and other liabilities	23,755	23,755	-	-
	466,855	466,855	-	-
Unitholders' Fund	1,869,352	1,869,352	-	-

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The fair value of financial assets (e.g. Treasury bills, Terms finance certificates and Sukuks) that are not traded in an active market is determined with reference to the rates quoted by Financial Market Association of Pakistan and MUFAP. The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular 33 of 2012 dated 24 October 2012 issued by the Securities and Exchange Commission of Pakistan (SECP).

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

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

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

- Quoted prices (unadjusted) in active markets for identical assets or Iiablities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	As at 30 June 2014			
ASSETS	Level 1	Level 2	Level 3	Level 4
	--------------------(Rupees in '000)--------------------			
Investment in securities - at fair value through profit or loss	**-**	**2,110,892**	**-**	**2,110,892**
Investment in securities - available for sale	**41,573**	**629,180**	**-**	**670,753**
Loans and receivables	**-**	**46,884**	**-**	**46,884**

	As at 30 June 2013			
ASSETS	Level 1	Level 2	Level 3	Level 4
	--------------------(Rupees in '000)--------------------			
Investment in securities - at fair value through profit or loss	-	157,978	136,000	293,978
Investment in securities - available for sale	46,784	503,103	180,524	730,411
Loans and receivables	-	50,002	-	50,002

The reconciliation of provision in respect of level 3 is stated in note 5.7.1 to the financial statements.

26 UNIT HOLDERS' FUND RISK MANAGEMENT

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

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

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

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

In accordance with the risk management policies stated in note 24, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short term borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.

27 DATE OF AUTHORISATION FOR ISSUE

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive **Director**

Performance Table

Particulars	For the year ended June 30, 2014	For the year ended June 30, 2013	For the year ended June 30, 2012	For the year ended June 30, 2011	For the year ended June 30, 2010	For the year ended June 30, 2009	For the year ended June 30, 2008	For the year ended June 30, 2007	For the year ended June 30, 2006
Net assets (Rs. '000')	4,352,570	1,869,352	1,545,532	2,505,164	3,914,906	7,665,104	24,043,799	18,248,177	3,874,369
Net Income / (loss) (Rs. '000')	474,424	154,541	(244,460)	176,072	285,007	138,143	2,184,127	1,773,340	72,844
Net Asset Value per units (Rs.)	10.4676	10.6595	9.6618	10.01	9.8692	10.0959	10.7769	11.0773	10.19
Offer price per unit	10.6085	10.6595	9.6618	10.01	9.8692	10.0959	10.7769	11.0773	10.19
Redemption price per unit	10.4676	10.6595	9.6618	10.01	9.8692	10.0959	10.7769	11.0773	10.19
Highest offer price per unit (Rs.)	10.6085	10.6694	9.9179	10.5568	9.9065	10.1027	10.7769	11.0773	10.1900
Lowest offer price per unit (Rs.)	9.0910	9.6456	9.1192	9.3419	9.2502	9.2230	8.8809	10.1900	10.0000
Highest redemption price per unit (Rs.)	10.4676	10.6694	9.9179	10.5568	9.9065	10.1027	10.7769	11.0773	10.1900
Lowest redemption price per unit (Rs.)	8.9703	9.6456	9.1192	9.3419	9.2502	9.2230	8.8809	10.1900	10.0000
Fiscal Year Opening Nav	8.9772	9.66	9.7139	9.4894	9.3269	9.5707	9.8084	10	10
Total return of the fund	16.60%	10.33%	-0.54%	5.49%	5.81%	5.49%	9.87%	10.77%	1.90%
Capital growth	3.32%	3.73%	-0.54%	-1.79%	-0.55%	-1.67%	-0.03%	0.27%	0.00%
Income distribution as a % of ex nav	13.28%	6.60%	0.00%	7.28%	6.37%	7.16%	9.90%	10.50%	1.90%
Income distribution as a % of par value	11.93%	6.38%	0	6.91%	5.94%	6.85%	9.72%	10.50%	1.90%
Interim distribution per unit	1.1925			0.3948	0.5937	0.4850	0.2356	-	-
Final distribution per unit		0.6377		0.2961	-	0.2000	0.7359	1.05	0.19
Distribution dates									
Interim	13-Feb-2014, 30-Apr-2014 & 26-Jun-2014		-	18-Feb-11 & 19-Apr-11	28-Oct-09, 17-Feb-10 & 29-Apr-10	16-Oct-08 & 17-Apr-09	15-Apr-08	-	-
Final		11-Jul-13	-	4-Jul-11	-	3-Jul-09	3-Jul-08	5-Jul-07	4-Jul-06
Average annual return (launch date 22-04-2006)									
(Since inception to June 30, 2014)	7.92%								
(Since inception to June 30, 2013)		6.77%							
(Since inception to June 30, 2012)			6.21%						
(Since inception to June 30, 2011)				7.56%					
(Since inception to June 30, 2010)					8.06%				
(Since inception to June 30, 2009)						8.78%			
(Since inception to June 30, 2008)							10.31%		
(Since inception to June 30, 2007)								10.70%	
(Since inception to June 30, 2006)									9.91%
Portfolio Composition (Please see Fund Manager Report)									
Weighted average portfolio duration	241 Days	47 days	77 days	84 days	60 days	2 Years	2 Years	2 Years	2 Years

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

NBP Fullerton
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