



NBP FUNDS
Managing Your Savings

Islamic Savings

Aitemaad اعتماد



اسلامک بینک

NAFA ISLAMIC INCOME FUND

**ANNUAL
REPORT
2018**



MISSION STATEMENT

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

NAFA ISLAMIC INCOME FUND

FUND'S INFORMATION

Management Company

NBP Fund Management Limited - Management Company

Board of Directors of the Management Company

Mr. Mudassir Husain Khan	Chairman
Dr. Amjad Waheed	Chief Executive Officer
Mr. Tariq Jamali	Director
Mr. Abdul Hadi Palekar	Director
Mr. Kamal Amir Chinoy	Director
Mr. Shehryar Faruque	Director
Dr. Foo Chiah Shiung (Kelvin Foo)	Director
Mr. Humayun Bashir	Director
Mr. Wajahat Rasul Khan	Director

Company Secretary & COO

Mr. Muhammad Murtaza Ali

Chief Financial Officer

Mr. Khalid Mehmood

Audit & Risk Committee

Mr. Shehryar Faruque	Chairman
Mr. Tariq Jamali	Member
Dr. Foo Chiah Shiung (Kelvin Foo)	Member
Mr. Humayun Bashir	Member

Human Resource and Remuneration Committee

Mr. Kamal Amir Chinoy	Chairman
Mr. Abdul Hadi Palekar	Member
Mr. Humayun Bashir	Member

Strategy & Business Planning Committee

Mr. Humayun Bashir	Chairman
Mr. Tariq Jamali	Member
Mr. Shehryar Faruque	Member
Dr. Foo Chiah Shiung (Kelvin Foo)	Member

Trustee

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

Bankers to the Fund

Al-Baraka Bank (Pakistan) Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Dubai Islamic Bank Limited
National Bank of Pakistan
Silk Bank Limited
MCB Bank Limited
Meezan Bank Limited
Habib Bank Limited
Bank Islami Pakistan Limited
Sindh Bank Limited
Summit Bank Limited
United Bank Limited
JS Bank Limited
Habib Metropolitan Bank Limited
Soneri Bank Limited
Allied Bank Limited

NAFA ISLAMIC INCOME FUND

Auditors

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

Legal Advisor

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

Head Office:

7th Floor Clifton Diamond Building, Block No. 4,
Scheme No. 5, Clifton Karachi.
UAN: 021(111-111-632),
(Toll Free): 0800-20002,
Fax: (021) 35825329
Website: www.nbpffunds.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:

Opposite Gul Haji Plaza, 2nd Floor
National Bank Building
University Road Peshawar,
UAN: 091-111 111 632
Fax: 091-5703202

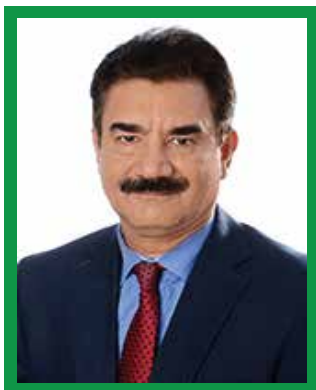
Multan Office:

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

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Board of Directors



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. Mudassir Husain Khan
Chairman



Mr. Kamal Amir Chinoy
Director



Mr. Humayun Bashir
Director



Mr. Tariq Jamali
Director



Mr. Shehryar Faruque
Director



Dr. Foo Chiah Shiung (Kelvin Foo)
Director



Mr. Abdul Hadi Palekar
Director



Mr. Wajahat Rasul Khan
Director

Senior Management



Mr. Sajjad Anwar, CFA
Chief Investment Officer



Dr. Amjad Waheed, CFA
Chief Executive Officer



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



Mr. Khalid Mehmood
Chief Financial Officer



Mr. Samiuddin Ahmed
Country Head Corporate
Marketing



Mr. Ozair Khan
Chief Technology Officer



Syed Rizwan Aziez
Country Head Sales Strategy



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



Mr. Taha Khan Javed, CFA
Head of Equity



Mr. Hassan Raza, CFA
Head of Research



Syed Ali Azhar Hasani
Head of Internal Audit



Mr. Salman Ahmed, CFA
Head of Risk Management



Mr. Zaheer Iqbal - ACA, FPFA
Head Of Operations



Mr. Raheel Rehman, ACA
Head of Compliance



Mr. Shahbaz Umer
Head of Human Resource &
Administration

NAFA ISLAMIC INCOME FUND

DIRECTORS' REPORT

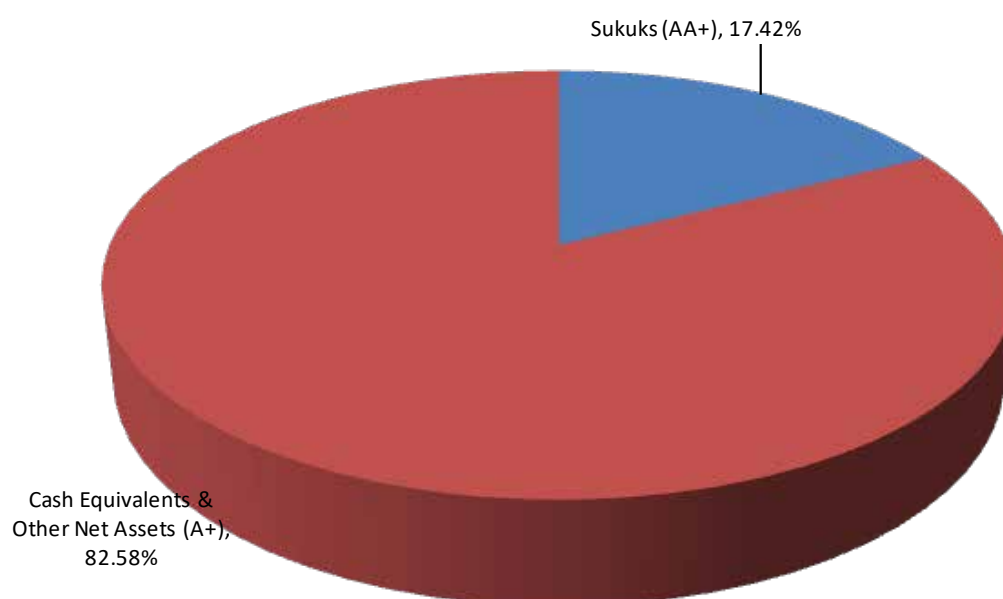
The Board of Directors of NBP Fund Management Limited is pleased to present the Eleventh Annual Report of **NAFA Islamic Income Fund (NIIF)** for the year ended June 30, 2018.

Fund's Performance

The size of NAFA Islamic Income Fund has decreased from Rs. 4,876 million on June 30, 2017 to Rs. 3,775 million on June 30, 2018, i.e. a decrease of 23%. During the year, the unit price of the Fund has increased from Rs. 9.5035 (Ex-Div) on June 30, 2017 to Rs. 9.9920 on June 30, 2018, thus posting a return of 5.1% as compared to its Benchmark return of 2.4% for the same period. The return of the Fund is net of management fee and all other expenses.

The primary market for Corporate Sukuks remained under-supplied against the large and growing demand. In the secondary market, the trading activity in the Corporate Sukuks remained skewed towards high quality debt issues with cumulative trade value of Rs. 9.6 billion in FY18 compared to Rs. 2.7 billion during the last year. However, the scarcity of primary issuance versus elevated demand squeezed the spread and kept the yields on the high credit quality corporate bonds depressed. During the first half of FY18, the SBP maintained the policy rate at 5.75% owing to strong likelihood of continued growth momentum; contained inflation; and anticipation of gain in exports due to improvement in domestic energy supplies and incentives given to exports industry. However, in the latter half, the SBP cumulatively increased the policy rate by 75 basis points to 6.5% in response to growing pressures on the external front driven by ballooning Current Account Deficit (CAD), preempt overheating of the economy, and rein in inflationary pressures. Sovereign yields responded to increase in the policy rate whereby 3-month, 6-month, and 12-month T-Bills yields went up by 79 bps, 90 bps, and 116 bps, respectively.

The Fund has earned a total income of Rs.261.81 million during the year. After deducting total expenses of Rs.47.58 million, the net income is Rs. 214.23 million. The asset allocation of NAFA Islamic Income Fund as on June 30, 2018 is as follows:



NAFA ISLAMIC INCOME FUND

Income Distribution

The Board of Directors of the Management Company has approved cash dividend of 5.14% of opening ex-NAV (4.88% of the par value) subsequent to the year end.

Taxation

As the above cash dividend 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, Messer Deloitte Yousuf Adil & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2019.

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 four meetings during the period. The attendance of all directors is disclosed in the note 26 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 25 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 23 to these financial statements.
13. The Company encourages representation of independent non-executive directors on its Board. The Company, being an un-listed company, does not have any minority interest. As at June 30, 2018, the Board included:

NAFA ISLAMIC INCOME FUND

Category	Names
Independent Directors	1. Mr. Kamal Amir Chinoy 2. Mr. Shehryar Faruque 3. Mr. Humayun Bashir
Executive Directors	Dr. Amjad Waheed – Chief Executive Officer
Non-Executive Directors	1. Mr. Mudassir Husain Khan (Chairman) 2. Mr. Tariq Jamali 3. Mr. Abdul Hadi Palekar 4. Mr. Wajahat Rasul Khan 5. Dr. FOO Chiah Shiung (Kelvin Foo)

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 Fund Management Limited

Chief Executive
Date: September 05, 2018
Place: Karachi.

Director

ڈائریکٹرز رپورٹ

این بی پی فنڈ منیجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز NAFA اسلامک انکم فنڈ (NIIF) کی گیارہویں سالانہ رپورٹ برائے سال ختمہ 30 جون 2018ء پیش کرتے ہوئے مسرت محسوس کر رہے ہیں۔

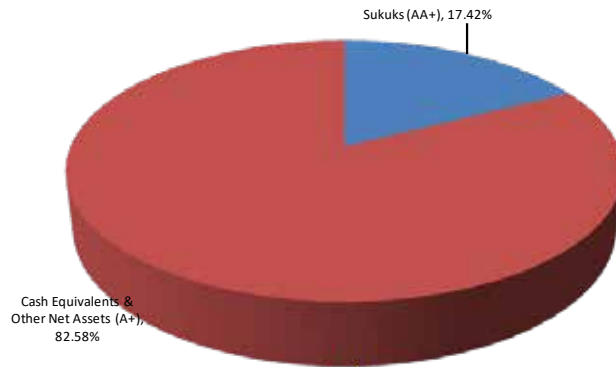
فنڈ کی کارکردگی

NAFA اسلامک انکم فنڈ کا ساؤز 30 جون 2017 کو 4,876 ملین روپے سے کم ہو کر 30 جون 2018 کو 3,775 ملین روپے ہو گیا ہے، یعنی 23% کی کمی۔ اس سال کے دوران فنڈ کے یونٹ کی قیمت 30 جون 2017 کو 9.5035 روپے سے (Ex-Div) بڑھ کر 30 جون 2018 کو 9.9920 روپے ہو چکی ہے، لہذا فنڈ نے اسی مدت میں 2.4% پنچ مارک منافع کے مقابلے میں 5.1% کا منافع دیا۔ یہ کارکردگی منیجمنٹ فیس اور دیگر تمام اخراجات کے بعد خالص ہے۔

ابتدائی مارکیٹ میں کارپوریٹ سکوک کی فراہمی زائد اور بڑھتی ہوئی طلب کے باوجود کم رہی۔ ثانوی مارکیٹ میں کارپوریٹ سکوک کی تجارتی سرگرمیوں کا جھکاؤ اعلیٰ سطح کے قرضہ جات کے اجارہ کی جانب رہا اور مالی سال 18 میں تجارتی حجم 9.6 ملین روپے رہا جب کہ گزشتہ سال کے دوران یہ رقم 2.7 ملین روپے تھی۔ البتہ ابتدائی اجراء کی کمی کے مقابلہ میں بڑھتی ہوئی طلب نے اسپرڈ کو محدود کیا جس کے باعث بہتر معیار کے کارپوریٹ بانڈز پر اصل شرح منافع متاثر ہوا۔ پہلے نصف عرصہ کے دوران، ترقی کی رفتار جاری رہنے کی قوی توقع، افراط زر کی موجودگی، اور ملکی توانائی کی فراہمی میں بہتری اور برآمدات کی صنعت کو دی گئی ترغیبات کے باعث برآمدات میں فروغ کے سلسلے میں پیش رفت کے پیش نظر، ایس بی پی نے 5.75% پالیسی کی شرح کو برقرار رکھا۔ تاہم اگلے نصف عرصہ میں، بیرونی محاذ پر کرنٹ اکاؤنٹ کے خسارے (CAD) میں اضافے کے باعث بڑھتے ہوئے دباؤ، معیشت میں پہلے سے موجود افراط زر اور افراط زر پر قابو کیلئے پانے کے لئے، ایس بی پی نے پالیسی کی شرح میں 75 پیس پوائنٹ کا اضافہ کر دیا اور پالیسی کی شرح 6.5% ہو گئی۔ پالیسی کی شرح میں اضافہ سے اچھے نتائج برآمد ہوئے اور 3 ماہ، 6 ماہ اور 12 ماہ T-Bills کے منافع بالترتیب 79 bps، 90 bps اور 116 bps سے بڑھ گئے۔

NAFA اسلامک انکم فنڈ (NIIF) نے اس سال کے دوران 261.81 ملین روپے کی مجموعی آمدنی کمائی ہے۔ 47.58 ملین روپے کے اخراجات منہا کرنے کے بعد خالص آمدنی 214.23 ملین روپے رہی۔

NAFA اسلامک انکم فنڈ کی ایسیٹ ایلوکیشن 30 جون 2018 کو بمطابق ذیل ہے:



آمدنی کی تقسیم

منیجمنٹ کمپنی نے سال کے اختتام کے بعد اویگ ex-NAV کا 5.14% (بنیادی قدر کا 4.88%) نقد ڈیویڈنڈ کی منظوری دی ہے۔

ٹیکسیشن

درج بالا نقد منافع، سال کے دوران میں حاصل ہونے والی آمدنی میں سے سرمایہ کاری پر حاصل ہونے والے محصول شدہ اور غیر محصول شدہ کیپیٹل گین منہا کرنے کے بعد 90% ہے، اس لئے فنڈ پر انکم ٹیکس آرڈیننس 2001 کے سینڈ شیڈول کے پارٹ I کی شق 99 کے تحت ٹیکس لاگو نہیں ہے۔

آڈیٹرز

موجودہ آڈیٹرز میسر Deloitte پوسف عادل اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس، ریٹائر ہو گئے ہیں اور اہل ہونے کی بناء پر انہوں نے خود کو 30 جون 2019 کو ختم ہونے والے سال میں دوبارہ تقرر کیلئے پیش کیا ہے۔

NAFA ISLAMIC INCOME FUND

کوڈ آف کارپوریٹ گورننس کی پیروی میں ڈائریکٹرز اسٹیٹمنٹ

- 1- منجمنٹ کمپنی کی طرف سے تیار کردہ مالیاتی گوشوارے فنڈ کے معاملات کی کیفیت، اس کی کاروباری سرگرمیوں کے نتائج، کیش فلو اور یونٹ ہولڈرز فنڈ میں تبدیلی کی منصفانہ عکاسی کرتے ہیں۔
- 2- فنڈ کے اکاؤنٹس کے کھاتے درست انداز میں رکھے ہوئے ہیں۔
- 3- مالیاتی گوشواروں کی تیاری میں اکاؤنٹنگ کی مناسب پالیسیوں کی مسلسل پیروی کی گئی ہے۔ شماریاتی تخمینے مناسب اور معقول نظریات پر مبنی ہیں۔
- 4- ان مالیاتی گوشواروں کی تیاری میں مالیاتی رپورٹنگ کے بین الاقوامی معیاروں، جہاں تک وہ پاکستان میں قابل اطلاق ہیں، کی پیروی کی گئی ہے۔
- 5- انٹرنل کنٹرول کا نظام مستحکم اور مؤثر طریقے سے نافذ ہے اور اس کی مسلسل نگرانی کی جاتی ہے۔
- 6- فنڈ کی رواں دواں رہنے کی صلاحیت کے بارے میں کوئی شکوک و شبہات نہیں ہیں۔
- 7- لسٹنگ ریگلیشنز میں تفصیلاً درج کارپوریٹ گورننس کی اعلیٰ ترین روایات سے کوئی پہلو تہی نہیں کی گئی۔
- 8- پرفارمنس ٹیبل / اہم مالیاتی ڈیٹا اس سالانہ رپورٹ میں شامل ہے۔
- 9- ٹیکسوں، ڈیویڈنڈ، محصولات اور چارجز کی مد میں واجب الادا سرکاری ادائیگیاں مالیاتی گوشواروں میں پوری طرح ظاہر کر دی گئی ہیں۔
- 10- اس مدت کے دوران منجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز کے چار اجلاس منعقد ہوئے۔ تمام ڈائریکٹرز کی حاضری ان مالیاتی گوشواروں کے نوٹ 26 میں ظاہر کی گئی ہے۔
- 11- یونٹ ہولڈنگ کا تفصیلی پیٹرن مالیاتی گوشواروں کے نوٹ 25 میں ظاہر کیا گیا ہے۔
- 12- ڈائریکٹرز CFO، CEO، کمپنی سیکرٹری اور ان کی شریک حیات اور کم عمر بچوں کی طرف سے کی جانے والی فنڈ کے یونٹس کی تمام خرید و فروخت ان مالیاتی گوشواروں کے نوٹ 23 میں ظاہر کی گئی ہے۔
- 13- کمپنی اپنے بورڈ آف ڈائریکٹرز میں غیر جانبدار نان ایگزیکٹو ڈائریکٹرز کی نمائندگی کی حوصلہ افزائی کرتی ہے۔ کمپنی ایک غیر فہرست شدہ کمپنی ہونے کے ناطہ کوئی مائنارٹی انٹرسٹ نہیں رکھتی۔ 30 جون 2018 کو بورڈ آف ڈائریکٹرز درج ذیل ارکان پر مشتمل ہیں۔

نام	کمیٹنگری
1- جناب کمال عامر چٹائے 2- جناب شہریار فاروق 3- جناب ہمایوں بشیر	غیر جانبدار ڈائریکٹرز
ڈاکٹر امجد وحید (چیف ایگزیکٹو آفیسر)	ایگزیکٹو ڈائریکٹرز
1- جناب مدثر حسین خان (چیئر مین) 2- جناب طارق جمالی 3- جناب عبدالہادی بالیکر 4- جناب وجاہت رسول خان 5- ڈاکٹر فوشیاہ شیونگ (کیلون فو)	نان ایگزیکٹو ڈائریکٹرز

اعتراف

بورڈ اس موقع کا فائدہ اٹھاتے ہوئے منجمنٹ کمپنی پر اعتماد، اعتبار اور خدمت کا موقع فراہم کرنے پر اپنے قابل قدر یونٹ ہولڈرز کا شکریہ ادا کرتا ہے۔ یہ سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور اسٹیٹ بینک آف پاکستان سے بھی ان کی سرپرستی اور رہنمائی کے لیے پُر خلوص اظہار تشکر کرتا ہے۔

بورڈ اپنے اسٹاف اور رٹرن کی طرف سے محنت، لگن اور عزم کے مظاہرے پر اپنا خراج تحسین بھی ریکارڈ پر لانا چاہتا ہے۔

منجانب بورڈ آف ڈائریکٹرز

NBP فنڈ منجمنٹ لمیٹڈ

ڈائریکٹر

چیف ایگزیکٹو

بتاریخ

05 ستمبر 2018ء

مقام: کراچی

NAFA ISLAMIC INCOME FUND

TRUSTEE REPORT TO THE UNIT HOLDERS

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

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Islamic Income Fund (the Fund) are of the opinion that NBP Fund Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2018 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.

Aftab Ahmed Diwan

Chief Executive Officer

Central Depository Company of Pakistan Limited

Karachi, September 13, 2018

NAFA ISLAMIC INCOME FUND

FUND MANAGER REPORT

NAFA Islamic Income Fund (NIIF) is an Open-End Shariah Compliant Income Scheme.

Investment Objective of the Fund

The objective of NIIF is to earn a reasonable rate of return in a Shariah compliant manner by investing in Shariah compliant debt securities, money market instruments and bank deposits.

Benchmark

6-month average deposit rates of three A rated Islamic Banks/Islamic windows of conventional banks as selected by MUFAP.

Fund Performance Review

This is the Eleventh Annual report since the launch of the Fund on October 26, 2007. The Fund size decreased by 23% during FY18 and stands at Rs. 3,775 million as on June 30, 2018. The Fund's return since inception is 6.5% versus the benchmark return of 5.9%. During FY18, the Fund posted an annualized return of 5.1% as compared to the benchmark return of 2.4%. This outperformance is net of management fee and all other expenses. Thus the Fund has achieved its stated objectives.

The weighted average Yield-to-Maturity (YTM) of the Sukuk portfolio is around 6.6% p.a. This yield does not include potential recovery in fully provided Sukuks (Face Value of Rs 115 million), which is a potential upside for the Fund. Weighted average time to maturity of Sukuk portfolio and the overall Fund is 2.95 years and 0.5 year respectively.

The primary market for Corporate Sukuks remained under-supplied against the large and growing demand. In the secondary market, the trading activity in the Corporate Sukuks remained skewed towards high quality debt issues with cumulative trade value of Rs. 9.6 billion in FY18 compared to Rs. 2.7 billion during the last year. However, the scarcity of primary issuance versus elevated demand squeezed the spread and kept the yields on the high credit quality corporate bonds depressed. During the first half of FY18, the SBP maintained the policy rate at 5.75% owing to strong likelihood of continued growth momentum; contained inflation; and anticipation of gain in exports due to improvement in domestic energy supplies and incentives given to exports industry. However, in the latter half, the SBP cumulatively increased the policy rate by 75 basis points to 6.5% in response to growing pressures on the external front driven by ballooning Current Account Deficit (CAD), preempt overheating of the economy, and rein in inflationary pressures. Sovereign yields responded to increase in the policy rate whereby 3-month, 6-month, and 12-month T-Bills yields went up by 79 bps, 90 bps, and 116 bps, respectively. All Sukuks in the Fund are floating rate linked to KIBOR with three to 6-month coupon resetting period.

Asset Allocation of Fund (% of NAV)

Particulars	30-Jun-18	30-Jun-17
Sukuks	17.42 %	8.84 %
Cash (Cash Equivalents) & Other Assets	82.58 %	91.16 %
Total	100 %	100 %

NAFA ISLAMIC INCOME FUND

Distribution for the Financial Year 2018

Interim Period/Quarter	Dividend as % of Par Value (Rs.10)	Cumulative Div. Price/Unit	Ex- Div. Price
Final	4.88 %	0.4883	9.5037

Details of Non-Compliant Investments

Particulars	Type of Investment	Value of Investment before Provision	Provision held	Value of Investment after Provision	% of Net Assets	% of Gross Assets
New Allied Electronics (Sukuk I)	SUKUK	110,000,000	110,000,000	-	-	-
New Allied Electronics (Sukuk II)	SUKUK	4,905,437	4,905,437	-	-	-
Total		114,905,437	114,905,437	-	0.00%	0.00%

Unit Holding Pattern of NAFA Islamic Income Fund as on June 30, 2018

Size of Unit Holding (Units)	# of Unit Holders
1-1000	750
1001-5000	293
5001-10000	151
10001-50000	550
50001-100000	304
100001-500000	380
500001-1000000	49
1000001-5000000	52
5000001-10000000	10
10000001-100000000	4
	2543

During the period under question

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

Sindh Workers' Welfare Fund (SWWF)

The scheme has maintained provisions against SindhWorkers' Welfare Fund's liability to the tune of Rs. 6.905 million. If the same were not made the NAV per unit/FY18 return of scheme would be higher by Rs. 0.0183 / 0.19%. For details investors are advised to read note 16 of the Financial Statement of the Scheme for the year ended June 30, 2018.

NAFA ISLAMIC INCOME FUND

STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

NAFA Islamic Income Fund (the Fund) has fully complied with the Shari'ah principles specified in the Trust Deed and in the guidelines issued by the Shari'ah Advisor for its operations, investments and placements made during the year ended June 30, 2018. This has been duly confirmed by the Shari'ah Supervisory Board of the Fund.

For and behalf of the board

Date: September 05, 2018
Karachi

Dr. Amjad Waheed, CFA
Chief Executive Officer

NAFA ISLAMIC INCOME FUND

Report of the Shari'ah Advisor

September 04, 2018/ Dhu Al-Hijjah 23, 1439

Alhamdulillah, the period from July 1, 2017 to June 30, 2018 was the eleventh year of the operations of NAFA Islamic Income Fund (NIIF). This report is being issued in accordance with clause 3.7.1 of the Offering Document of the Fund. The scope of the report is to express an opinion on the Shari'ah Compliance of the Fund's activity.

In the capacity of Shari'ah Advisor, we have prescribed criteria and procedure to be followed in ensuring Shari'ah Compliance in every investment.

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

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of NIIF in light of Shari'ah guidelines.
- ii. All the provisions of the scheme and investments made on account of NIIF by NBP Funds are Shari'ah Compliant and are in accordance with the criteria established.
- iii. On the basis of information provided by the management, nothing has come to our attention that causes us to believe that all the operations of NIIF for the year ended June 30, 2018 are not in compliance with Shari'ah principles.

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

For and on behalf of Meezan Bank Limited
Shar'iah Technical Services & Support Provider

Mufti Muhammad Naveed Alam
Member
Shariah Supervisory Board

Mufti Ehsan Waquar
Shariah Advisor & Member
Shariah Supervisory Board

Dr. Imran Ashraf Usmani
Chairman
Shariah Supervisory Board

NAFA ISLAMIC INCOME FUND

INDEPENDENT ASSURANCE REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

We have performed an independent assurance engagement of **NAFA Islamic Income Fund** (the Fund), to express an opinion on the annexed Statement of Compliance with the Shariah Principles (the Statement) for the year ended June 30, 2018.

Management Company's responsibility

Management Company (NBP Fund Management Limited) of the Fund is responsible for the preparation of the Statement (the subject matter) and for compliance with the Shariah Principles specified in the Trust Deed and Offering Document of the Fund. This responsibility includes designing, implementing and maintaining internal control to ensure that operations of the Fund and the investments made by the Fund are in compliance with the Shariah Principles.

Responsibility of an independent assurance provider

Our responsibility is to express our conclusion on the Statement based on our independent assurance engagement, performed in accordance with the International Standards on Assurance Engagement (ISAE 3000) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. This standard requires that we comply with ethical requirements, including independence requirements, and plan and perform the engagement to obtain reasonable assurance whether the Statement reflects the status of the Fund's compliance with Shariah Principles specified in the Trust Deed and Offering Document of the Fund.

The procedures selected depend on our judgment, including the assessment of the risks of material non-compliances with the Shariah Principles whether due to fraud or error. In making those risk assessments, we have considered internal controls relevant to the Fund's compliance with the principles in order to design procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Fund was not materially non-compliant with the principles. Our engagement was not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

The procedures performed included:

- Checking compliance of specific Shariah Principles relating to maintaining bank accounts and for making investments of the Fund; and
- Checking that the Shariah Advisor has certified that the operations of the Fund and investments made by the Fund during the year ended June 30, 2018 are in compliance with the Shariah Principles.

Conclusion

In our opinion, the Statement, in all material respects, presents fairly the status of the Fund's compliance with the Shariah Principles for the year ended June 30, 2018.

Deloitte Yousuf Adil
Chartered Accountants
Dated: September 25, 2018
Place: Karachi

NAFA ISLAMIC INCOME FUND

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of NAFA Islamic Income Fund (the Fund), which comprise the statement of assets and liabilities as at June 30, 2018, and the related income statement, statement of comprehensive income, statement of movement in unit holders' fund and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at June 30, 2018, and of its financial performance, cash flows and transaction for the year then ended in accordance with accounting and reporting standards as applicable in Pakistan.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund and Management Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted by the Institute of Chartered Accountants of Pakistan together with the ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

S. No.	Key audit matters	How the matter was addressed in our audit
1	<p>Valuation and existence of investment</p> <p>As disclosed in note 5 to the financial statements, investments held at fair value through profit or loss – held for trading amounted to Rs. 658 million as at June 30, 2018.</p> <p>The Fund' investments mainly include sukuk certificates as at year end therefore there is a risk that appropriate prices may not be used to determine fair value of the investments.</p> <p>Further, in respect of existence of investments, there is a risk that the Fund may have included investments in its financial statements which are not owned by Fund.</p>	<p>Valuation and existence was assessed by:</p> <ul style="list-style-type: none">evaluating the design and implementation of key controls around investments;independently testing 100% of the valuations directly to pricing sources;independently matching the securities held by the Fund as per internal records with the certificates appearing in the CDC and IPS accounts and investigated any reconciling items.

NAFA ISLAMIC INCOME FUND

<p>2</p>	<p>Element of Income</p> <p>As disclosed in detail in note 3.5.1, the Securities and Exchange Commission of Pakistan (the SECP) issued SRO no. 756(1)/2017 dated August 03, 2017, whereby certain amendments were made in the Non-Banking Finance Companies and Notified Entities Regulation, 2008 (the NBFC Regulations). As part of such amendments as definition of Element of Income has been incorporated and certain , amendments were also made in the 5th Schedule to the NBFC Regulations whereby distribution statement has been omitted from the financial statements and Element of Income has been made part of the 'Unit Holders' Fund' instead of the 'Income Statement' as suggested by ICAP and a new disclosure regarding allocation of accounting income is added to the 'Income Statement'.</p> <p>The abovementioned amendments require significant changes in the presentation of the financial statements and the accounting treatment of the 'Element of Income' and the policy for distribution/dividends made by the Fund.</p>	<p>In order to address the matter we have:</p> <ul style="list-style-type: none"> • Obtained understanding of the amendments made in the NBFC Regulations; • Obtained understanding of the changes required in the disclosures and accounting treatments in the financial statements of the Fund; • Held discussions with the Management regarding the changes required; and • On sample basis we have checked the calculation made and recorded in the financial statements as related to this key audit matter.
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Information other than the Financial Statements and Auditor's Report Thereon

Management Company is responsible for the other information. The other information comprises the Director's report, Fund Managers' report, Trustee report to the unit holders, Statement of Compliance with the Shariah principles, Report of the Shariah Advisor, performance table and proxy voting disclosure.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management Company for the Financial Statements

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

In preparing the financial statements, Management Company is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management Company either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Management Company are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

NAFA ISLAMIC INCOME FUND

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Management Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Management Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Management Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Management Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

The engagement partner on the audit resulting in this independent auditor's report is Ms. Hena Sadiq.

Deloitte Yousuf Adil
Chartered Accountants

Date: September 25, 2018
Place: Karachi

NAFA ISLAMIC INCOME FUND

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2018

	Note	2018 ----- Rupees in '000 -----	2017
ASSETS			
Bank balances	4	3,109,290	4,210,904
Investments	5	657,638	430,906
Mark-up accrued	6	32,592	16,556
Receivable against transfer of units	7	-	262,484
Deposits, prepayments and other receivables	8	1,292	1,403
Total assets		3,800,812	4,922,253
LIABILITIES			
Payable to NBP Fund Management Limited - Management Company	9	7,289	7,173
Payable to Central Depository Company of Pakistan Limited - Trustee	10	411	321
Payable to the Securities and Exchange Commission of Pakistan	11	3,214	2,104
Payable against redemption of units		-	4,081
Payable against conversion of units	12	-	7,995
Dividend payable		-	768
Accrued expenses and other liabilities	13	14,583	23,634
Total liabilities		25,497	46,076
NET ASSETS		3,775,315	4,876,177
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		3,775,315	4,876,177
Contingencies and commitments			
	14	-----Number of units-----	
Number of units in issue	21	377,833,783	512,725,293
-----Rupees-----			
Net asset value per unit	22	9.9920	9.5103

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

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA ISLAMIC INCOME FUND

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018 ----- Rupees in '000 -----	2017 -----
INCOME			
Return / mark-up on:			
- bank balances		219,848	163,654
- sukuks		2,602	3,188
- government securities		32,385	5,496
- certificates of investment		8,865	-
- commercial paper		5,380	-
Net gain on sale of investments		-	30
Net unrealised (loss) / gain on re-measurement of investments at fair value through profit or loss - held for trading	5.3	(7,268)	2,951
Total income		261,812	175,319
EXPENSES			
Remuneration of NBP Fund Management Limited - Management Company	9.1	25,371	16,362
Sindh Sales Tax on remuneration of the Management Company	9.2	3,298	2,127
Reimbursement of operational expenses to the Management Company		4,286	2,806
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	10	4,493	3,235
Sindh Sales Tax on remuneration of the Trustee	10.2	584	421
Annual fee to the Securities and Exchange Commission of Pakistan		3,214	2,104
Settlement and bank charges		452	258
Auditors' remuneration	15	492	520
Fund rating fee		317	298
Legal and professional charges		90	50
Annual listing fee		28	55
Printing charges		100	50
Shariah advisor fee		488	419
Total expenses		43,213	28,705
Net income from operating activities		218,599	146,614
Net element of loss and capital losses included in prices of units issued less those in units redeemed		-	(65,463)
Reversal of provision for Workers' Welfare Fund		-	2,944
Provision for Sindh Workers' Welfare Fund	16	(4,372)	(2,534)
		(4,372)	410
Net income for the year before taxation		214,227	81,561
Taxation	17	-	-
Net income for the year after taxation		214,227	81,561
Earnings per unit	18		
Allocation of net income for the year			
Net income for the year after taxation		214,227	
Income already paid on units redeemed		(106,105)	
		108,122	
Accounting income available for distribution:			
- Relating to capital gain		-	
- Excluding capital gain		108,122	
		108,122	

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

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA ISLAMIC INCOME FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
	----- Rupees in '000 -----	
Net income for the year after taxation	214,227	81,561
Other comprehensive income	-	-
Total comprehensive income for the year	214,227	81,561

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

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA ISLAMIC INCOME FUND

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2018

	2018			2017		
	(Rupees in '000)					
	Capital Value	Undistributed income	Total	Capital Value	Undistributed income	Total
Net assets at beginning of the year	4,823,948	52,229	4,876,177	2,527,201	39,547	2,566,748
Issuance of 707,138,501 units (2017: 1,350,066,895 units)						
- Capital value	6,721,872	-	6,721,872			
- Element of income	149,725	-	149,725			
Total proceeds on issuance of units	6,871,597	-	6,871,597	12,806,208	214,112	13,020,320
Redemption of 842,030,011 units (2017: 1,107,936,973 units)						
- Capital value	(8,004,285)	-	(8,004,285)			
- Element of loss	(73,281)	(106,105)	(179,386)			
Total payments on redemption of units	(8,077,566)	(106,105)	(8,183,671)	(10,509,461)	(279,575)	(10,789,036)
Net element of loss and capital losses included in prices of units issued less those in units	-	-	-		65,463	65,463
Total comprehensive income for the year	-	214,227	214,227		81,561	81,561
Distribution during the year	-	(3,015)	(3,015)		(68,879)	(68,879)
Net assets at end of the year	3,617,979	157,336	3,775,315	4,823,948	52,229	4,876,177
Undistributed income brought forward						
- Realised		49,278			38,787	
- Unrealised		2,951			760	
		52,229			39,547	
Accounting income available for distribution						
- Relating to capital gain		-				
- Excluding capital gain		108,122				
		108,122			81,561	
Distribution during the year		(3,015)			(68,879)	
Undistributed income carried forward		157,336			52,229	
Undistributed income carried forward						
- Realised		164,604			49,278	
- Unrealised		(7,268)			2,951	
		157,336			52,229	
			- (Rupees) -			- (Rupees) -
Net assets value per unit at beginning of the year		9.5103				9.4856
Net assets value per unit at end of the year		9.9920				9.5103

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

For NBP Fund Management Limited
(Management Company)

NAFA ISLAMIC INCOME FUND

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018 Rupees in '000	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year before taxation		214,227	81,561
Adjustments:			
Return / mark-up on;			
- bank balances		(219,848)	(163,654)
- sukuks		(2,602)	(3,188)
- government securities		(32,385)	(5,496)
- certificates of investment		(8,865)	-
- commercial paper		(5,380)	-
Net unrealised loss / (gain) on re-measurement of investments at fair value through profit or loss - held for trading		7,268	(2,951)
Net element of loss / (gain) and capital losses / (gains) included in prices of units issued less those in units redeemed		-	65,463
Reversal of provision for Workers' Welfare Fund		-	(2,944)
Provision for Sindh Workers' Welfare Fund		4,372	2,534
		(257,440)	(110,236)
		(43,213)	(28,675)
(Increase) / decrease in assets			
Investments - net		(234,000)	(285,030)
Deposits, prepayments and other receivables		111	(1,127)
		(233,889)	(286,157)
Increase / (decrease) in liabilities			
Payable to the Management Company		116	1,299
Payable to the Trustee		90	30
Payable to the Securities and Exchange Commission of Pakistan		1,110	722
Accrued expenses and other liabilities		(13,423)	4,736
		(12,107)	6,787
Mark-up on bank balances received		216,550	158,585
Mark-up on sukuks received		22,249	3,229
Mark-up on government securities received		-	5,450
Mark-up on certificates of investment received		14,245	-
		(36,165)	(140,781)
Net cash used in operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash generated from investing activities		-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts received on issuance of units		7,134,081	13,054,606
Amounts paid on redemption of units		(8,195,747)	(10,979,455)
Dividend paid		(3,783)	(68,712)
Net cash (used in) / generated from financing activities		(1,065,449)	2,006,439
Net (decrease) / increase in cash and cash equivalents during the year		(1,101,614)	1,865,658
Cash and cash equivalents at the beginning of the year		4,210,904	2,345,246
Cash and cash equivalents at the end of the year	4	3,109,290	4,210,904

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

For NBP Fund Management Limited
(Management Company)

NAFA ISLAMIC INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

1. LEGAL STATUS AND NATURE OF BUSINESS

NAFA Islamic Income Fund (the Fund) was established under a Trust Deed executed between NBP Fund Management Limited as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on August 20, 2007 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on August 17, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules). The Trust Deed was amended through first supplemental trust deed executed for the change of name and categorisation of the Fund as shariah-compliant income scheme as per the criteria for categorization of open end collective investment scheme as specified by SECP and other allied matters. CDC retired as the Trustee of the Fund and MCB Financial Services Limited (MCBFSL) was appointed as the new Trustee with effect from November 22, 2011. The SECP approved the appointment of MCBFSL as the Trustee in place of CDC on November 15, 2011. Accordingly, the Trust Deed of the Fund was revised through a supplemental Trust Deed executed between the Management Company, CDC and MCBFSL. Thereafter, on July 17, 2014 CDC was re-appointed as the new Trustee of the Fund, after MCBFSL retired on prior day.

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 Fund is an open-ended mutual fund and classified as sharia compliant "income" scheme by the Management Company and is listed on the Pakistan Stock Exchange Limited. Units are offered for public subscription on a continuous basis. The units of the Fund are transferable and can be redeemed by surrendering them to the Fund.

Management Company has obtained approval of SECP, pursuant to which the category of the Fund was changed from shariah compliant aggressive fixed income scheme to 'shariah compliant income scheme' and the name of the Fund was 'NAFA Islamic Income Fund' with effect from March 14, 2017.

The objective of the Fund is to provide preservation of capital and earn a reasonable rate of return by investing in Shariah compliant securities, having a good credit rating and liquidity.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of 'AM1' to the Management Company and has assigned stability rating of 'A-(f)' to the Fund.

Title of the assets of the Fund is held in the name of CDC as a trustee of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;

Provisions of and directives issued under the Companies Act, 2017 along with part VIIIA of the repealed Companies Ordinance, 1984; and

Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules), Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and requirements of the Trust Deed

Where provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations and requirements of the Trust Deed differ from the IFRS, the provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations and requirements of the Trust Deed have been followed.

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2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Adoption of new standards, amendments and interpretations to the published approved accounting standards:

2.4.1 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2018

The following standards, amendments and interpretations are effective for the year ended June 30, 2018. These standards, interpretations and the amendments are either not relevant to the Funds's operations or are not expected to have significant impact on the Fund's financial statements other than certain additional disclosures.

Effective from accounting period beginning on or after:

Amendments to IAS 7 'Statement of Cash Flows' - Amendments as a result of the disclosure initiative	January 01, 2017
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Amendments to IAS 12 'Income Taxes' - Recognition of deferred tax assets for unrealised losses	January 01, 2017
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Certain annual improvements have also been made to a number of IFRSs, which are also not relevant to the Fund.

2.4.2 New accounting standards / amendments and IFRS interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and amendments (except for IFRS 9 'Financial Instruments') are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain additional disclosures.

Effective from accounting period beginning on or after:

IFRS 15 'Revenue from contracts with customers' - This standard will supersede IAS 18, IAS 11, IFRIC 13, 15 and 18 and SIC 31 upon its effective date.	July 01, 2018
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IFRS 16 'Leases' - This standard will supersede IAS 17 'Leases' upon its effective date.	January 01, 2019
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Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions.	January 01, 2018
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IFRS 9 'Financial Instruments' - This standard will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.	July 01, 2018
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Amendments to IFRS 9 'Financial Instruments' - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities.	January 01, 2019
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IFRS 4 'Insurance Contracts': Amendments regarding the interaction of IFRS 4 and IFRS 9.

An entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018.

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Effective from accounting period beginning on or after:

Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Amendments regarding long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

January 01, 2019

Amendments to IAS 19 'Employee Benefits' - Plan Amendment, Curtailment or Settlement.

January 01, 2019

Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property.

January 01, 2018. Earlier application is permitted.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration': Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency.

January 01, 2018. Earlier application is permitted.

IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.

January 01, 2019

Certain annual improvements have also been made to a number of IFRSs, which are also not expected to have material impact on financial reporting of the Fund.

2.5 IFRS 9 'Financial Instruments' Impact Assessment

2.5.1 IFRS 9 'Financial Instruments' was issued on July 24, 2017. This standard is adopted locally by the Securities and Exchange Commission of Pakistan and is effective from accounting periods beginning on or after July 01, 2018.

Key requirements of IFRS 9 are as follows;

Classification and measurement of financial assets

- All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value.
- Debt investments that are held within a business model whose objective is to collect the contractual cash flows, that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.
- Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are generally measured at fair value through other comprehensive income "FVTOCI".
- All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.
- In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

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Classification and measurement of financial liabilities

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires as follows:

- The amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.
- Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

SECP through its SCD/AMCW/RS/MUFAP/2017-148 dated November 21, 2017 have deferred the applicability of above provision requirements in relation to debt securities for mutual funds.

2.5.2 Impact assessment

Based on the analysis of Fund's financial assets and liabilities as at June 30, 2018 considering facts and circumstances that exists at that date, the Management Company have assessed the impact of IFRS 9 to the Fund's financial statements as follows;

Financial assets classified as loans and receivables are held with a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. These financial assets will qualify to be classified and measured at "Amortised cost" upon application of IFRS 9.

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 17 – Insurance Contracts

2.7 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise its judgment in the process of applying Fund's accounting policies. Estimates, judgments and assumptions are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

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

- (a) classification of financial assets (Note 3.2.1)
- (b) impairment of financial assets (Note 3.2.5)
- (c) provisions (Note 3.6)

3. SUMMARY OF SIGNIFICANT ACCOUNTING

The principle accounting policies applied in the preparation of these financial statements are set out below.

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3.1 Cash and cash equivalents

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

3.2 Financial assets

3.2.1 Classification

The management of the Fund determines appropriate classification of investments at the time of purchase and classifies these investments at fair value through profit or loss, loans and receivables or available-for-sale.

a) Investments at fair value through profit or loss - held-for-trading

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

b) Loans and receivables

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

c) Available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as (i) loans and receivables, (ii) held to maturity investments or (iii) financial assets at fair value through profit and loss.

3.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognized on the trade date i.e. the date that the Fund commits to purchase / sell the assets.

3.2.3 Initial recognition and measurement

Financial assets are initially recognized 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 recognized at fair value and transaction costs are recognized in the 'income statement'.

3.2.4 Subsequent measurement

a) Financial assets designated by the management as 'at fair value through profit or loss - held for trading' and 'available for sale'

1) Debt securities (other than government securities)

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Fund Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the SECP for valuation of debt securities vide its Circular no. 1 of 2009 dated January 6, 2009 and Circular no. 33 of 2012 dated October 24, 2012. In the determination of valuation rates, the MUFAP takes into account the holding pattern of these securities and categorizes 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.

2) 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'.

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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 derecognized or impaired. At this time, the cumulative gain or loss previously recognized directly in the 'statement of comprehensive income' is transferred to the 'income statement'.

b) Loans and receivables

Subsequent to initial recognition, financial assets classified as 'loans and receivables' are carried at amortized cost using the effective interest method. Gains or losses are also recognized in the 'income statement' when financial assets carried at amortized cost are derecognised or impaired, and through the amortization 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 recognized whenever, the carrying amount of an asset exceeds its recoverable amount. impairment losses are recognized in the 'income statement'.

a) Debt securities

Provision for non-performing debt securities is made on the basis of time based criteria as prescribed under Circular no. 33 of 2012 dated October 24, 2012 issued by the SECP. Impairment losses recognized on debt securities can be reversed through the 'income statement'.

As allowed under Circular no. 13 of 2009 dated May 4, 2009 issued by the SECP, the management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid Circular, in accordance with the provisioning policy approved by the Board of Directors and disseminated by the Management Company on its website.

b) Loans and receivables

For financial assets classified as 'loans and receivables', a provision for impairment is established when there is an objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the impairment is the difference between the assets carrying value and present value of estimated future cash outflows, discounted at the original effective interest rate.

3.2.6 Derecognition

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

3.2.7 Offsetting of financial assets and 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 recognized amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

3.3 Financial liabilities

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

3.4 Issuance and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. Sales load collected, if any, is payable to the Management Company.

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

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3.5 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) included in prices of units sold less those in units redeemed is created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

Element of income / (loss) represents the difference between net assets value per unit on the issuance or redemption date, as the case may be, of units and the net assets value per unit at the beginning of the relevant accounting period.

Further, the element of income is a transaction of capital nature and the receipt and payment of element of income is taken to unit holders' fund. However, to maintain the same ex-dividend net assets value of all units outstanding on the accounting date, net element of income contributed on issue of units lying in unit holders fund is refunded on units in the same proportion as dividend bears to accounting income available for distribution.

On redemption of units, element of income is paid on units redeemed from element of income contributed by unit holders on issue of units (i.e. return of capital) or the element of income is paid from the income earned by the fund or the element of income is partly paid out of element of income contributed by unit holders (i.e. return of capital) and partly from the income earned by the fund.

3.5.1 Amendment in the NBFC Regulations in the current year

The Securities and Exchange Commission of Pakistan through its SRO 756(I)/2017 dated August 3, 2017 has made certain amendments in the NBFC Regulations. The notification includes a definition and explanation relating to "element of income" and excludes the element of income from the expression "accounting income" as described in Regulation 63 (amount distributable to unit holders) of the NBFC Regulations. As per the notification, element of income represents the difference between net assets value per unit on the issuance or redemption date, as the case may be, of units and the net assets value per unit at the beginning of the relevant accounting period. Further, the revised regulations also specify that element of income is a transaction of capital nature and the receipt and payment of element of income should be taken to unit holders' fund. However, to maintain the same ex-dividend net asset value of all units outstanding on the accounting date, net element of income contributed on issue of units lying in unit holders fund is refunded on units in the same proportion as dividend bears to accounting income available for distribution. Furthermore, the amended regulations also require certain additional disclosures with respect to 'Income Statement' and 'Statement of Movement in Unit Holders' Fund', whereas disclosure with respect to 'Distribution Statement' has been deleted in the amended regulations.

Previously, an equalization account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' was created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption. The net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during the accounting period which pertained to unrealized appreciation / (diminution) held in the Unit Holder's Fund was recorded in a separate account and any amount remaining in this reserve account at the end of the accounting period (whether gain or loss) was included in the amount available for distribution to the unitholders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period was recognized in the Income Statement.

As required by IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors', a change in accounting policy requires retrospective application as if that policy had always been applied. However, the Management Company has applied the above changes in accounting policy, including the additional disclosures requirements in the 'Income Statement' and 'Statement of Movement in Unit Holders' Fund', prospectively from July 1, 2017 as allowed by the SECP vide their email to MUFAP dated February 8, 2018. Accordingly, corresponding figures have not been restated. The 'Distribution Statement' for the comparative period has not been presented as it has been deleted as a result of the amendments made in the NBFC Regulations the aforementioned SRO issued by the SECP.

Had the element of income been recognised as per the previous accounting policy, the profit of the Fund would have been lower by Rs. 29.068 million net off charge for SWWF in respect of element of income / loss and consequently NAV per unit would have been higher by Rs. 0.0015. However, the change in accounting policy does not have any impact on the 'Cash Flow Statement', the 'net assets attributable to the unit holders' and 'net asset value per unit' as shown in the 'statement of Assets and Liabilities' and 'Statement of Movement in Unit Holders' Fund'. The change has resulted in inclusion of certain additional disclosures / new presentation requirements in the 'Income Statement' and 'Statement of Movement in Unit Holders' Fund which have been incorporated in these statements.

NAFA ISLAMIC INCOME FUND

3.6 Provisions

Provisions are recognized 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.

3.7 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised capital gains / (losses) arising on re-measurement of investments classified as financial assets 'at fair value through profit or loss - held for trading' are included in the income statement in the period in which they arise.
- Mark-up / return on government securities, sukuks, commercial paper, certificate of investment and bank balances are recognised on a time apportionment basis using the effective interest method.

3.8 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders (excluding distribution made by issuance of bonus units).

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

3.9 Proposed distributions

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

3.10 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.

4. BANK BALANCES

	Note	2018 ----- Rupees in '000 -----	2017 -----
Current accounts		14,847	21,938
Savings accounts	4.1	3,094,443	4,188,966
		<u>3,109,290</u>	<u>4,210,904</u>

- 4.1 These savings accounts have an expected mark-up at rates ranging from 4.00% to 7.50% per annum (2017: 2.40% to 6.50% per annum).

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	Note	2018 -----Rupees in '000-----	2017
5. INVESTMENTS			
At fair value through profit or loss - held for trading			
Sukuks	5.1	657,638	430,906
Available for sale			
Sukuks	5.2	-	-
		657,638	430,906

5.1 Sukuks - At fair value through profit or loss - held for trading

Description	Number of certificates				Market value as at June 30, 2018	Investment as a percentage of		
	As at July 01, 2017	Purchased during the year	Sold / matured during the year	As at June 30, 2018		Net assets	Market value of total investments	Issue size
	(Rupees in '000)					----- (%) -----		
Dubai Islamic	-	129	-	129	131,413	3.48%	19.98%	3.28%
K-Electric Limited - AZM Sukuk 3	5,200	-	-	5,200	26,365	0.70%	4.01%	1.78%
Pak Electron Limited	-	105	-	105	105,000	2.78%	15.97%	2.45%
GoP Ijara Sukuk - XVI	1,000	-	-	1,000	100,380	2.66%	15.26%	0.09%
GoP Ijara Sukuk - XIX	3,000	-	-	3,000	294,480	7.80%	44.78%	0.42%
Total as at June 30, 2018					657,638	17.42%	100%	
Carrying value before mark to market as at June 30, 2018					664,906			

5.1.1 Other particulars of sukuks outstanding as at June 30, 2018 are as follows:

Description	Face value (unredeemed)	Markup rate per annum	Issue date	Maturity date
Dubai Islamic	1,000	0.50%+ 6 month KIBOR	14-Jul-17	14-Jul-27
K-Electric Limited - AZM Sukuk 3	5,000	2.75% + 3 month KIBOR	19-Mar-14	19-Mar-19
Pak Electron Limited	1,000	1.05% + 3 month KIBOR	19-Feb-18	19-May-19
GoP Ijara Sukuk - XVI	100,000	5.51%	18-Dec-15	18-Dec-18
GoP Ijara Sukuk - XIX	300,000	5.24%	30-Jun-17	30-Jun-20

5.2 Sukuks - Available for sale

Name of the investee comp	Note	Number of certificates				Market value as at June 30, 2018	Investment as a percentage of		
		As at July 01, 2017	Purchased during the year	Sold / matured during the year	As at June 30, 2018		Net assets	Market value of total investments	Issue Size
		(Rupees in '000)					----- (%) -----		
New Allied Electronics Industries (Private) Limited									
- Sukuk 1	5.2.1	352,000	-	-	352,000	-	-	-	14.67%
New Allied Electronics Industries (Private) Limited									
- Sukuk 2	5.2.1	1,000	-	-	1,000	-	-	-	0.65%
Carrying value as at June 30, 2018						114,905			
Accumulated impairment						114,905			

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5.2.1 These represent investment in privately placed sukuk with a term of five years. The investee company had defaulted on its obligation on account of principal and profit payment and accordingly has been classified as non performing asset by MUFAP since January 9, 2009. The amount of provision as per Circular no. 1 of 2009 and Circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said Circulars.

5.2.2 The sukuk held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage of fixed assets of the issuer.

5.2.3 Other particulars of sukuk outstanding as at June 30, 2018 are as follows:

Name of the investee company	Face value (unredeemed)	Profit rate per annum	Issue date	Maturity date
New Allied Electronics Industries (Private) Limited - Sukuk 1	313	2.60% + 3 month KIBOR	27-Jul-07	27-Jul-12
New Allied Electronics Industries (Private) Limited - Sukuk 2	4,905	2.20% + 6 month KIBOR	3-Dec-07	3-Dec-12

	Note	2018 -----Rupees in '000-----	2017
5.3 Net unrealised (loss) / gain on re-measurement of investments at fair value through profit or loss - held for trading			
Market value of investments	5.1	657,638	430,906
Less: carrying value of investments	5.1	(664,906)	(427,955)
		(7,268)	2,951
5.4 Net unrealised gain on re-measurement of investments classified as 'available for sale'			
Market value of investments	5.2	-	-
Less: carrying value of investments	5.2	114,905	(114,905)
Add: provision against non-performing sukuk	5.2	(114,905)	114,905
		-	-
5.5 Movement in provision against non-performing sukuk			
Opening balance		114,905	114,905
Add: Charge for the year		-	-
Less: Reversal of provision due to recovery		-	-
Closing		114,905	114,905
6. MARK-UP ACCRUED			
Mark-up accrued on bank balances		19,538	16,240
Mark-up accrued on sukuk		82	128,938
Mark-up accrued on government securities		12,972	240
Less: Income suspended over non-performing sukuk	6.1	-	(128,862)
		13,054	316
		32,592	16,556
6.1 This represents total income suspended to date in relation to non-performing term finance certificates and sukuk as disclosed in note 5.			

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7. RECEIVABLE AGAINST TRANSFER OF UNITS

This represents amounts receivable from other collective investment schemes being managed by the Management Company of the Fund. These amounts are received during the year in respect of units issued to various unit holders based on their request for transfer of units from other collective investment schemes to the Fund. These amounts have been received from respective collective investment schemes to the Fund.

Note	2018 ----- Rupees in '000 -----	2017 ----- Rupees in '000 -----
------	------------------------------------	------------------------------------

8. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Security deposit with Central Depository Company of Pakistan	100	100
Advance tax	1,192	1,148
Prepayments	-	155
	1,292	1,403

9. PAYABLE TO NBP FUND MANAGEMENT LIMITED - MANAGEMENT COMPANY

Remuneration of the Management Company	9.1	2,263	1,624
Sindh Sales Tax on remuneration of the Management Company	9.2	294	209
Operational expenses	9.3	2,092	2,806
Sales load		1,705	1,549
Sindh Sales Tax and Federal Excise Duty on sales load		935	985
		7,289	7,173

- 9.1 Under the provisions of the NBFC Regulations, the Management Company of the Fund was entitled to a remuneration during the first five years of a Fund, of an amount not exceeding 3% of the average annual net assets of the Fund and thereafter of an amount equal to 2% of such assets provided that Management Company may charge performance based or fixed fee or the combination of both which shall not exceed the limit prescribed in the NBFC Regulations and such fee structure shall be disclosed in the offering document.

On November 25, 2015 SECP has made certain amendments in the NBFC Regulations through S.R.O 1160(1)/2015. As per the provisions of amended NBFC Regulations, the applicable rate has been changed from 2% to 1.5%.

The Management Company has charged management remuneration at the rate of 1% per annum until December 6, 2015. Thereafter from December 7, 2015, the Management Company has revised their policy for charging management remuneration as per the table given below:

Management remuneration (as % of net income *)	Minimum management remuneration (as % of average net asset value)	Maximum management remuneration (as % of average net asset value)
10.00%	0.50%	1.00%

* Net income = Gross income - all expenses of the Fund excluding Management remuneration and related Sales Tax and Federal Excise Duty thereon.

Management remuneration is paid on a monthly basis in arrears.

- 9.2 This represents amount payable in respect of Sindh Sales Tax at the rate of 13% (June 30, 2017: 13%) on remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011.

- 9.3 This represents reimbursement of certain expenses to the Management Company. As per Regulation 60(3)(s) of the NBFC Regulations, fee and expenses pertaining to registrar services, accounting, operation and valuation services related to a Collective Investment Scheme (CIS) are chargeable to the scheme, maximum up to 0.1% of the average annual net assets or the actual cost whichever is lower. Accordingly, the Management Company has charged 0.1% of the average annual net assets, being the lower amount, to the Fund.

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		2018	2017
	Note	----- Rupees in '000 -----	-----
10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE			
Remuneration of the Trustee	10.1	363	284
Sindh Sales Tax on remuneration of the Trustee	10.2	48	37
		411	321

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

Tariff structure applicable to the Fund as at June 30, 2018 is as follows:

Net asset value	Tariff per annum
Upto Rs. 1,000 million	0.17% per annum of net asset value.
On amount exceeding Rs. 1,000 million to Rs. 5,000 million	Rs. 1.7 million plus 0.085% per annum of net asset value exceeding Rs. 1,000 million.
On amount exceeding Rs. 5,000 million	Rs. 5.1 million plus 0.07% per annum of net asset value exceeding Rs. 5,000 million.

- 10.2** This represents amount payable in respect of Sindh Sales Tax at the rate of 13% (2017: 13%) on remuneration of the Trustee through the Sindh Sales Tax on Services Act, 2011.

11. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

- 11.1** Under the provisions of the NBFC Regulations, a collective investment scheme categorised as "income scheme" is required to pay as annual fee to the Securities and Exchange Commission of Pakistan, an amount equal to 0.075% of the average annual net assets of the Fund. The fee is paid annually in arrears.

12. PAYABLE AGAINST CONVERSION OF UNITS

This represented amounts payable to other collective investment schemes being managed by the Management Company of the Fund. These amounts are paid during the year in respect of units redeemed by various unit holders based on their request for transfer of units from the Fund to the other collective investment schemes.

		2018	2017
	Note	----- Rupees in '000 -----	-----
13. ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		479	516
Provision for Sindh Workers' Welfare Fund	16	6,905	2,534
Federal Excise Duty on remuneration of the Management Company	13.1 & 13.2	3,955	3,955
Settlement charges		5	21
Withholding tax		34	8,230
Capital Gain Tax		1,921	6,586
Legal and professional charges		49	49
Bank charges		54	34
Brokerage charges		22	22
Printing charges		100	58
Shariah advisor fee		494	425
Others		565	1,204
		14,583	23,634

NAFA ISLAMIC INCOME FUND

- 13.1** As per the requirement of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective from June 13, 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law, hence, a petition was collectively filed by the Mutual Fund Association of Pakistan with the Sindh High Court (SHC) on September 04, 2013.

While disposing the above petition through order dated July 16, 2016, the SHC declared the said provisions to be ultra vires and as a result no FED is payable with effect from July 01, 2011. However, the tax authorities subsequently filed appeal against the decision of the SHC in the Supreme Court of Pakistan, which is pending for the decision.

Further, the Finance Act 2016, also introduced an amendment to the Federal Excise Act, 2005 whereby FED was withdrawn on services of different industries including Non-Banking Financial Institutions, which are already subject to provisional sales tax.

However, since the appeal is pending in Supreme Court of Pakistan, the Management Company, being prudent, is carrying provision for FED aggregating to Rs. 3.955 million as at June 30, 2018.

Had the provision not being made, the net asset value per unit as at June 30, 2018 would have been higher by Rs. 0.010 per unit (2017: Rs. 0.0077 per unit).

- 13.2** The amount of FED accrued on remuneration of the Management Company will be paid by the Management Company to the taxation authority, if required.

14. CONTINGENCIES AND COMMITMENTS

There were no contingencies outstanding as at June 30, 2018 and June 30, 2017.

15. AUDITORS' REMUNERATION

	2018	2017
	----- Rupees in '000 -----	
Annual audit fee	330	330
Half yearly review fee	132	132
Out of pocket expenses	30	58
	<u>492</u>	<u>520</u>

16. PROVISION FOR WORKERS' WELFARE FUND AND SINDH WORKERS' WELFARE FUND

As a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) had been passed by the Government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.50 million, was required to pay Sindh Workers' Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income. The matter was taken up by the MUFAP with the Sindh Revenue Board (SRB) collectively on behalf of various asset management companies and their CISs whereby it was contested that mutual funds should be excluded from the ambit of the SWWF Act as these were not industrial establishments but were pass through investment vehicles and did not employ workers. The SRB held that mutual funds were included in the definition of financial institutions as per the Financial Institution (Recovery of Finances) Ordinance, 2001 and were, hence, required to register and pay SWWF under the SWWF Act. Thereafter, MUFAP had taken up the matter with the Sindh Finance Ministry to have CISs / mutual funds excluded from the applicability of SWWF. In view of the above developments regarding the applicability of SWWF on CISs/mutual funds, the MUFAP recommended that as a matter of abundant caution provision in respect of SWWF should be made on a prudent basis with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from May 21, 2015).

NAFA ISLAMIC INCOME FUND

In the repealed Companies Ordinance, 1984 and the now applicable Companies Act, 2017, mutual funds have not been included in the definition of "financial institutions". The MUFAP has held the view that SWWF is applicable on asset management companies and not on mutual funds.

As at June 30, 2018, the provision in relation to SWWF amounted to Rs. 6.905 million (2017: Rs. 2.534 million). Had the provision not being made, the net asset value per unit as at June 30, 2018 would have been higher by Rs.0.018 per unit (June 30, 2017: Rs. 0.0049) per unit.

17. TAXATION

The Fund's income is exempt from income tax as per Clause 99 of Part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of its accounting income for the year, as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders (excluding distribution made by issuance of bonus units). The Fund intends to distribute such accounting income for the year ended June 30, 2018 to its unit holders. Accordingly, no provision in respect of taxation has been made in these financial statements.

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

18. EARNINGS PER UNIT

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

19. TOTAL EXPENSE RATIO

Total expense ratio (all the expenses incurred during the year divided by average net asset for the year) is 1.11% per annum including 0.27% representing government levies on Collective Investment Schemes such as sales tax and Securities and Exchange Commission of Pakistan fee for the year.

20. DETAILS OF NON-COMPLIANT INVESTMENTS

The Securities and Exchange Commission of Pakistan vide Circular no. 7 of 2009 dated March 6, 2009, required all Asset Management Companies to categorize funds under their management on the basis of criteria laid down in the Circular. The Board has approved the category of the fund as 'income scheme'.

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

Following is the detail of non-compliant investments :

Name of non-compliant investment	Non-compliance of clause	Type of investment	Value of investment before provision	Provision held, if any	Value of investment after provision	% of net assets	% of gross assets
New Allied Electronics Industries (Private) Limited - Sukuk 1	Rating is below investment grade as prescribed in clause 9(v) of the Annexure of Circular 7 of 2009	Sukuks (5.2)	110,000	(110,000)	-	-	-
New Allied Electronics Industries (Private) Limited - Sukuk 2	Rating is below investment grade as prescribed in clause 9(v) of the Annexure of Circular 7 of 2009	Sukuks (5.2)	4,905	(4,905)	-	-	-
Total carrying value			114,905	(114,905)			

20.1 At the time of purchase, these sukuks were in compliance with the aforementioned Circular. However, they either subsequently defaulted or were downgraded to non investment grade.

NAFA ISLAMIC INCOME FUND

	2018	2017
	-----No of Units-----	
21. NUMBER OF UNITS IN ISSUE		
Total units in issue at the beginning of the year	512,725,293	270,595,371
Add: units issued during the year	707,138,501	1,350,066,895
Less: units redeemed during the year	(842,030,011)	(1,107,936,973)
Total units in issue at the end of the year	377,833,783	512,725,293
22. NET ASSET VALUE PER UNIT		
The net asset value per unit as disclosed in the statement of assets and liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.		
23. TRANSACTIONS WITH CONNECTED PERSONS AND RELATED PARTIES		
23.1	Connected persons and related parties include NBP Fund Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan being the Parent of the Management Company and Alexandra Fund Management Pte. Limited being the sponsor of the Management Company. It also includes associated companies of Management Company due to common directorship, post-employment benefit funds of the Management Company, its parent and sponsor. It also includes subsidiaries and associated companies of the Parent of the Management Company and other collective investment schemes (CIS) managed by the Management Company, directors and key management personnel of the Management Company and any person or company beneficially owning directly or indirectly 10% or more of the units in issue / net assets of the Fund.	
23.2	The transactions with connected persons and related parties are carried out in the normal course of business, at contracted rates and terms determined in accordance with the market norms.	
23.3	Remuneration of the Management Company is determined in accordance with the provisions of the NBFC Regulations.	
23.4	Remuneration of the Trustee is determined in accordance with the provisions of the Trust Deed.	
23.5		
Details of transactions with connected persons are as follows:		
NBP Fund Management Limited - Management Company		
Remuneration of the Management Company	25,371	16,362
Sindh Sales Tax on Management Company's remuneration	3,298	2,127
Operational expenses	4,286	2,806
Sales load paid to the Management Company	1,492	1,990
Central Depository Company of Pakistan Limited (Trustee)		
Remuneration of the Trustee	4,493	3,235
Sindh Sales Tax on Remuneration of the Trustee	584	421
Security Depoist	100	100
Alexandra Fund Management Pte. Limited - Sponsor of the Management Company		
Dividend re-invest Nil units (2017: 234,724 units)	-	2,227
Unit redeemed / transferred out 5,969,262 units (2017: Nil units)	56,795	-
Employees of the Management Company		
Units issued / transferred in 17,469,282 units (2017: 13,392,147 units)	170,376	129,844
Unit redeemed / transferred out 16,119,332 units (2017: 12,325,711 units)	157,574	119,667
Dividend re-invest 2,983 units (2017: 157,922 units)	28,616	1,499

NAFA ISLAMIC INCOME FUND

2018 2017
----- Rupees in '000 -----

Chief Financial Officer of the Management Company

Units issued / transferred in 312,120 units (2017: 31,502 units)	3,000	300
Unit redeemed / transferred out 310,450 units (2017: 47,329 units)	3,002	454

Pakistan Mobile Communication Limited Provident Fund (Portfolio managed by the Management Company)

Unit redeemed / transferred out Nil units (2017: 3,446,682 units)	-	33,514
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*Sadia Kamran (Unit holder of 10% or more of units of the CIS (Portfolio managed by the Management Company)

Units issued / transferred in Nil units (2017: 1,914,393 units)	-	19,059
Unit redeemed / transferred out Nil units (2017: 1,914,393 units)	-	19,064

*NBP Fund Management Limited Employees Provident Fund (Provident Fund of the parent of the Management Company)

Units issued / transferred in Nil units (2017: 243,726 units)	-	2,313
Unit redeemed / transferred out Nil units (2017: 243,726 units)	-	2,314

Akhuwat (Portfolio managed by the Management Company)

Units issued / transferred in 890,005 units (2017: 3,296,716 units)	8,558	32,000
Unit redeemed / transferred out 4,144,556 units (2017: 202,770 units)	40,804	1,973
Dividend re-invest 2,305 units (2017: 158,300 units)	22	1,502

Telenor Pakistan (Private) Limited Employees Provident Fund (Portfolio managed by the Management Company)

Units issued / transferred in Nil units (2017: 5,377,280 units)	-	52,500
Unit redeemed / transferred out Nil units (2017: 5,377,280 units)	-	52,995

BankIslami Pakistan Limited (Common Directorship with the Management Company)

Mark-up on bank balances	12,997	22,725
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**Prosperity Weaving Mills

Units issued / transferred in 12 units (2017: Nil units)	-	-
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23.6 Balances outstanding as at the period / year end

NBP Fund Management Limited - Management Company

Remuneration of the Management Company	2,263	1,624
Sindh Sales Tax payable on remuneration of the Management Company	294	209
Operational expenses	2,092	2,806
Sales load	1,705	1,549
Sindh Sales Tax and Federal Excise Duty on sales load	935	985

NAFA ISLAMIC INCOME FUND

	2018	2017
	Rupees in '000	
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	363	284
Sindh Sales tax Remuneration payable	48	37
Security deposit	100	100
National Bank of Pakistan - Parent of the Management Company		
Bank balances	4,760	3,311
Employees of the Management Company		
Investment held in the Fund: 5,166,826 units (June 2017: 3,813,913 units)	51,627	36,271
Alexandra Fund Management Pte. Limited - Sponsor		
Investment held in the Fund: Nil units (June 2017: 5,969,262 units)	-	56,770
Akhuwat (Portfolio managed by the Management Company)		
Investment held in the Fund: Nil units (June 2017: 3,252,427 units)	-	30,930
Chief Financial Officer of the Management Company		
Investment held in the Fund: 1,669 units (June 2017: Nil units)	16	-
**Prosperity Weaving Mills		
Investment held in the Fund: 12 units (June 2017: Nil units)	-	-
*Sadia Kamran (Unit holder of 10% or more of units of the CIS (Portfolio managed by the Management Company)		
Investment held in the Fund: Nil units (June 2017: 51,923,866 units)	-	493,812
BankIslami Pakistan Limited (Common Directorship with the Management Company)		
Balance in savings accounts	255,283	61,832
Mark-up on bank balances	1,171	232

NAFA ISLAMIC INCOME FUND

	2018	2017
	----- Rupees in '000 -----	
Summit Bank (Common Directorship with the Management Company)		
Balance in current accounts	5,984	5,931
Amount receivable against issue of units from:		
NAFA Asset Allocation Fund	-	215
NAFA Islamic Energy Fund	-	248,834
NAFA Riba Free Savings Fund	-	10,800
NAFA Islamic Stock Fund	-	2,439
NAFA Stock Fund	-	196
Amount payable against issue of units to:		
NAFA Islamic Stock Fund	-	7,995

* Current year balances with these parties have not been disclosed as they did not remain connected persons and related parties as at year end.

** Prior year balances with these parties have not been disclosed as they were not connected persons or related parties during prior years.

24 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

S.No.	Name	Qualification	Experience in years
1	Dr. Amjad Waheed	Doctorate in Business Administration, MBA and CFA	30
2	Mr. Sajjad Anwar	MBA and CFA	18
3	Mr. Muhammad Ali Bhabha	CFA, FRM, MBA and MS(CS	23
4	Mr. Hassan Raza	ACCA, BSC, CFA	7
5	Mr. Taha Khan Javed	MBA and CFA	12

24.1 Mr. Muhammad Ali Bhabha is the manager of the Fund. Other Funds being managed by the Fund manager are as follows:

- NAFA Riba Free Savings Fund
- NAFA Active Allocation Riba Free Savings Fund
- NAFA Money Market Fund
- NAFA Income Opportunity Fund
- NAFA Income Fund
- NAFA Government Securities Savings Fund
- NAFA Savings Plus Fund
- NAFA Government Securities Liquid Fund
- NAFA Financial Sector Income Fund
- NAFA Islamic Money Market Fund

NAFA ISLAMIC INCOME FUND

25. PATTERN OF UNIT HOLDING

Category	As at June 30, 2018		
	Number of unit holders	Net asset value of the amount invested	Percentage of total investment
(Rupees in '000)			
Individuals	2,447	2,021,818	53.55%
Insurance companies	5	174,156	4.62%
Listed companies	5	78,246	2.07%
Retirement funds	37	214,125	5.67%
Others	49	1,286,970	34.09%
	2,543	3,775,315	100%

Category	As at June 30, 2017		
	Number of unit holders	Net asset value of the amount invested	Percentage of total investment
(Rupees in '000)			
Individuals	1,165	2,457,042	50.39%
Associated companies	1	56,770	1.16%
Insurance companies	10	184,327	3.78%
Listed companies	2	138,233	2.83%
Retirement funds	37	307,833	6.31%
Others	47	1,731,972	35.52%
	1,262	4,876,177	100%

26. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 64th, 65th, 66th, 67th Board meetings were held on September 15, 2017, October 27, 2017, February 22, 2018, April 30, 2018, respectively. Information in respect of attendance by directors in the meetings is given below:

Name of the Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Mudassir H.Khan [Note 26.1]	4	4	-	67th Meeting
Mr. Tariq Jamali [Note 26.1]	4	3	1	
Mr. Abdul Hadi Palekar	4	4	-	
Mr. Lui Mang Yin (Martin Lui) [Note 26.2]	2*	2	-	65th Meeting
Mr. FOO Chiah Shiung (Kelvin Foo)	4	3	1	
Mr. Kamal Amir Chinoy	4	4	-	
Mr. Shehryar Faruque	4	4	-	
Mr. Humayun Bashir	4	4	-	
Dr. Amjad Waheed	4	4	-	
Mr. Wajahat Rasul Khan [Note 26.3]	-*	-	-	

26.1 Mr. Tariq Jamali and Mr. Mudassir H.Khan were appointed as directors on Board with effect from August 18, 2017

26.2 Mr. Lui Mang Yin (Martin Lui) resigned as director on the Board with effect from December 21, 2017.

26.3 Mr. Wajahat Rasul Khan appointed as director on the Board with effect from April 30, 2018.

*These directors were appointed and retired/resigned during the year, therefore the number of meetings held in respect of these directors is less than the total number of meetings held during the year.

NAFA ISLAMIC INCOME FUND

27 FINANCIAL INSTRUMENTS BY CATEGORY

Financial Assets

	As at June 30, 2018		
	Loans and receivables	At fair value through profit or loss - held for trading	Total
-----Rupees in '000-----			
Bank balances	3,109,290	-	3,109,290
Investments	-	657,638	657,638
Mark-up accrued	32,592	-	32,592
Receivable against transfer of units	-	-	-
Deposits	100	-	100
	3,141,982	657,638	3,799,620

Financial Liabilities

	As at June 30, 2018		
	At fair value through profit or loss	At amortised cost	Total
-----Rupees in '000-----			
Payable to the Management Company	-	7,289	7,289
Payable to Central Depository Company of Pakistan Limited - Trustee	-	411	411
Payable against redemption of units	-	-	-
Payable against conversion of units	-	-	-
Dividend payable	-	-	-
Accrued expenses and other liabilities	-	1,768	1,768
Net assets attributable to redeemable units	-	3,775,315	3,775,315
	-	3,784,783	3,784,783

Financial Assets

	As at June 30, 2017		
	Loans and receivables	At fair value through profit or loss - held for trading	Total
-----Rupees in '000-----			
Bank balances	4,210,904	-	4,210,904
Investments	-	430,906	430,906
Mark-up accrued	16,556	-	16,556
Receivable against conversion of units	262,484	-	262,484
Deposits	100	-	100
	4,490,044	430,906	4,920,950

NAFA ISLAMIC INCOME FUND

As at June 30, 2017

At fair value through profit or loss - held for trading	At amortised cost	Total
--	-------------------------	-------

-----Rupees in '000-----

Financial Liabilities

Payable to the Management Company	-	7,173	7,173
Payable to the Trustee	-	321	321
Payable against redemption of units	-	4,081	4,081
Payable against conversion of units	-	7,995	7,995
Dividend payable	-	768	768
Accrued expenses and other liabilities	-	6,284	6,284
Net assets attributable to redeemable units	-	4,876,177	4,876,177
	-	4,902,799	4,902,799

28 FINANCIAL RISK MANAGEMENT

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

28.1 Market risk

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

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

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

28.1.1 Currency risk

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

28.1.2 Interest rate risk

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

- Sensitivity analysis for variable rate instruments

As at June 30, 2018, the Fund holds KIBOR based interest bearing sukuks and balance in savings accounts exposing the Fund to interest rate risk. In case of 100 basis points increase / decrease in KIBOR and bank profit rates with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs. 1.560 million (2017: Rs. 1.307 million).

- Sensitivity analysis for fixed rate instruments

Presently, the fund does not any fixed rate instrument that has been designated at fair value through profit and loss. Therefore, a change in interest rate as at June 30, 2018, would not have any affect on the income statement.

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2018 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

NAFA ISLAMIC INCOME FUND

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:

As at June 30, 2018					
Yield / Interest rate	Total	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk
		Upto three months	More than three months and upto one year	More than one year	
%	Rupees in '000				
On-balance sheet financial instruments					
Financial assets					
Bank balances	4.0 - 7.5	3,109,290	3,094,443	-	14,847
Investments	5.01 - 9.6	657,638	131,365	526,273	-
Markup Accrued		32,592	-	-	32,592
Deposits		100	-	-	100
		3,799,620	3,225,808	526,273	47,539
Financial liabilities					
Payable to the Management Company		11,128	-	-	11,128
Payable to the Trustee		321	-	-	321
Payable against redemption of units		4,080	-	-	4,080
Payable against conversion of units		7,996	-	-	7,996
Dividend payable		768	-	-	768
Accrued expenses and other liabilities		1,125	-	-	1,125
Net assets attributable to redeemable units		4,876,177	-	-	4,876,177
		4,901,595	-	-	4,901,595
On-balance sheet gap		(1,101,975)	3,225,808	526,273	(4,854,056)
Off-balance sheet financial instruments					
Off-balance sheet gap		-	-	-	-

As at June 30, 2017					
Yield / Interest rate	Total	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk
		Upto three months	More than three months and upto one year	More than one year	
%	Rupees in '000				
On-balance sheet financial instruments					
Financial assets					
Bank balances	2.40 - 6.50	4,210,904	4,188,966	-	21,938
Investments	5.24 - 8.90	430,906	-	430,906	-
Markup Accrued		16,556	-	-	16,556
Receivable against conversion units		262,484	-	-	262,484
Deposits		100	-	-	100
		4,920,950	4,188,966	430,906	301,078
Financial liabilities					
Payable to the Management Company		7,173	-	-	7,173
Payable to the Trustee		321	-	-	321
Payable against redemption of units		4,081	-	-	4,081
Payable against conversion of units		7,995	-	-	7,995
Dividend payable		768	-	-	768
Accrued expenses and other liabilities		12,870	-	-	12,870
Net assets attributable to redeemable units		4,876,177	-	-	4,876,177
		4,909,385	-	-	4,909,385
On-balance sheet gap		11,565	4,188,966	430,906	(4,608,307)
Off-balance sheet financial instruments		-	-	-	-
Off-balance sheet gap		-	-	-	-

NAFA ISLAMIC INCOME FUND

28.1.3 Price risk

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

28.2 Credit risk

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

The analysis below summarises the credit quality of the Fund's financial assets:

Bank balances by rating category

June 30, 2018

AAA	37.55%
AA+	0.53%
AA	0.00%
AA-	0.65%
A+	8.21%
A-	53.05%
A	0.02%

Term finance certificates and sukuks by rating category

AAA, AA, AA-,AA+	78.83%
A,A-,A+	0.00%
Non-performing	21.17%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2018 is as follows :

	June 30, 2018		June 30, 2017	
	Amount of financial assets	Maximum Exposure	Amount of financial assets	Maximum Exposure
Bank balances	3,109,290	3,109,290	4,210,904	4,210,904
Investments	657,638	657,638	430,906	430,906
Mark-up accrued	32,592	32,592	16,556	16,556
Receivable against transfer of units	-	-	262,484	262,484
Deposits	100	100	100	100
	3,799,620	3,799,620	4,920,950	4,920,950

Concentration of credit risk

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

28.3 Liquidity risk

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

NAFA ISLAMIC INCOME FUND

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

For the purpose of making redemptions, the Fund has the ability to borrow in the short term. However, such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to 15% of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below 10% of the units then in issue. The Fund did not withhold any significant redemptions during the year.

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

June 30, 2018				
Total	Upto three months	Over three months and upto one year	Over one year	
Rupees in '000				
Financial liabilities				
Payable to the Management Company	7,289	7,289	-	-
Payable to the Trustee	411	411	-	-
Payable against redemption of units	-	-	-	-
Payable against conversion of units	-	-	-	-
Dividend payable	-	-	-	-
Accrued expenses and other liabilities	1,768	1,768	-	-
Net assets attributable to redeemable units	3,775,315	3,775,315	-	-
	3,784,783	3,784,783	-	-
June 30, 2017				
Total	Upto three months	Over three months and upto one year	Over one year	
Rupees in '000				
Financial liabilities				
Payable to the Management Company	7,173	7,173	-	-
Payable to the Trustee	321	321	-	-
Payable against redemption of units	4,081	4,081	-	-
Payable against conversion of units	7,995	7,995	-	-
Dividend payable	768	768	-	-
Accrued expenses and other liabilities	12,870	12,870	-	-
Net assets attributable to redeemable units	4,876,177	4,876,177	-	-
	4,909,385	4,909,385	-	-

29. UNIT HOLDERS' FUND RISK MANAGEMENT

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

The Fund has no restrictions on the issuance and redemption of units. There is no specific capital requirement which is applicable on the Fund.

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

NAFA ISLAMIC INCOME FUND

In accordance with the risk management policies stated in note 28, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests which would be augmented by short-term borrowings or disposal of investments where necessary.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

- **Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2** 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 3** Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

----- As at June 30, 2018 -----				
Assets	Level 1	Level 2	Level 3	Total
----- (Rupees in '000) -----				
At fair value through profit or loss - held for trading				
Government securities	-	394,860	-	394,860
Sukuks	-	262,778	-	262,778

----- As at June 30, 2017 -----				
Assets	Level 1	Level 2	Level 3	Total
----- (Rupees in '000) -----				
At fair value through profit or loss - held for trading				
Government securities	-	404,000	-	404,000
Sukuks	-	26,906	-	26,906

There were no transfers between Level 1 and 2 during the year.

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 carrying values of all financial instruments reflected in the financial statements approximate their fair values.

31. NON ADJUSTING EVENT AFTER REPORTING DATE

The Management Company on July 4, 2018 has declared a cash distribution of Rs. 0.4883 per unit. The Financial statements of the Fund for the year ended June 30, 2018 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2019.

32. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 05, 2018.

33. GENERAL

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

33.2 Corresponding figures have been rearranged or reclassified, where necessary, for the purpose of better presentation. No significant rearrangement or reclassification was made in these financial statements during the current year.

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA ISLAMIC INCOME FUND

PERFORMANCE TABLE

Particulars	For the year ended June 30, 2018	For the year ended June 30, 2017	For the year ended June 30, 2016	For the year ended June 30, 2015	For the year ended June 30, 2014	For the year ended June 30, 2013
Net assets at the year / period ended (Rs '000)	3,775,315	4,876,177	2,566,748	1,207,394	431,004	165,611
Net income for the year / period ended (Rs '000)	214,227	81,561	43,406	45,573	30,932	7,923
Net Asset Value per unit at the year / period ended (Rs)	9.9920	9.5103	9.4856	9.4745	9.3285	9.1803
Offer Price per unit	10.1049	9.6178	9.6110	9.6009	9.4540	9.2721
Redemption Price per unit	9.9920	9.5103	9.4856	9.4745	9.3285	9.1803
Ex - Highest offer price per unit (Rs.)	10.1049	10.0838	9.6110	9.6009	9.4540	9.2721
Ex - Lowest offer price per unit (Rs.)	9.6190	9.5942	8.9506	8.7930	8.3199	8.6849
Ex - Highest redemption price per unit (Rs.)	9.9920	9.9711	9.4856	9.4745	9.3285	9.1803
Ex - Lowest redemption price per unit (Rs.)	9.5048	9.4870	8.8314	8.6772	8.2094	8.5989
Fiscal Year Opening Ex NAV	9.5036	9.4856	8.8298	8.6754	8.2082	8.5954
Total return of the fund	5.14%	5.40%	7.43%	9.21%	13.65%	6.80%
Capital growth	0.00%	5.33%	0.13%	1.03%	5.62%	2.25%
Income distribution as % of Ex-NAV	5.14%	0.07%	7.30%	8.18%	8.03%	4.55%
Income distribution as % of Par Value	4.88%	0.07%	6.92%	7.10%	6.59%	3.91%
Distribution						
Interim distribution per unit		0.4855	-	0.7099	-	-
Final distribution per unit	0.4883	0.0068	0.6918	-	0.6592	0.3911
Distribution Dates						
Interim		19-Jun-17	29-Jun-16	29-Jun-15	-	-
Final	04-Jul-2018	15-Sep-17		-	26-Jun-14	11-Jul-13
Average annual return of the fund (launch date October 26, 2007)						
(Since inception to June 30, 2018)	6.53%					
(Since inception to June 30, 2017)		6.7%				
(Since inception to June 30, 2016)			6.83%			
(Since inception to June 30, 2015)				6.80%		
(Since inception to June 30, 2014)					6.39%	
(Since inception to June 30, 2013)						5.16%
Portfolio Composition (Please see Fund Manager Report)						
Weighted average portfolio duration	60 Days	83 Days	49 Days	2 Days	9 Days	65 Days








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



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