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

NAFA INCOME OPPORTUNITY FUND

ANNUAL REPORT 2017



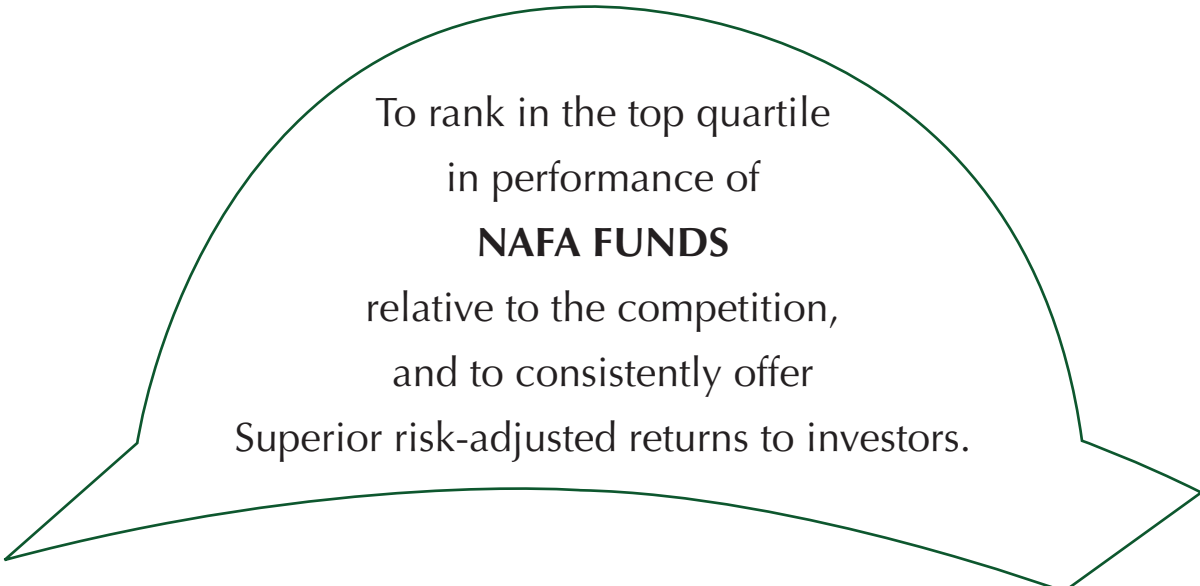
Your investments & "NAFA" grow together



**FULLERTON FUND
MANAGEMENT**

Joint - Venture Partners

MISSION STATEMENT



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

NAFA INCOME OPPORTUNITY FUND

FUND'S INFORMATION

Management Company

NBP Fullerton Asset Management Limited – Management Company

Board of Directors of the Management Company

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

Company Secretary & COO

Mr. Muhammad Murtaza Ali

Chief Financial Officer

Mr. Khalid Mehmood

Audit & Risk Committee

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

Human Resource and Remuneration Committee

Mr. Kamal Amir Chinoy	Chairman
Mr. Lui Mang Yin (Martin Lui)	Member
Mr. Abdul Hadi Palekar	Member

Trustee

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

Bankers to the Fund

Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
JS Bank Limited
KASB Bank Limited
MCB Bank Limited
National Bank of Pakistan
NIB Bank Limited
SILK Bank Limited
Soneri Bank Limited
The Bank of Panjab
Summit Bank Limited
United Bank Limited
Samba Bank Limited
Al Baraka Bank Limited
Meezan Bank Limited
Sindh Bank Limited
Dubai Islamic Bank Pakistan Limited
Khushhali Bank Limited
Bankislami Pakistan Limited
Zarai Taraqiati Bank Limited
Summit Bank Limited
NRSP Microfinance Bank Limited

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

Lahore Office:

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

Islamabad Office:

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

Peshawar Office:

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

Multan Office:

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

NAFA INCOME OPPORTUNITY FUND

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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. Lui Mang Yin (Martin Lui)
Director



Mr. Tariq Jamali
Director



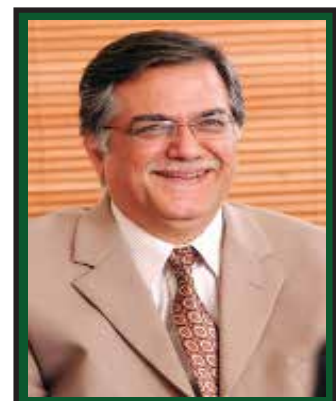
Mr. Shehryar Faruque
Director



Dr. Foo Chiah Shiung (Kelvin Foo)
Director



Mr. Abdul Hadi Palekar
Director



Mr. Humayun Bashir
Director

Senior Management



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. Sajjad Anwar, CFA
Chief Investment 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



Mr. Hassan Raza, CFA
Head of Research



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



Mr. Taha Khan Javed, CFA
Head of Equity



Syed Ali Azhar Hasani
Head of Internal Audit



Mr. Salman Ahmed
Head of Risk Management



Mr. Raheel Rehman, ACA
Senior Manager Compliance



Mr. Shahbaz Umer
Head of Human Resource &
Administration

NAFA INCOME OPPORTUNITY FUND

DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Twelfth Annual Report of **NAFA Income Opportunity Fund** for the year ended June 30, 2017.

Fund's Performance

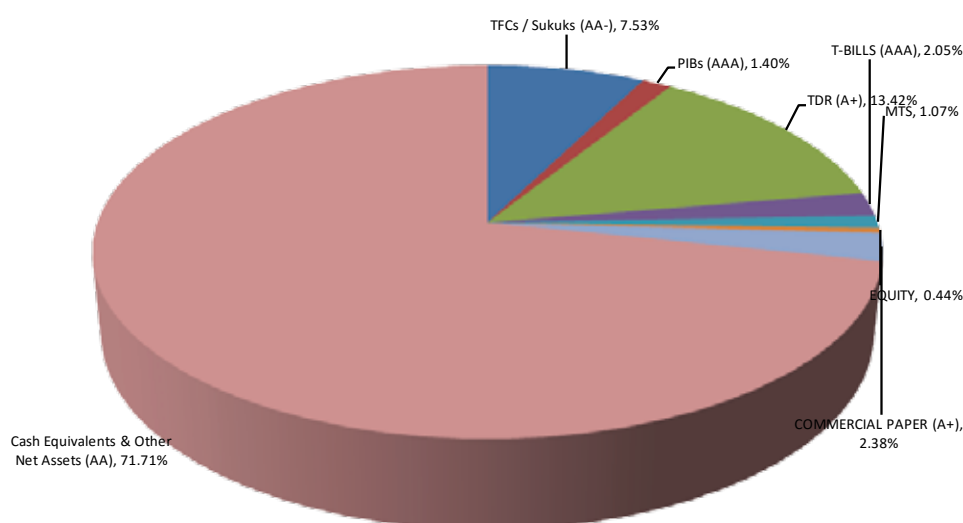
The size of NAFA Income Opportunity Fund has increased from Rs. 6,274 million to Rs. 8,199 million during the period, i.e. a growth of around 31%. During the said period, the unit price of the Fund has increased from Rs. 10.0640 (Ex-Div) on June 30, 2016 to Rs. 10.6964 on June 30, 2017, thus posting a return of 6.28% as compared to its Benchmark return of 6.10% for the same period. The return of the Fund is net of management fee and all other expenses.

NIOF is categorized as an Income Scheme and has been awarded stability rating of A (f) by PACRA.

Helped by the lower food prices, inflation as measured by the CPI averaged 4.2% for FY17. During the year, State Bank of Pakistan (SBP) maintained the policy rate at 5.75%. SBP cited improving economic prospects amid investment activity in the context of CPEC gathering pace; but also highlighted its concerns on surge in imports, which along with a marginal decline in exports and workers' remittances widened the current account deficit. SBP's prudent monetary policy stance translated into low and stable market interest rates; encouraging the private sector to undertake capacity expansions. Sovereign yield curve slightly steepened as the short end of the curve inched up by 5-10 basis points whereas long-term yields increased by 40-60 basis points.

Trading activity in corporate TFCs / Sukuks slightly improved with cumulative trade value of Rs 9.1 billion in FY17 compared to Rs 7.7 billion last year. The trades remained skewed towards high quality debt issues, mainly concentrated towards the Banking sector with 71% contribution. Dearth of primary issuance and rising demand kept the yield spread tightened in the secondary market.

The Fund has earned a total income of Rs.540.87 million during the year. After accounting for total expenses of Rs.249.96 million, the net income is Rs.290.91 million. The asset allocation of NAFA Income Opportunity Fund as on June 30, 2017 is as follows:



NAFA INCOME OPPORTUNITY FUND

Income Distribution

The Board of Directors of the Management Company has approved cash dividend of 6.34% of opening ex-NAV (6.78% of the par value) for the year.

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, Messrs Deloitte Yousuf Adil & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2018.

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 current financial year. 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 22 to these financial statements.

NAFA INCOME OPPORTUNITY FUND

Acknowledgement

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

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

On behalf of the Board of
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: September 15, 2017
Place: Karachi.

NAFA INCOME OPPORTUNITY FUND

ڈائریکٹرز رپورٹ

این بی پی فلٹرن ایسیٹ منیجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز NAFA انکم آپرٹونٹی فنڈ (NIOF) کی بارہویں سالانہ رپورٹ برائے سال ختمہ 30 جون 2017ء پیش کرتے ہوئے خوشی محسوس کر رہے ہیں۔

فنڈ کی کارکردگی

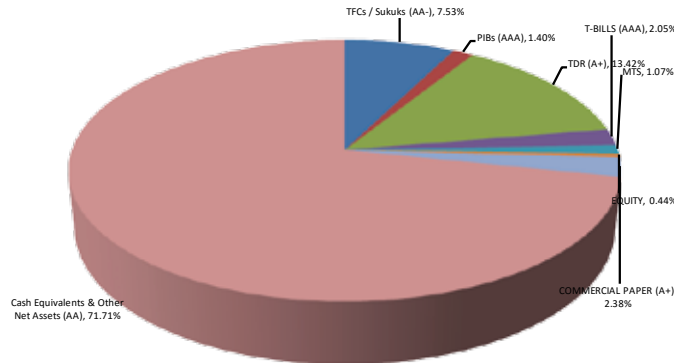
NAFA انکم آپرٹونٹی فنڈ (NIOF) کا فنڈ سائز اس مدت کے دوران 6,274 ملین روپے سے بڑھ کر 8,199 ملین روپے ہو گیا ہے یعنی تقریباً 31% کا اضافہ۔ زیر جائزہ مدت کے دوران فنڈ کے یونٹ کی قیمت 30 جون 2016 کو 10.0640 روپے (Ex-Div) سے بڑھ کر 30 جون 2017 کو 10.6964 روپے ہو چکی ہے اور اس طرح اپنے بیخمارک منافع کے 6.10% کے مقابلے میں فنڈ نے 6.28% اضافہ دکھایا ہے۔ فنڈ کی یہ کارکردگی منیجمنٹ فیس اور دیگر تمام اخراجات کے بعد خالص ہے۔ NIOF کی درجہ بندی بطور ایک انکم اسکیم کی گئی ہے اور اسے PACRA کی طرف سے (f) A کی مستحکم ریٹنگ دی گئی ہے۔

اشیائے خورد و نوش کی قیمتوں میں کمی کے سبب CPI کے مطابق مالی سال 2017 میں افراط زر اوسطاً 4.2% رہا۔ سال کے دوران اسٹیٹ بینک آف پاکستان (SBP) نے پالیسی کی شرح 5.75% برقرار رکھی۔ SBP نے چین پاکستان اقتصادی راہداری (CPEC) کے تناظر میں منصوبوں کیلئے سرمایہ کاری کی کارروائیوں میں تیزی آنے کو معاشی صورتحال میں بہتری کا سبب قرار دیا؛ تاہم درآمدات میں اضافہ پر اپنے تحفظات کا اظہار کیا، جس کے ساتھ درآمدات میں بیرون ملک سے قوم کی ترسیل میں کمی سے کرنٹ اکاؤنٹ کا خسارہ بڑھ گیا۔ SBP کی دانشمندانہ مانیٹری پالیسی کے نتیجے میں شرح سود میں استحکام اور کمی دیکھنے میں آئی؛ جس سے نجی شعبہ کو اپنی گنجائش بڑھانے میں حوصلہ افزائی ہوئی۔ قلیل حکومتی منافع میں 10-5 بنیادی پوائنٹس کے ساتھ بہتری آئی۔ جب کہ طویل مدت کے منافع میں 60-40 بنیادی پوائنٹس کا اضافہ ہوا۔

کارپوریٹ TFCs/Sukuks کی تجارتی سرگرمیوں میں کچھ بہتری آئی اور مالی سال 17 میں ان کی مجموعی تجارتی قدر 9.1 بلین روپے رہی جو کہ گزشتہ سال 7.7 بلین روپے تھی۔ تجارت کا جھکاؤ اعلیٰ سطح کے قرضہ جات کی جانب رہا جس میں خاص طور پر بینکنگ کے شعبہ کا حصہ 71% تھا۔ ابتدائی اجراء کی قلت اور طلب میں اضافہ سے ثانوی مارکیٹ میں منافع کی صورتحال محدود رہی۔

فنڈ نے اس سال کے دوران 540.87 ملین روپے کی مجموعی آمدنی کمائی ہے۔ 249.96 ملین روپے اخراجات منہا کرنے کے بعد خالص آمدنی 290.91 ملین روپے ہے۔

NAFA انکم آپرٹونٹی فنڈ کی ایسیٹ ایلوکیشن 30 جون 2017 کو بمطابق ذیل ہے:



آمدنی کی تقسیم

منیجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز نے اس سال کے دوران میں اوپننگ ex-NAV کے 6.34% (بنیادی قدر کا 6.78%) 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 کیپٹل گین منہا کرنے کے بعد 90% ہے، اس لئے فنڈ پر انکم ٹیکس آرڈیننس 2001 کے سیکشن 10 کے پارٹ 1 کی شرح 99% کے تحت ٹیکس لاگو نہیں ہے۔

آڈیٹرز

موجودہ آڈیٹرز میسرز ڈی لوائٹ یوسف عادل اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس، ریٹائر ہو گئے ہیں اور اہل ہونے کی بناء پر انہوں نے خود کو 30 جون 2018 کو ختم ہونے والے سال میں دوبارہ تقرر کیلئے پیش کیا ہے۔

NAFA INCOME OPPORTUNITY 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 فلوز 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۔ شہریاتی 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 موثر 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 ریگولیشنز 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، ڈیوٹیز، 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 23 میں ظاہر کی گئی ہے۔

11- یونٹ ہولڈنگ کا تفصیلی پیٹرن مالیاتی گوشواروں کے نوٹ 22 میں ظاہر کیا گیا ہے۔

12- ڈائریکٹرز، CEO، CFO، کمپنی سیکرٹری اور ان کی بیویوں اور کم عمر بچوں کی طرف سے کی جانے والی فنڈ کے یونٹس کی تمام خرید و فروخت ان مالیاتی گوشواروں کے نوٹ 19 میں ظاہر کی گئی ہے۔

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 اظہارِ تشکر کرتا ہے۔

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

منجانب بورڈ آف ڈائریکٹرز

NBP فلرٹن ایسیٹ منجمنٹ لمیٹڈ

ڈائریکٹر

چیف ایگزیکٹو

بتاریخ

15 ستمبر 2017ء

مقام: کراچی

NAFA INCOME OPPORTUNITY FUND

TRUSTEE REPORT TO THE UNIT HOLDERS NAFA INCOME OPPORTUNITY FUND

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

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Income Opportunity Fund (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2017 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 29, 2017

NAFA INCOME OPPORTUNITY FUND

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2017

This statement is being presented by the Board of Directors (the Board) of NBP Fullerton Asset Management Limited (the Company), the Management Company of **NAFA Income Opportunity Fund** (the Fund) to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 5.19 of the Rule Book of the Pakistan Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

NBP Fullerton Asset Management Limited, the Management Company, is not listed and hence, the CCG is not applicable to it. However, the Fund being listed on Pakistan Stock Exchange comes under the ambit of the CCG. The Fund, being a unit trust scheme, does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Fund and appoints the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Company Secretary of the Management Company and other necessary personnel to manage its affairs.

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

1. The Company encourages representation of independent non-executive directors on its Board. The Company, being an un-listed company, does not have any minority interest. As at June 30, 2017, the Board included:

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. Nausherwan Adil (Chairman) 2. Mr. Aamir Sattar 3. Mr. Abdul Hadi Palekar 4. Mr. Lui Mang Yin 5. Dr. Kelvin Foo

The independent directors meet the criteria of independence under clause 5.19.1(b) of the CCG.

2. The directors have confirmed that none of them is serving as a director of more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies were occurred on the board on November 21, 2016 and March 17, 2017 which were filled up on the same dates.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

NAFA INCOME OPPORTUNITY FUND

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive have been taken by the Board. There is no other executive-director of the Company besides Chief Executive Officer (CEO).
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors are conversant of the relevant laws applicable to the Company, its policies and provisions of memorandum and articles of association and are aware of their duties and responsibilities. As of 30 June 2017, four directors of the Company had acquired the director's training certificate as required under the CCG. The Company plans to arrange a Director's Training Program in future, for the remaining directors.
10. The Board has approved the appointment of Head of Internal Audit of the Company with remuneration and terms and conditions of employment. There has been no new appointment of the Company Secretary and Chief Financial Officer (CFO) during the year.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in note 22 to the financial statements "Transactions with Connected Persons".
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The committee has formed the terms of reference for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. All the members are non-executive directors and the chairman of the committee is an independent director.

NAFA INCOME OPPORTUNITY FUND

18. The Board has set up an effective internal audit function headed by the Head of Internal Audit who is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Management Company.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions was determined and intimated to directors, employees and stock exchange except for 60th and 61st meeting of the Board of Directors.
22. Material / price sensitive information has been disseminated amongst all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the CCG have been complied with expect the following:
 - the mechanism was required to put in place for an annual evaluation of the Board within two years of coming into effect of the Code i.e. April 2014. The mechanism is in place and the Company is in the process of completion of annual evaluation of the Board.
 - the Company has not complied with the requirements relating to maintenance of register of persons employed having access to inside information nor any senior management officer has been designated by the Company responsible for maintaining proper record including basis for inclusion or exclusion of names of persons from the said list.

For and behalf of the Board

September 15, 2017
Karachi

Dr. Amjad Waheed
Chief Executive Officer

NAFA INCOME OPPORTUNITY FUND

FUND MANAGER REPORT

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

Investment Objective of the Fund

The objective of NIOF is to seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in money market & debt securities having good credit rating and liquidity.

Benchmark

6 Month – KIBOR.

Fund Performance Review

This is the twelfth Annual report since the launch of the Fund on April 21, 2006. The Fund size increased by around 31% during FY17 and stands at Rs 8.20 billion as on June 30, 2017. The Fund's return since its inception is 8.20% versus the benchmark return of 10.40%. During FY17, the Fund posted a return of 6.28% as compared to the benchmark return of 6.10%. This translates into an outperformance of 0.18%. This outperformance is net of management fee and all other expenses. Hence, the Fund has achieved its stated objectives.

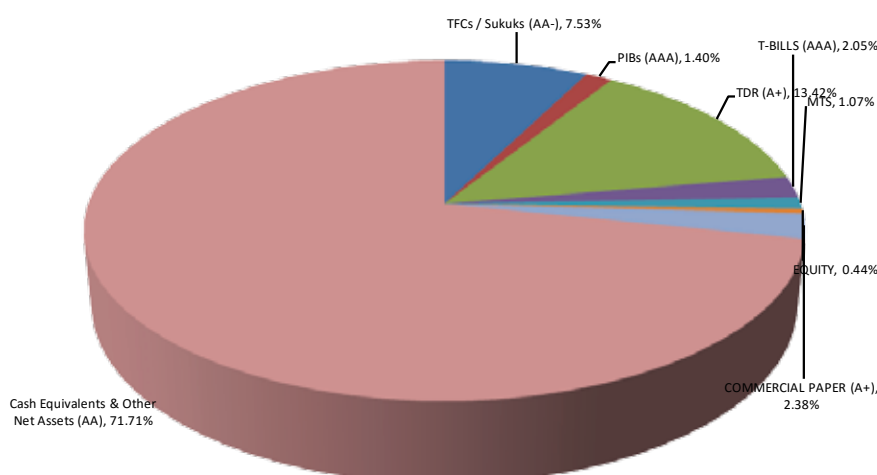
The Yield to Maturity of the Fund at year end FY17 is around 4.90% while that of TFC portfolio is 7.02%. The yield does not include potential recovery in fully provided TFCs (Face Value of around Rs 901 million), which is potential upside for the Fund. The Fund's TFC portfolio allocation is fairly diversified with exposure to Banking and Financial Services sectors.

The trading activity in TFCs/Sukuks remained skewed towards high quality debt issues with cumulative trade value of Rs 9.1 billion in FY17 compared to Rs 7.7 billion last year. The trades were mainly concentrated towards banking sector debt securities with 71% contribution. All TFCs/Sukuks in the Fund are floating rate linked to KIBOR.

During the year, State Bank of Pakistan (SBP) held six (06) monetary policies and maintained the policy rate at 5.75%. SBP's prudent monetary policy stance translated into low and stable market interest rates; encouraged the private sector to undertake capacity expansions. Amid comfortable liquidity conditions, SBP kept the weighted average overnight repo rate close to the policy rate. SBP successfully concluded 03-Year Fixed Rental Rate GOP Ijara Sukuk (GIS-FRR) auction during the year for an amount of Rs. 71 billion and realized in line with the maturity amount at a yield of 5.24%.

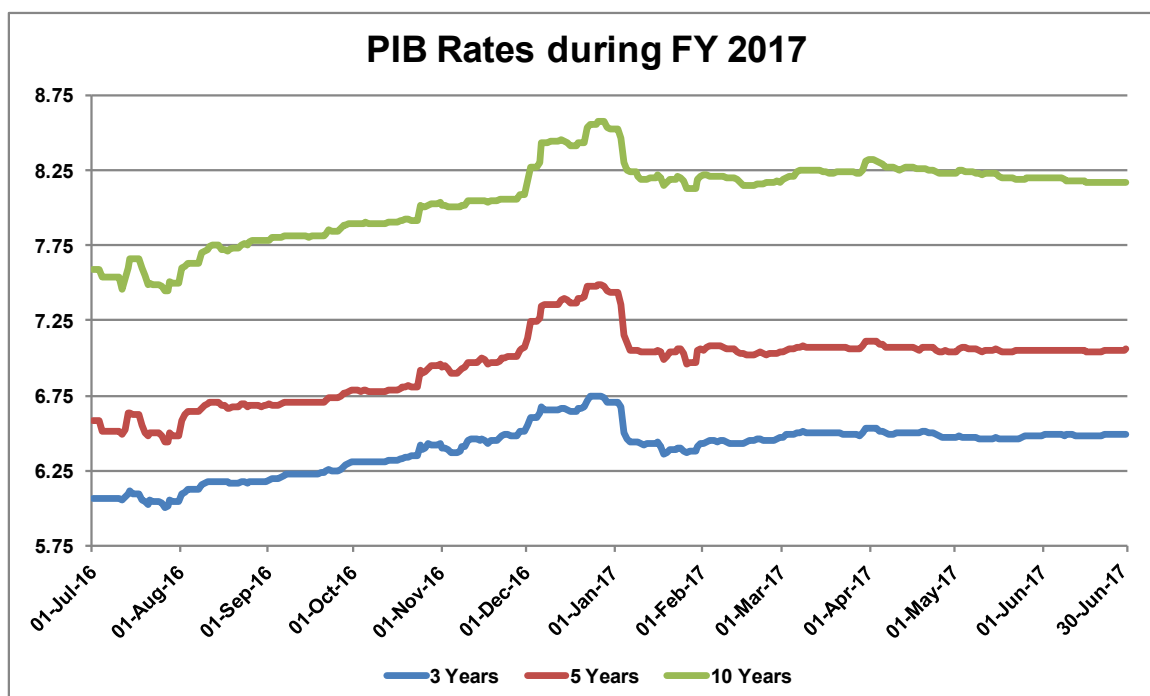
Asset Allocation of Fund (% of NAV)

Particulars	30-Jun-17	30-Jun-16
TFCs/Sukuks	7.53%	8.62%
PIBs	1.4%	4.41%
T-Bills	2.05%	1.18%
Placements with Banks	13.42%	30.36%
Money Market Placements	2.38%	-
Margin Trading System (MTS)	1.07%	1.75%
Equity	0.44%	0.55%
Cash (Cash Equivalents) & Other Assets	71.71%	53.12%
Total	100%	100%



NAFA INCOME OPPORTUNITY FUND

PIB yields during the year are shown in below graph:



Distribution for the Financial Year 2017

Interim Period/Quarter	Dividend as % of Par Value (Rs.10)	Cumulative Div. Price/Unit	Ex- Div. Price
Interim.	6.78	11.3796	10.7016

Details of Non-Compliant Investments

Particulars	Type of Investment	Value of Investments before Provision	Provision held	Value of Investments after Provision	% of Net Assets	% of Gross Assets
AgriTech Limited I - Revised II 29-NOV-07 29-NOV-19	TFC	149,860,200	149,860,200	-	-	-
AgriTech Limited V01-JUL-11 01-JAN-18	TFC	32,320,000	32,320,000	-	-	-
Azgard Nine Limited III (PP) - Revised 04-DEC-07 04-DEC-17	TFC	108,376,850	108,376,850	-	-	-
Azgard Nine Limited V (PPTFC Markup) 31-MAR-12 31-MAR-19	TFC	82,180,000	82,180,000	-	-	-
BRR Guardian Modaraba - Sukuk Revised II 07-JUL-08 07-APR-19	SUKUK	14,192,360	14,192,360	-	-	-
Dewan Cement Limited (Pre-IPO) 17-JAN-08 17-JAN-18	TFC	150,000,000	150,000,000	-	-	-
Eden House Limited - Sukuk Revised 29-MAR-08 29-SEP-17	SUKUK	9,056,250	9,056,250	-	-	-
New Allied Electronics Limited (PP) 15-MAY-07 15-NOV-17	TFC	31,706,536	31,706,536	-	-	-
New Allied Electronics Limited II - Sukuk 03-DEC-07 03-DEC-17	SUKUK	44,148,934	44,148,934	-	-	-
PACE Pakistan Limited - Revised 15-FEB-08 15-FEB-19	TFC	149,820,000	149,820,000	-	-	-
Saudi Pak Leasing Company Limited - Revised II 13-MAR-08 13-MAR-19	TFC	41,321,115	41,321,115	-	-	-
Worldcall Telecom Limited - Revised 07-OCT-08 07-OCT-21	TFC	88,455,825	88,455,825	-	-	-
Azgard Nine Limited (Non-Voting Ordinary Shares)	Equity	12,854	12,854	-	-	-
Agritech Limited Shares	Equity	141,403,150	105,108,575	36,294,575	0.4%	0.4%
Total		1,042,854,074	1,006,559,499	36,294,575	0.4%	0.4%

NAFA INCOME OPPORTUNITY FUND

Unit Holding Pattern of NAFA Income Opportunity Fund as on June 30, 2017

Size of Unit Holding (Units)	# of Unit Holders
1-1000	427
1001-5000	302
5001-10000	138
10001-50000	401
50001-100000	204
100001-500000	255
500001-1000000	51
1000001-5000000	62
5000001-10000000	14
10000001-100000000	15
Total	1869

During the period under question:

During the year, the provision for Workers' Welfare Fund held by the fund till June 30, 2015 has been reversed on January 12, 2017. Further, the provision in respect of Sindh Workers' Welfare Fund has been made on a prudent basis with effect from May 21, 2015. For further details, refer note 17 to the financial statements.

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

Sindh Workers' Welfare Fund (SWWF)

The scheme has maintained provisions against Sindh Workers' Welfare Fund's liability to the tune of Rs. 10.469 million. If the same were not made the NAV per unit/FY17 return of scheme would be higher by Rs. 0.0137/0.13%. For details investors are advised to read note 17 of the Financial Statement of the Scheme for the year ended June 30, 2017.

NAFA INCOME OPPORTUNITY FUND

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of the NBP Fullerton Asset Management Limited, the Management Company of **NAFA Income Opportunity Fund** (the Fund) for the year ended June 30, 2017, to comply with the requirement of the Pakistan Stock Exchange Limited, where the Fund is listed.

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code as applicable to the Fund for the year ended June 30, 2017.

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

Paragraph reference	Description
21	As per the Code, there should be announcement of 'closed period' prior to the announcement of interim / final results and any business decisions, however a 'closed period' was not announced before 60th and 61st board meeting.
23	No register is maintained enlisting persons employed under contract or otherwise who have access to inside information.
23	A mechanism for an evaluation of the Board's own performance is in place. However, the Management Company is in the process of completion of the annual evaluation of the Board.

Deloitte Yousuf Adil
Chartered Accountants
Date: September 22, 2017
Place: Karachi

NAFA INCOME OPPORTUNITY FUND

Independent Auditors' Report to the Unit Holders

Report on the Financial Statements

We have audited the accompanying financial statements of **NAFA Income Opportunity Fund** (the Fund), which comprise the statement of assets and liabilities as at June 30, 2017, and the related income statement, statement of comprehensive income, cash flow statement, distribution statement and statement of movements in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Company's Responsibility for the Financial Statements

NBP Fullerton Asset Management Limited (the Management Company) is responsible for the preparation and fair presentation of these financial statements in accordance with the approved accounting standards as applicable in Pakistan, and for such internal control as 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.

Auditors' Responsibility

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

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

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

NAFA INCOME OPPORTUNITY FUND

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at June 30, 2017, and of its financial performance, its cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

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.

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner:

Naresh Kumar

Date: September 22, 2017

Place: Karachi

NAFA INCOME OPPORTUNITY FUND

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2017

	Note	2017 -----Rupees in '000-----	2016 -----Rupees in '000-----
ASSETS			
Balance with banks	4	2,174,206	7,112,317
Investments	5	2,231,513	1,726,628
Receivable against margin trading system	6	87,869	109,868
Mark-up accrued	7	56,609	66,079
Receivable against sale of investments		3,203,158	-
Deposits, prepayments and other receivables	8	619,115	484,545
Total assets		8,372,470	9,499,437
LIABILITIES			
Payable to NBP Fullerton Asset Management Limited - Management Company	9	24,056	19,625
Payable to Central Depository Company of Pakistan Limited - Trustee	10	1,910	741
Payable to the Securities and Exchange Commission of Pakistan	11	9,406	6,836
Accrued expenses and other liabilities	12	137,970	3,198,012
Total liabilities		173,342	3,225,214
NET ASSETS		8,199,128	6,274,223
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		8,199,128	6,274,223
Contingencies and commitments			
	13	-----Number of units-----	
Number of units in issue	14	766,529,674	586,288,408
		-----Rupees-----	
Net asset value per unit	15	10.6964	10.7016

The annexed notes from 1 to 32 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA INCOME OPPORTUNITY FUND

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017	2016
		-----Rupees in '000-----	
INCOME			
Return / mark-up on:			
- bank balances and term deposits		637,581	499,973
- term finance certificates and sukuk		58,608	106,438
- government securities		53,212	85,843
- letter of placement and commercial paper		26,664	9,088
- margin trading system		39,598	30,579
Net income on spread transactions		24,920	1,197
Dividend income on spread transactions		86,933	-
Net (loss) / gain on sale of investments		(3,394)	12,765
Net unrealised gain on re-measurement of investments at fair value through profit or loss - held for trading	5.13	1,360	14,938
Reversal of provision in respect of non-performing investments	5.16	12,370	45,847
Reversal / (provision) against accrued mark-up	8.2	16,000	(14,859)
Total income		953,852	791,809
EXPENSES			
Remuneration of NBP Fullerton Asset Management Limited - Management Company	9.1	157,053	125,392
Sindh Sales Tax on remuneration of the Management Company	9.2	20,417	20,364
Federal Excise Duty on remuneration of the Management Company	12.1	-	20,063
Reimbursement of operational expenses to the Management Company	9.3	12,541	5,986
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	10,379	7,977
Sindh Sales Tax on remuneration of the Trustee	10.2	1,349	1,117
Annual fee to the Securities and Exchange Commission of Pakistan	11.1	9,406	6,836
Securities transaction cost		17,013	330
Settlement and bank charges		9,693	4,460
Auditors' remuneration	16	589	530
Fund rating fee		370	333
Legal and professional charges		551	10
Annual listing fee		55	40
Printing and other charges		75	195
Total expenses		239,491	193,633
Net income from operating activities		714,361	598,176
Net element of loss and capital losses included in prices of units issued less those in units redeemed		(444,204)	(371,589)
Reversal of provision of Workers' Welfare Fund	17	31,218	-
Provision for Sindh Workers' Welfare Fund	17	(10,469)	-
Net income for the year before taxation		290,906	226,587
Taxation	18	-	-
Net income for the year after taxation		290,906	226,587
Earnings per unit	19		

The annexed notes from 1 to 32 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA INCOME OPPORTUNITY FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017 -----Rupees in '000-----	2016
Net income for the year after taxation		290,906	226,587
Other comprehensive income			
Items that may be reclassified subsequently to income statement:			
Net unrealised gain on re-measurement of investments classified as 'available for sale'	5.14	1,576	3,595
Reclassification to income statement relating to loss realised on maturity / disposal of investment classified as 'available for sale'		-	25,927
Total comprehensive income for the year		<u>292,482</u>	<u>256,109</u>

The annexed notes from 1 to 32 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA INCOME OPPORTUNITY FUND

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016
	-----Rupees in '000-----	
Undistributed income brought forward comprising of:		
- realised income	464,419	743,075
- unrealised income	18,533	1,075
	482,952	744,150
Net income for the year	290,906	226,587
Final distribution for the year ended June 30, 2015:		
- cash distribution @ Rs. 0.8675 per unit declared on July 16, 2015	-	(237,655)
Final distribution for the year ended June 30, 2017:		
- cash distribution @ Rs. 0.6780 per unit declared on June 21, 2017 (2016: Rs. 0.7971 per unit declared on June 30, 2016)	(300,707)	(263,254)
Net element of income and capital gains included in prices of units issued less those in units redeemed	4,260	13,124
Undistributed income carried forward	477,411	482,952
Undistributed income carried forward comprising of:		
- realised income	474,475	464,419
- unrealised income	2,936	18,533
	477,411	482,952

The annexed notes from 1 to 32 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

NAFA INCOME OPPORTUNITY FUND

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016
	-----Rupees in '000-----	
Net assets at the beginning of the year	6,274,223	5,242,537
Issuance of 2,208,195,765 units (2016: 1,983,189,203 units)	24,202,206	21,929,709
Redemption of 2,027,954,499 units (2016: 1,850,448,128 units)	(22,713,280)	(21,024,812)
	1,488,926	904,897
Net element of loss and capital losses included in prices of units issued less those in units redeemed - transferred to income statement	444,204	371,589
Net element of income and capital gains included in issued less those in units redeemed - transferred to distribution statement	(4,260)	(13,124)
Total comprehensive income for the year	292,482	256,109
Distributions during the year		
Final distribution for the year ended June 30, 2015: - cash distribution @ Rs. 0.8675 per unit declared on July 16, 2015	-	(237,655)
Final distribution for the year ended June 30, 2017: - cash distribution @ Rs. 0.6780 per unit declared on June 21, 2017 (2016: Rs. 0.7971 per unit declared on June 30, 2016)	(300,707) (300,707)	(263,254) (500,909)
Net element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income that forms part of the unit holders fund	4,260	13,124
Net assets as at the end of the year	8,199,128	6,274,223
Net asset value per unit at the beginning of the year	10.7016	11.5590
Net asset value per unit at the end of the year	10.6964	10.7016

The annexed notes from 1 to 32 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

NAFA INCOME OPPORTUNITY FUND

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2017 -----Rupees in '000-----	2016
Net income for the year before taxation		290,906	226,587
Adjustments:			
Return / markup on:			
- bank balances and term deposits		(637,581)	(499,973)
- term finance certificates, sukuks and commercial paper		(58,608)	(106,438)
- government securities		(53,212)	(85,843)
- letter of placement and commercial paper		(26,664)	(9,088)
- margin trading system		(39,598)	(30,579)
Net income on spread transactions		(24,920)	(1,197)
Dividend income on spread transactions		(86,933)	-
Net unrealised loss on re-measurement of investments at fair value through profit or loss - held for trading'		(1,360)	(14,938)
Net element of loss and capital losses included in prices of units issued less those in units redeemed		444,204	371,589
Provision for Sindh Workers' Welfare Fund		10,469	-
Reversal of provision in respect of non-performing investments		(12,370)	(45,847)
Reversal / (provision) against accrued mark-up		(16,000)	14,859
Reversal of provision of Workers' Welfare Fund		(31,218)	-
		(533,791)	(407,455)
		(242,885)	(180,868)
(Increase) / decrease in assets			
Investments - net		(3,692,737)	(351,591)
Receivable against margin trading system		21,999	535,451
Deposits, prepayments and other receivables		(581,613)	(18,516)
		(4,252,351)	165,344
Increase / (decrease) in liabilities			
Payable to the Management Company		4,431	(12,947)
Payable to the Trustee		1,169	179
Payable to the Securities and Exchange Commission of Pakistan		2,570	2,548
Accrued expenses and other liabilities		17,742	84,747
		25,912	74,527
Mark-up on bank balances and term deposits received		684,885	479,996
Mark-up on term finance certificates and sukuks received		59,467	123,798
Mark-up on government securities received		56,765	24,763
Mark-up on margin trading system received		39,647	32,593
Mark-up on letter of placement and commercial paper received		26,664	9,088
Income from spread transactions received		24,920	1,197
Dividend received on spread transactions		60,638	-
		(3,516,338)	730,438
Net cash generated from operating activities		(3,516,338)	730,438
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash generated from investing activities		-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts received on issuance of units		24,649,249	23,144,995
Amounts paid on redemption of units		(25,770,738)	(18,480,751)
Distributions paid		(300,284)	(500,944)
Net cash generated (used in) / from financing activities		(1,421,773)	4,163,300
Net increase in cash and cash equivalents during the year		(4,938,111)	4,893,738
Cash and cash equivalents at the beginning of the year		7,112,317	2,218,579
Cash and cash equivalents at the end of the year	4.4	2,174,206	7,112,317

The annexed notes from 1 to 32 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

NAFA INCOME OPPORTUNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

1. LEGAL STATUS AND NATURE OF BUSINESS

NAFA Income Opportunity Fund ("the Fund") was established under a Trust Deed executed between NBP Fullerton Asset Management Limited as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on February 11, 2006 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on January 30, 2006 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 an income scheme and other allied matters.

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

The Fund is an open-ended mutual fund classified as an '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 are transferable and can be redeemed by surrendering them to the Fund.

The objective of the Fund is to seek maximum preservation of capital and a reasonable rate of return by investing in money market and debt securities having good credit rating and liquidity. Other avenues of investments include ready future arbitrage in listed securities and transactions under margin trading system.

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

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

BASIS OF PREPARATION

2.

Statement of compliance

2.1

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

During the year, the Companies Act, 2017 was enacted on May 30, 2017 and came into force at once. Subsequently, SECP has notified through Circular No. 17 of July 20, 2017 that companies whose financial year closes on or before June 30, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984.

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, 2017

The following amendments are effective for the year ended June 30, 2017. These standards, interpretations and the amendments are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain additional disclosures.

NAFA INCOME OPPORTUNITY FUND

Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - Investment Entities: Applying the consolidation exception	Effective from accounting period beginning on or after January 01, 2016
Amendments to IFRS 11 'Joint Arrangements' - Accounting for acquisitions of interests in joint operations	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 1 'Presentation of Financial Statements' - Disclosure initiative	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 16 'Property Plant and Equipment' and IAS 38 'Intangible Assets' - Clarification of acceptable methods of depreciation and amortization	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 16 'Property Plant and Equipment' and IAS 41 'Agriculture' - Measurement of bearer plants	Effective from accounting period beginning on or after January 01, 2016
Amendments to IAS 27 'Separate Financial Statements' - Equity method in separate financial statements	Effective from accounting period beginning on or after January 01, 2016
Certain annual improvements have also been made to a number of IFRSs.	

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 the amendments are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain additional disclosures.

Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions	Effective from accounting period beginning on or after January 01, 2018
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Effective date is deferred indefinitely. Earlier adoption is permitted.
Amendments to IAS 7 'Statement of Cash Flows' - Amendments as a result of the disclosure initiative	Effective from accounting period beginning on or after January 01, 2017
Amendments to IAS 12 'Income Taxes' - Recognition of deferred tax assets for unrealised losses	Effective from accounting period beginning on or after January 01, 2017
IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	Effective from accounting period beginning on or after January 01, 2018
Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property	Effective from accounting period beginning on or after January 01, 2018
IFRIC 23 'Uncertainty over Income Tax Treatments'	Effective from accounting period beginning on or after January 01, 2019

Certain annual improvements have also been made to a number of IFRSs.

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases
- IFRS 17 – Insurance Contracts

2.5 Amendment in the NBFC Regulations subsequent to the year end

Subsequent to the year end on August 03, 2017, the SECP has made certain amendments in the NBFC Regulations, 2008 via SRO 756 (I)/2017. The definition of element of income has been inserted via said amendment which defines element of income as difference between net assets value on the issuance or redemption date, as the case may be, of units and the net asset value at the beginning of the relevant accounting period. The said amendment also excludes element of income from accounting income for the purpose of distribution under regulation 63 of the NBFC Regulations. The said SRO also contains amendments relating to consequential changes in the income statement and statement of movement in unitholders' fund. The Management Company is in the process of assessing the impact of the said changes with the view that these changes will be effective for the period following the date of the said SRO.

NAFA INCOME OPPORTUNITY FUND

2.6 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 3.8)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Cash and cash equivalents

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

3.2 Financial assets

3.2.1 Classification

The 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 or loss.

3.2.2 Regular way contracts

All regular purchases / sales of financial assets are recognised 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 recognised at fair value plus transaction costs except for financial assets carried 'at fair value through profit or loss'. Financial assets carried 'at fair value through profit or loss' are initially recognised at fair value and transaction costs are recognised in the 'income statement'.

3.2.4 Subsequent measurement

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 SECP for valuation of debt securities vide its circular no. 1 of 2009 dated January 6, 2009 and circular no. 33 of 2012 dated October 24, 2012. In the determination of the rates MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

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.

3) Equity securities

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

NAFA INCOME OPPORTUNITY FUND

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

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

b) Loans and receivables

Subsequent to initial recognition, financial assets classified as 'loans and receivables' are carried at amortised cost using the effective interest method. Gains or losses are also recognised in the 'income statement' when financial assets carried at amortised cost are derecognised or impaired and through the amortisation process.

3.2.5 Impairment of financial assets

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

a) Debt securities

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 recognised on debt securities can be reversed through the 'income statement'.

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

b) Equity securities

For equity securities classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is considered, among other indicators, as an indicator that the security is impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in 'income statement', is reclassified from other comprehensive income and recognized in the income statement. However, the decrease in impairment loss on equity securities are not reversed through the income statement.

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

3.2.7 Offsetting of financial assets and financial liabilities

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

NAFA INCOME OPPORTUNITY FUND

3.3 Spread transactions (ready-future transactions)

The Fund enters into transactions involving purchase of an equity security in the ready market and simultaneous sale of the same security in the futures market. The security purchased in ready market is classified as 'financial assets at fair value through profit or loss - held for trading' and carried on the statement of assets and liabilities at fair value till their eventual disposal, with the resulting gain / loss taken to the income statement. The forward sale of the security in the futures market is treated as a separate derivative transaction and is carried at fair value with the resulting gain / loss taken to the income statement in accordance with the requirements of International Accounting Standard (IAS) 39 'Financial Instruments: Recognition and Measurement.'

3.4 Securities under margin trading system

Securities purchased under margin financing are included as 'receivable against Margin Trading System (MTS)' at the fair value of consideration given. All MTS transactions are accounted for on the settlement date. Income on MTS is calculated on outstanding balance at agreed rates and recorded in the income statement. Transaction costs are expensed in the income statement.

3.5 Financial liabilities

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

3.6 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.

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

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

Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed is determined based on the income earned and on unrealised appreciation / (diminution) arising during an accounting year on available for sale securities. The element of income / (loss) and capital gains / (losses) included in the prices of units issued less those redeemed is apportioned between the income statement and the distribution statement in proportion of the relative change in net assets for the period of available for sale investments and other net assets.

3.8 Provisions

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

3.9 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the 'income statement' on the date at which the transaction takes place.
- Unrealised capital gains / (losses) arising on re-measurement of investments classified as financial assets 'at fair value through profit or loss' are included in the income statement in the period in which they arise.
- Mark-up / return on bank balances and term deposits, term finance certificates and sukuks, government securities, letter of placement and commercial papers are recognised on a time apportionment basis using the effective interest method.
- Income on transactions under margin trading system is recognised on an accrual basis.

NAFA INCOME OPPORTUNITY FUND

3.10 Taxation

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

3.11 Proposed distributions

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

3.12 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 BALANCES WITH BANKS

	Notes	2017 ------(Rupees in '000)-----	2016
Current accounts		14,609	17,866
Saving accounts	4.1	2,159,597	5,989,525
Term deposits	4.2	-	1,104,926
		<u>2,174,206</u>	<u>7,112,317</u>

4.1 These saving accounts carry mark-up at the rates ranging from 4.5% to 10.25% per annum (2016: 4.5% to 9% per annum).

4.2 These represent short-term deposits having original maturity of less than three months. These carry mark-up rate of Nil (2016: 7.35% to 11.10% per annum)

4.3 This includes impact of cheques amounting to Rs. 25.6 million issued on account of redemption of units and cheques amounting to Rs. 59.97 million received on account of issuance of units as at year end.

	2017 ------(Rupees in '000)-----	2016
4.4 Cash and cash equivalents		
Current accounts	14,609	17,866
Saving accounts	2,159,597	5,989,525
Term deposits - with original maturity of less than three months	1,100,000	1,104,926
	<u>3,274,206</u>	<u>7,112,317</u>

NAFA INCOME OPPORTUNITY FUND

5 INVESTMENTS

	Notes	2017	2016
------(Rupees in '000)-----			
At fair value through profit or loss - held for trading			
Equity securities - listed	5.1	-	-
Equity securities - listed (spread transactions)	5.2	-	-
Government securities	5.3	282,911	350,875
Term finance certificates - listed	5.4	167,128	165,861
Term finance certificates - unlisted	5.5	449,941	160,014
Sukuks	5.6	-	215,174
		899,980	891,924
Available for sale			
Equity securities - listed	5.7	36,281	34,704
Term finance certificates - listed	5.8	-	-
Term finance certificates - unlisted	5.9	-	-
Sukuks	5.10	-	-
		36,281	34,704
Loans and receivables			
Term deposits	5.12	1,100,000	800,000
Commercial paper	5.13	195,252	-
		1,295,252	800,000
		2,231,513	1,726,628

5.1 Equity securities - listed at fair value through profit or loss - held for trading

Name of the investee company	Number of shares					Market value as at June 30, 2017	Investment as a percentage of		
	As at July 1, 2016	Purchased during the year	Bonus / Right shares	Sold during the year	As at June 30, 2017		Net assets	Market value of total investments	Paid-up capital of the investee company
----- Number of shares -----						Rs in '000	----- % -----		

All shares have a nominal face value of Rs 10 each.

PERSONAL GOODS

Azgard Nine Limited - Non-voting	308	-	-	-	308	-	-	-	-
Carrying value before mark to market as at June 30, 2017						13			
Accumulated impairment						13			

5.2 Equity securities - listed (spread transactions) at fair value through profit or loss - held for trading

The movement in equity securities represent spread transactions entered into by the Fund. The Fund purchases equity securities in ready market and sells them in future market on the same day, resulting in spread income due to difference in ready and future stock prices. This way the Fund has no open exposure to the stock market.

Name of the investee company	Number of shares				Market value as at June 30, 2017	Investment as a percentage of		
	As at July 1, 2016	Purchased during the year	Sold during the year	As at June 30, 2017		Net assets	Market value of total investments	Paid-up capital of the investee company
----- Number of shares -----					Rs in '000	----- % -----		

All shares have a nominal face value of Rs. 10 each except for K-Electric Limited which have a face value of Rs. 3 each.

CEMENT

D.G Khan Cement Company Limited	-	4,575,500	4,575,500	-	-	-	-	-
Maple Leaf Cement Factory Limited	-	6,812,500	6,812,500	-	-	-	-	-
Pioneer Cement Limited	-	3,362,000	3,362,000	-	-	-	-	-
Fauji Cement Company Limited	-	232,000	232,000	-	-	-	-	-

COMMERCIAL BANKS

United Bank Limited	-	64,500	64,500	-	-	-	-	-
Bank Al Falah Limited	-	1,217,000	1,217,000	-	-	-	-	-
Askari Bank Limited	-	9,679,500	9,679,500	-	-	-	-	-
Bank Al Habib Limited	-	500	500	-	-	-	-	-
Faysal Bank Limited	-	280,000	280,000	-	-	-	-	-
Habib Bank Limited	-	172,500	172,500	-	-	-	-	-
Muslim Commercial Bank Limited	-	611,000	611,000	-	-	-	-	-

NAFA INCOME OPPORTUNITY FUND

Name of the investee company	Number of shares				Market value as at June 30, 2017	Investment as a percentage of		
	As at July 1, 2016	Purchased during the year	Sold during the year	As at June 30, 2017		Net assets	Market value of total investments	Paid-up capital of the investee company
----- Number of shares -----					Rs in '000	----- % -----		
FERTILIZER								
Engro Fertilizers Limited	-	15,264,000	15,264,000	-	-	-	-	-
Engro Corporation Limited	-	5,653,500	5,653,500	-	-	-	-	-
Fauji Fertilizer Company Limited	-	10,220,000	10,220,000	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	8,031,000	8,031,000	-	-	-	-	-
Fatima Fertilizer Limited	-	4,493,500	4,493,500	-	-	-	-	-
POWER GENERATION AND DISTRIBUTION								
Hub Power Company Limited	-	153,500	153,500	-	-	-	-	-
K-Electric Limited	-	47,012,000	47,012,000	-	-	-	-	-
OIL AND GAS EXPLORATION COMPANIES								
Oil and Gas Development Company Limited	-	6,752,500	6,752,500	-	-	-	-	-
Pakistan Petroleum Limited	-	255,000	255,000	-	-	-	-	-
Pakistan Oilfields Limited	-	271,500	271,500	-	-	-	-	-
OIL AND GAS EXPLORATION COMPANIES								
Hasco Petroleum Limited	-	1,500	1,500	-	-	-	-	-
Pakistan State Oil Company Limited	-	2,488,000	2,488,000	-	-	-	-	-
Sui Northern Gas Pipelines Limited	-	128,000	128,000	-	-	-	-	-
Sui Southern Gas Company Limited	-	212,500	212,500	-	-	-	-	-
PERSONAL GOODS (TEXTILE)								
Nishat Mills Limited	-	5,203,000	5,203,000	-	-	-	-	-
Nishat (Chunian) Limited	-	9,095,500	9,095,500	-	-	-	-	-
CABLE & ELECTRICAL GOODS								
Pak Elektron Limited	-	19,702,500	19,702,500	-	-	-	-	-
FOOD & PERSONAL CARE PRODUCTS								
Engro Foods Limited	-	5,083,000	5,083,000	-	-	-	-	-
PHARMACEUTICALS								
The Searle Company Limited	-	500	500	-	-	-	-	-
REFINERY								
Attock Refinery Limited	-	3,768,000	3,768,000	-	-	-	-	-
TECHNOLOGY AND COMMUNICATION								
Pakistan Telecommunication Limited	-	4,354,000	4,354,000	-	-	-	-	-
					-			
Carrying value before mark to market as at June 30, 2017					-			

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

Issue Date	Tenor	Face value				Market value as at June 30, 2017	Investment as a percentage of	
		As at July 1, 2016	Purchased during the year	Sold / matured during the year	As at June 30, 2017		Net assets	Market value of total investments
----- Rupees in '000 -----								
Market Treasury Bills								
January 8, 2015	12 Months	75,000	-	75,000	-	-	-	-
September 3, 2015	12 Months	-	70,000	70,000	-	-	-	-
January 21, 2016	6 Months	-	250,000	250,000	-	-	-	-
May 12, 2016	3 Months	-	125,000	125,000	-	-	-	-
July 11, 2016	3 Months	-	75,000	75,000	-	-	-	-
August 18, 2016	6 Months	-	320,000	320,000	-	-	-	-
September 1, 2016	3 Months	-	250,000	250,000	-	-	-	-
October 27, 2016	3 Months	-	320,000	320,000	-	-	-	-
November 10, 2016	3 Months	-	320,000	320,000	-	-	-	-
February 2, 2017	12 Months	-	4,402,000	4,402,000	-	-	-	-
March 17, 2016	12 Months	-	170,000	170,000	-	-	-	-
April 13, 2017	12 Months	-	1,500,000	1,500,000	-	-	-	-
April 27, 2017	3 Months	-	170,000	-	170,000	167,906	2.05%	7.52%
June 22, 2017								
Pakistan investment bonds								
July 22, 2010	10 Years	100,000	-	-	100,000	115,005	1.40%	5.15%
March 26, 2015	03 Years	150,000	-	150,000	-	-	-	-
						282,911		
						287,872		
Carrying value before mark to market as at June 30, 2017								

NAFA INCOME OPPORTUNITY FUND

5.3.1 The effective yield on market treasury bills is 5.84% per annum (June 30, 2016: 5.91% per annum).

5.3.2 These Pakistan investment bonds carry coupon interest at the rates of 12.00% per annum.

5.3.3 Investments include treasury bills with market value of Rs. 167.906 million (June 30, 2016: 74.246 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with circular no. 11 dated October 23, 2007 issued by SECP.

5.4 Term finance certificates - listed at fair value through profit or loss - held for trading

Name of the investee company	Number of certificates				Market value as at June 30, 2017	Investment as a percentage of		
	As at July 1, 2016	Purchased during the year	Sold / matured during the year	As at June 30, 2017		Net assets	Market value of total investments	Issue size

Rs in '000 ----- % -----

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

Bank Alfalah Limited - V	32,550	-	-	32,550	167,128	2.04%	7.49%	3.26%
Pace (Pakistan) Limited (note 5.4.1)	30,000	-	-	30,000	-	-	-	10.00%
Saudi Pak Leasing Company Limited (note 5.4.2)	15,000	-	-	15,000	-	-	-	10.00%

167,128

Carrying value before mark to market as at June 30, 2017

356,935

Accumulated impairment

191,141

5.4.1 This represents investment in listed term finance certificates 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 a non performing asset by Mutual Funds Association of Pakistan (MUFAP) since September 5, 2011. 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.

5.4.2 This represents investment in term finance certificates with original term of nine years. On October 13, 2011 the investee company defaulted on its obligation on account of principal and profit payment. The investee company rescheduled its term on December 26, 2011 with a new maturity in March 2017. The said term finance certificates complied with repayment terms since it was rescheduled and had been reclassified as performing as per criteria defined in circular no. 1 of 2009. However, the investee company again defaulted on its obligation on account of principal and profit payment for the month of April 2014 and was therefore declared as non performing asset by MUFAP since April 30, 2014. 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.

5.4.3 Other particulars of term finance certificates - listed outstanding as at June 30, 2017 are as follows:

Name of the investee company	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
Bank Alfalah Limited - V	4,994	6 months KIBOR offer rate + 1.25%	AA-	20-Feb-13	20-Feb-21
Pace (Pakistan) Limited	4,994	6 months KIBOR offer rate + 2.00%	Not rated	15-Feb-08	15-Feb-17
Saudi Pak Leasing Company Limited	2,755	6.87% fixed rate	Not rated	13-Mar-08	13-Mar-17

5.5 Term finance certificates - unlisted at fair value through profit or loss - held for trading

Name of the investee company	Number of certificates				Market value as at June 30, 2016	Investment as a percentage of		
	As at July 1, 2015	Purchased during the year	Sold / matured during the year	As at June 30, 2016		Net assets	Market value of total investments	Issue size

----- Rupees in '000 ----- Rs in '000 ----- % -----

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

JS Bank Limited (December 14, 2016)	-	60,000	-	60,000	302,141	3.95%	17.89%	10.00%
Jahangir Siddiqui and Company Limited (April 08, 2014)	15,000	-	-	15,000	45,212	0.59%	2.68%	10.00%
Jahangir Siddiqui and Company Limited (June 24, 2016)	20,000	-	-	20,000	102,588	1.25%	4.60%	10.00%

449,941

Carrying value before mark to market as at June 30, 2017

444,954

NAFA INCOME OPPORTUNITY FUND

5.5.1 Other particulars of term finance certificates - unlisted outstanding as at June 30, 2017 are as follows:

Name of the investee company	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
JS Bank Limited (December 14, 2016)	4,999	6 months KIBOR offer rate + 1.4%	A+	14-Dec-16	14-Dec-23
Jahangir Siddiqui and Company Limited (April 08, 2014)	3,000	6 months KIBOR offer rate + 1.75%	AA+	8-Apr-14	8-Apr-19
Jahangir Siddiqui and Company Limited (June 24, 2016)	5,000	6 months KIBOR offer rate + 1.65%	AA+	24-Jun-16	24-Jun-21

5.6 Sukuks - at fair value through profit or loss - held for trading

Name of the investee company	Number of certificates				Market value as at June 30, 2017	Investment as a percentage of		
	As at July 1, 2016	Purchased during the year	Sold / matured during the year	As at June 30, 2017		Net assets	Market value of total investments	Issue size
----- Rupees in '000 -----					Rs in '000	----- % -----		

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

K-Electric Azm Sukuk	43,120	-	43,120	-	-	-	-	-
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5.7 Equity securities - listed - available for sale

Name of the investee company	Number of shares				Market value as at June 30, 2017	Investment as a percentage of		
	As at July 1, 2016	Purchased during the year	Sold / matured during the year	As at June 30, 2017		Net assets	Market value of total investments	Paid-up capital of investee company
----- Rupees in '000 -----					Rs in '000	----- % -----		

All shares have a nominal face value of Rs. 10 each.

CHEMICALS

Agritech Limited (note 5.7.1)	4,040,090	-	-	4,040,090	36,281	0.44%	1.63%	1.03%
Carrying value before mark to market as at June 30, 2017					34,704			
Accumulated impairment					18,584			

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

As per the terms of the Share Transfer and Debt Swap Agreement, Agritech Limited shares shall be held by the respective trustees for the TFC issues in their name for and on behalf of the TFC holders who shall be the beneficial owners of the subjected shares in proportion to their holdings. Accordingly, the trustees for the TFC issue pursuant to shareholders investors agreement hold the said ordinary shares for and on behalf of TFC holders for a period of five years from the date of transfer. During the lock in period of five years, shares can be sold to an outside buyer subject to a prior written approval of the investors, however, no such approval is required for inter financier sale.

5.8 Term finance certificate - listed - available for sale

Name of the investee company	Number of certificates				Market value as at June 30, 2017	Investment as a percentage of		
	As at July 1, 2016	Purchased during the year	Sold / matured during the year	As at June 30, 2017		Net assets	Market value of total investments	Issue size
----- Rupees in '000 -----					Rs in '000	----- % -----		

Worldcall Telecom Limited (note 5.8.1)	45,000	-	-	45,000	-	-	-	5.63%
Carrying value as at June 30, 2017					88,456			
Accumulated impairment					88,456			

NAFA INCOME OPPORTUNITY FUND

5.8.1 This represents investment in listed term finance certificates with a term of 5 years. On April 07, 2012, the investee company defaulted on its obligation on account of principal and profit payment and accordingly has been classified as a non performing asset by MUFAP since November 8, 2012. The amount of provision required as per SECP circular no. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circulars.

5.8.2 Other particulars of term finance certificate - listed outstanding as at June 30, 2017 are as follows:

Name of the investee company	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
Worldcall Telecom Limited	1,966	6 months KIBOR offer rate + 1.6%	Not rated	7-Oct-08	7-Oct-13

5.9 Term finance certificate - unlisted - Available for sale

Name of the investee company	Number of certificates				Market value as at June 30, 2017	Investment as a percentage of		
	As at July 1, 2016	Purchased during the year	Sold / matured during the year	As at June 30, 2017		Net assets	Market value of total investments	Issue size
	----- Rupees in '000 -----				Rs in '000	----- % -----		
Azgard Nine Limited III (note 5.9.1)	50,000	-	-	50,000	-	-	-	10.00%
Azgard Nine Limited V (note 5.9.1)	16,436	-	-	16,436	-	-	-	2.35%
Dewan Cement Limited (note 5.9.2)	30,000	-	-	30,000	-	-	-	7.50%
New Allied Electronics Industries (Private) Limited (note 5.9.3)	15,000	-	-	15,000	-	-	-	8.33%
Agritech Limited I (note 5.9.4)	30,000	-	-	30,000	-	-	-	10.00%
Agritech Limited V (note 5.9.5)	6,464	-	-	6,464	-	-	-	10.00%

Carrying value as at June 30, 2017					<u>554,444</u>			
Accumulated impairment					<u>554,444</u>			

5.9.1 These zero coupon privately placed term finance certificates were issued against the interest receivable on TFCs of Azgard Nine Limited (disclosed in note 5.9.1) under an agreement dated June 28, 2012 between the Management Company of the Fund and Azgard Nine Limited. These privately placed term finance certificates were issued against non performing securities, therefore the management, as a matter of prudence has recognized these at nil value. MUFAP classified these as non-performing since June 21, 2010 and December 7, 2012 respectively. 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.

5.9.2 The Fund had advanced an amount of Rs. 150 million in respect of Pre-IPO placement of Dewan Cement Limited (DCL) under an agreement, which required public offering to be completed within 270 days of the date of agreement (which was 09 January 2008). DCL failed to complete the public offering within the said time period and has also defaulted in payment of principal and profit. The 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.

5.9.3 These represent investments in privately placed term finance certificates (term: 4 years) and sukuks (term: 5 years) of the investee company. The investee company had defaulted on its obligation on account of principal and profit payment and accordingly had 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.

5.9.4 This represents investment in listed term finance certificates with a term of seven years. On May 30, 2010, Agritech Limited defaulted in payment of principal and mark-up due and accordingly has been classified as non performing asset by MUFAP since June 14, 2010. 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.

5.9.5 This represents investment in privately placed term finance certificates of Agritech V received against due markup of Agritech I. MUFAP classified these as non-performing on January 17, 2012. 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.

5.9.6 Other particulars of term finance certificate - unlisted outstanding as at June 30, 2017 are as follows:

Name of the investee company	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
Azgard Nine Limited III	2,168	6 months KIBOR offer rate + 2.25%	Not rated	4-Dec-07	4-Dec-14
Azgard Nine Limited V	5,000	-	Not rated	31-Mar-12	31-Mar-17
Dewan Cement Limited	5,000	6 months KIBOR offer rate + 2%	Not rated	14-Jan-08	14-Jan-14
New Allied Electronics Industries (Private) Limited	2,114	3 months KIBOR offer rate + 3%	Not rated	15-May-07	15-May-11
Agritech Limited I	4,995	6 months KIBOR offer rate + 1.75%	Not rated	29-Nov-07	29-Nov-14
Agritech Limited V	5,000	11% fixed rate	Not rated	28-Oct-11	28-Apr-17

NAFA INCOME OPPORTUNITY FUND

5.10 Sukuks - available for sale

Name of the investee company	Number of certificates				Market value as at June 30, 2017	Investment as a percentage of		
	As at July 1, 2016	Purchased during the year	Sold / matured during the year	As at June 30, 2017		Net assets	Market value of total investments	Issue size
	----- Rupees in '000-----				Rs in '000	----- %-----		
New Allied Electronics Industries (Private) Limited (note 5.9.3)	9,000	-	-	9,000	-	0.00%	0.00%	6.00%
Eden Housing Limited (note 5.10.1)	9,200	-	-	9,200	-	0.00%	0.00%	2.30%
BRR Guardian Modaraba (note 5.10.2)	10,000	-	-	10,000	-	0.00%	0.00%	6.25%
				-	-			
Carrying value as at June 30, 2017				67,398	67,398			
Accumulated impairment				67,398	67,398			

5.10.1 This represents 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.

5.10.2 This represents investment in privately placed sukuk. 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 26, 2015. The investment has been fully provided. The amount of provision as per circular no 1 of 2009 and circular 33 of 2012 has been maintained by valuing the investment in terms of the said circular.

5.10.3 Other particulars of sukuk - available for sale outstanding as at June 30, 2017 are as follows:

Name of the investee company	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
New Allied Electronics Industries (Private) Limited	4,905	6 months KIBOR offer rate + 2.2%	Not rated	3-Dec-07	3-Dec-12
Eden Housing Limited	984	6 months KIBOR offer rate + 2.5%	Not rated	29-Mar-08	29-Sep-15
BRR Guardian Modaraba	1,419	1 month KIBOR offer rate	Not rated	7-Jun-08	7-Dec-16

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

5.12 These represents long term deposits having original maturity period of more than three months. These carry mark-up rate of 8.35% per annum.

5.13 This carries return of 7.92% per annum (June 30, 2016: Nil).

	Notes	2017	2016
		----- (Rupees in '000)-----	
5.13 Net unrealised gain / (loss) on re-measurement of investments at fair value through profit or loss - held for trading			
Market value of investments	5.1, 5.2, 5.3, 5.4, 5.5, 5.6 & 5.7	899,980	891,924
Less: Carrying value of investments	5.1, 5.2, 5.3, 5.4, 5.5, 5.6 & 5.7	(1,089,761)	(1,068,127)
		(189,781)	(176,203)
Provision against investments	5.15	191,141	191,141
		1,342	14,938
5.14 Net unrealised gain / (loss) on re-measurement of investments classified as available for sale			
Market value of investments	5.7, 5.8, 5.9 & 5.10	36,281	34,704
Less: Carrying value of investments	5.7, 5.8, 5.9 & 5.10	(763,586)	(772,360)
		(727,305)	(737,656)
Provision against investments	5.15	728,881	741,251
		1,576	3,595

NAFA INCOME OPPORTUNITY FUND

		2017	2016
		-----	-----
		(Rupees in '000)	(Rupees in '000)
5.15	Details of provision against investments		
	Provisions related to investments classified as "fair value through profit or loss - held for trading"	191,141	191,141
	Provisions related to investments classified as "available for sale"	728,881	741,251
		<u>920,022</u>	<u>932,392</u>
5.16	Movement in provision against non performing investments		
	Opening balance	932,392	978,239
	Add: Charge for the year	-	-
	Less: Reversal of provision due to recovery	(12,370)	(45,847)
	Closing balance	<u>920,022</u>	<u>932,392</u>
6.	RECEIVABLE AGAINST MARGIN TRADING SYSTEM		
6.1	This carries average mark-up rate of 9.61% (June 30, 2016: 8.63%) and are matured at the option of financee subject to maximum period of 60 days.		
7.	MARK-UP ACCRUED	Notes	2017
			2016

			(Rupees in '000)-----
	Mark-up accrued on bank balances and term deposits		18,354
	Mark-up accrued on margin trading system		363
	Dividend receivable on spread transactions		26,295
	Mark-up accrued on:		
	- Term finance certificate and sukuks		611,625
	- Pakistan Investment Bonds		5,260
	Less: Income suspended over non-performing debt securities		(605,288)
			11,597
	Less: Provision against accrued mark-up	8.2	-
			16,009
			(31,871)
			<u>56,609</u>
			<u>66,079</u>
8.	DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
	Receivable against transfer of units	8.1	16,942
	Security deposits with:		
	- Central Depository Company of Pakistan Limited		100
	- National Clearing Company of Pakistan Limited		2,750
			2,850
	Advance tax		6,572
	Prepayments		174
	Receivable from NCCPL against exposure margin for RFS		592,577
	Receivable from KASB Bank Limited (now BankIslami Pakistan Limited)		-
			463,225
			<u>619,115</u>
			<u>484,545</u>

This represents amount receivable from other collective investment scheme being managed by the Management Company of the Fund. This amount is receivable in respect of units issued to various unit holders based on their request for transfer of units from other collective investment scheme to the Fund.

This represented receivable of Rs. 463.225 million on account of deposit maintained with KASB Bank Limited (now BankIslami Pakistan Limited) ("the Bank").

NAFA INCOME OPPORTUNITY FUND

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

On February 10, 2011, the Fund requested the Bank to withdraw its entire deposit. The Bank also filed for the redemption of its entire investment in the Fund on the same date. The Bank declined to honor the Fund's withdrawal request linking it with paying its redemption amount before releasing the Fund's deposit. On April 1, 2011, the Bank unilaterally set off the redemption value of the Bank's investment in the Fund with the Fund's deposit with the Bank and credited the principal of Rs. 187.008 million plus profit of Rs. 24.64 million at the rate of around five percent after making an adjustment of Rs. 463.225 million on account of redemption of its units which includes contingent load of Rs. 23.161 million. The Fund accepted the amount under protest, being part payment of total amount receivable and referred this case to the Banking Mohtasib Pakistan for resolution while claiming profit at the rate of thirteen percent. The management, at parallel, continued its negotiation with the Bank through the Trustee. The Trustee informed the Fund that the Bank offered the rate of seven percent from retrospective affect to settle the transaction. The Trustee advised the management to meet with Bank officials once again on this issue and try to recover the profit at a better rate. The Management Company filed a recovery suit against the Bank in the High Court of Sindh (the Court).

The Securities and Exchange Commission of Pakistan (SECP) vide its Order dated August 12, 2011 under Section 282J (1) and 282J (2) of the Companies Ordinance, 1984, required the Management Company to make the loss of Rs.19 million good to the Fund's unit holders in addition to a penalty of Rs. 1 million.

The Management Company led an appeal with the Appellate Bench of SECP on August 26, 2011. The bench vide its Order dated November 11, 2015 disposed of the said appeal and directed SECP to determine the timelines for compliance of the said order. On June 20, 2016, SECP directed the Management Company to provide the current status regarding the indemnification of Rs. 19 million from the Management Company to the Fund through management fee for implementation of the above order. The Management Company adjusted provision against accrued mark-up amounting to Rs. 19 million from management fee payable to the Management Company by the Fund. Further, the Management Company has fully provided the accrued mark-up amounting to Rs. 31.871 million last year.

During the year, the Bank entered into settlement agreement with the Management Company and Trustee of the Fund, whereby, it has been agreed to file with the Court joint compromise application for settlement and disposal of the recovery suit filed by the Management Company against the Bank. Accordingly, the Bank has settled outstanding obligation in full and final by making payment of Rs. 35 million to the Fund, out of which, Rs. 19 million have been paid back to the Management Company, which have earlier been adjusted from accrued mark-up and remaining Rs. 16 million have been recognised in the income statement as reversal of provision against accrued mark-up. Further, liability of the Fund amounting to Rs. 440.064 million and Rs. 23.161 million on account of redemption of units made by the Bank and contingent load on redemption of units by the Bank has been adjusted with the amount receivable from the Bank amounting to Rs. 463.225 million.

	Notes	2017	2016
		(Rupees in '000)	
9	PAYABLE TO THE NBP FULLERTON MANAGEMENT LIMITED - MANAGEMENT COMPANY		
	Remuneration of the Management Company	9.1	8,475
	Sindh Sales Tax on remuneration of the Management Company	9.2	1,102
	Operational expenses	9.3	12,541
	Sales load		336
	Sindh Sales Tax and Federal Excise Duty on sales load		1,602
			<u>24,056</u>
			<u>19,625</u>

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 the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets provided that Management Company may charge performance based or fixed fee or a 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 had made certain amendments in the NBFC Regulations through S.R.O 1160(1)/2015. As per the provision 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 1.5% per annum until December 06, 2015. Thereafter from December 07, 2015, the Management Company has charged management remuneration at the rate of 1.3% per annum. Presently, from May 02, 2017 the Management Company has been charging management remuneration at the rate of 1% per annum.

NAFA INCOME OPPORTUNITY FUND

9.2 This represents amount payable in respect of Sindh Sales Tax at the rate of 13% (June 30, 2016: 14%) on the services provided by the Management Company as required by 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 expense 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 lower amount, to the Fund.

	Notes	2017	2016
		(Rupees in '000)	
10	PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		
	Remuneration of the trustee	1,690	650
	Sindh Sales Tax on remuneration of the trustee	220	91
		<u>1,910</u>	<u>741</u>

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

Tariff structure applicable to the Fund as at June 30, 2017 is as follows:

Net Assets	Tariff per annum
Upto Rs 1,000 million	0.17% of net asset value
On an amount Rs 1,000 million to 5,000 million	Rs 1.7 million plus 0.085% p.a. of net asset value exceeding Rs 1,000 million.
On an amount exceeding Rs 5,000 million	Rs 5.1 million plus 0.07% p.a. 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% (June 30, 2016: 14%) on remuneration of the Trustee through the Sindh Sales Tax on Services Act, 2011.

	Notes	2017	2016
		(Rupees in '000)	
11	PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN		
	Annual fee	<u>9,406</u>	<u>6,836</u>

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 percent of the average annual net assets of the Fund. The fee is paid annually in arrears.

12	ACCRUED EXPENSES AND OTHER LIABILITIES	2017	2016
		(Rupees in '000)	
	Auditors' remuneration	422	410
	Provision for Workers' Welfare Fund	17	31,218
	Provision for Sindh Workers' Welfare Fund	17	-
	Federal Excise Duty on remuneration of the Management Company	12.1 & 12.2	39,241
	Brokerage charges	3,963	204
	Settlement charges	1,410	203
	Printing charges	201	200
	Withholding tax	21,466	24,973
	Capital gain tax	58,399	42,118
	Legal and professional charges	3	10
	Payable against redemption of units	12.3	362
	Payable to KASB Bank Limited (now BankIslami Pakistan Limited)	8.2	-
	Contingent load	8.2	-
	Dividend payable	1,554	1,131
	Others	480	484
		<u>137,970</u>	<u>3,198,012</u>

NAFA INCOME OPPORTUNITY FUND

- 12.1** 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 Funds Association of Pakistan with the Sindh High Court (SHC).

While disposing the above petition, 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 the Supreme Court of Pakistan, the Management Company, as a matter of abundant caution, is carrying provision for FED aggregating to Rs. 39.241 million as at June 30, 2017.

Had the provision not been made, the net asset value per unit as at June 30, 2017 would have been higher by Rs.0.0408 per unit (June 30, 2016: Rs. 0.0669 per unit).

- 12.2** The amount of FED accrued on remuneration of the Management Company will be paid via Management Company to the taxation authority, if required.
- 12.3** This mainly represents amounts payable to other collective investment schemes being managed by the Management Company of the Fund. These amounts are payable 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.

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

There are no contingencies as at June 30, 2017 and as at June 30, 2016.

13.2 Commitments

Margin trading system transactions entered into by the Fund in respect of which release transactions have not been settled

2017	2016
-----Rupees in '000-----	
9,836	22,530

14 NUMBER OF UNITS IN ISSUE

Total units in issue at the beginning of the year
Add: units issued during the year
Less: units redeemed during the year

2017	2016
-----Number of Units-----	
586,288,408	453,547,333
2,208,195,765	1,983,189,203
(2,027,954,499)	(1,850,448,128)
<u>766,529,674</u>	<u>586,288,408</u>

Total units in issue at the end of the year

15 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.

16 AUDITORS' REMUNERATION

Annual audit fee
Half yearly review fee
Out of pocket expenses including government levies

2017	2016
-----Rupees in '000-----	
330	300
155	141
104	89
<u>589</u>	<u>530</u>

NAFA INCOME OPPORTUNITY FUND

17. WORKERS WELFARE FUND AND SINDH WORKER'S WELFARE FUND

The Finance Act, 2008 introduced amendments to the Workers' Welfare Fund Ordinance, 1971 whereby the definition of industrial establishment was extended. The amendments were challenged at various levels and conflicting judgments were rendered by the Lahore High Court, Sindh High Court and Peshawar High Court. The Honorable Supreme Court of Pakistan vide its judgment dated November 10, 2016, has upheld the view of Lahore High Court and decided that Workers' Welfare Fund (WWF) is not a tax and hence the amendments introduced through Finance Act, 2008 are ultra-vires to the Constitution. The Federal Board of Revenue has led Civil Review Petitions in respect of above judgment with the prayer that the judgment dated November 10, 2016 passed in the Civil Appeal may kindly be reviewed in the interest of justice.

Furthermore, the Sindh Revenue Board (SRB) had written to few mutual funds in January 2016 to register and pay Sindh Workers Welfare Fund (SWWF) for the accounting year closing on or after December 31, 2013. MUFAP reviewed the issue and based on an opinion decided that SWWF is not applicable on mutual funds as they are not financial institutions as required by SWWF Act, 2014. The MUFAP wrote to the SRB that mutual funds are not establishments and are pass through vehicles hence, they do not have any worker and no SWWF is payable by them. SRB responded back that as mutual funds are included in definition of financial institutions in the Financial Institutions (Recovery of Finance) Ordinance, 2001, therefore SWWF is applicable on mutual funds. The MUFAP has taken up this matter before the Sindh Finance Ministry to exclude mutual funds from SWWF.

In view of the above developments regarding the applicability of WWF and SWWF on mutual funds, MUFAP has recommended the following to all its members on January 12, 2017:

- the entire provision against WWF held by the mutual funds till June 30, 2015, to be reversed on January 12, 2017; and
- the provision in respect of SWWF should be made on a prudent basis on January 12, 2017 with effect from the date of enactment of the Sindh Workers' Welfare Fund Act, 2014 (i.e. starting from May 21, 2015).

The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on January 12, 2017 and the SECP vide its letter dated February 1, 2017 has advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosures in the financial statements of the mutual funds.

As a result of the above recommendations of the MUFAP, the Fund on January 12, 2017, reversed the provision of WWF and recognized provision for SWWF from May 21, 2015.

Had the provision not being made, the net asset value per unit as at June 30, 2017 would have been higher by Rs.0.0137 per unit.

18. 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 ninety percent 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). Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 the Fund is required to distribute ninety percent of accounting income other than capital gains whether realised or unrealised to the unit holders. The Fund has distributed such accounting income for the year ended June 30, 2017 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.

19. 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.

20. TOTAL EXPENSE RATIO

Total expense ratio (all the expenses incurred during the period divided by average net asset value for the period) is 1.99% per annum including 0.33% representing government levies on Collective Investment Scheme such as sales tax, provision for SWWF and SECP fee for the year.

21. DETAILS OF NON-COMPLIANT INVESTMENTS

The SECP 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.

NAFA INCOME OPPORTUNITY FUND

Following is the detail of non-compliant investments :

Name of non-compliant investment	Non-compliance of clause	Type of investment	Value of investment before provision	Provision held, if any	Value of investment after provision	% of net assets	% of gross assets
			----- Rupees in ' 000-----			----- %-----	
Azgard Nine Limited III	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Term finance certificates (21.1)	108,377	(108,377)	-	-	-
Azgard Nine Limited V	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Term finance certificates (21.1)	82,180	(82,180)	-	-	-
Agritech Limited I	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Term finance certificates (21.1)	149,860	(149,860)	-	-	-
Agritech Limited V	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Term finance certificates (21.1)	32,320	(32,320)	-	-	-
BRR Guardian Modaraba	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Sukuks (21.1)	14,192	(14,192)	-	-	-
Dewan Cement Limited	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Term finance certificates (21.1)	150,000	(150,000)	-	-	-
Eden Housing Limited	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Sukuks (21.1)	9,056	(9,056)	-	-	-
New Allied Electronics Industries (Private) Limited - PPTFC	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Term finance certificates (21.1)	31,707	(31,707)	-	-	-
New Allied Electronics Industries (Private) Limited	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Sukuks (21.1)	44,149	(44,149)	-	-	-
Pace Pakistan Limited	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Term finance certificates (21.1)	149,820	(149,820)	-	-	-
Saudi Pak Leasing Company Limited	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Term finance certificates (21.1)	41,321	(41,321)	-	-	-
Worldcall Telecom Limited	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Term finance certificates (21.1)	88,456	(88,456)	-	-	-
Asgard Nine Limited (Non-voting)	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Shares (21.1)	13	(13)	-	-	-
Agritech Limited	Rating is below investment grade as prescribed in clause 9 (v) of annexure of circular 7 of 2009	Shares (21.1)	54,865	(18,584)	36,281	0.004	0.004
Total carrying value and accumulated impairment as at June 30, 2017			956,316	(920,035)	36,281		

NAFA INCOME OPPORTUNITY FUND

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

22 TRANSACTIONS WITH CONNECTED PERSONS AND RELATED PARTIES

22.1 Connected persons and related parties include NBP Fullerton Asset 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.

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

22.3 Remuneration of the Management Company is determined in accordance with the provisions of the NBFC Regulations.

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

	2017	2016
	(Rupees in '000)	

22.5 Details of the transactions with connected persons are as follows:

NBP Fullerton Asset Management Limited (Management Company)

Remuneration of the Management Company	157,053	125,392
Sindh Sales Tax on remuneration of the Management Company	20,417	20,364
Federal Excise Duty on remuneration of the Management Company	-	20,063
Reimbursement of operational expenses to the Management Company	12,541	5,986
Sales load and related Sindh Sales Tax and Federal Excise Duty	6,709	6,709

Central Depository Company of Pakistan Limited (Trustee)

Remuneration of the Trustee	10,379	7,977
Sindh sales tax on remuneration of the Trustee	1,349	1,117
CDS charges	3,211	631

National Bank of Pakistan (Parent of the Management Company)

T-Bills purchased	4,373,594	-
Mark-up on bank balances	186	5
Units redeemed / transferred out Nil units (2016: Nil)	-	-

Chief Operating Officer and Company Secretary of the Management Company

Units issued / transferred in Nil units (2016: Nil)	-	-
Units redeemed / transferred out Nil units (2016: Nil)	-	-

Summit Bank Limited (Common Directorship with the Management Company)

Mark-up on bank balances	49	7
Dividend re-invest Nil units (2016: 169,080 units)	-	1,816
Mark-up on term deposit receipts	-	1,964
Placement of term deposit receipts	-	250,000
Units issued / transferred in 905,674 units (2016: Nil)	10,000	-
Units redeemed / transferred out 2,125,209 units (2016: Nil)	23,470	-

Employees of the Management Company

Units issued / transferred in 11,448,015 units (2016: 8,870,377 units)	125,793	98,126
Units redeemed / transferred out 12,704,445 units (2016: 10,144,897 units)	140,185	114,909
Dividend re-invest 42,439 units (2016: 130,737 units)	454	1,401

Cherat Cement Company Limited (Common Directorship with the Management Company)

Units issued / transferred in 4,567,253 units (2016: 14,550,860 units)	50,000	164,672
Units redeemed / transferred out 4,567,253 units (2016: 14,550,860 units)	50,262	165,230

NAFA INCOME OPPORTUNITY FUND

	2017	2016
	(Rupees in '000)	
*BankIslami Pakistan Limited (Common Directorship with the Management Company)		
Mark-up on bank balances	468	-
NAFA Income Fund (CIS managed by the Management Company)		
Purchase of Market Treasury Bill	-	45,738
NAFA Government Securities Savings Fund (CIS managed by the Management Company)		
Purchase of market treasury bills	68,308	4,780
NAFA Financial Sector Income Fund (CIS managed by the Management Company)		
Purchase of Market Treasury Bill	-	94,538
NAFA Government Securities Liquid Fund (CIS managed by the Management Company)		
Sale of Market Treasury Bill	324,495	-
NBP Employees Benevolent Fund Trust (Benevolent Fund of the parent of the Management Company)		
Dividend re-invest 130 units (2016: 378 units)	1	4
NBP Employees Pension Fund (Pension Fund of the parent of the Management Company)		
Units issued / transferred in 5,018,073 units (2016: 10,970,511 units)	53,649	117,827
Al-Shifa Trust (Portfolio managed by the Management Company)		
Units issued / transferred in 7,765,181 units (2016: Nil)	85,000	-
Units redeemed / transferred out 7,765,181 units (2016: Nil)	85,807	-
Telenor Employees Gratuity Fund (Portfolio managed by the Management Company)		
Units issued / transferred In 27,412,529 units (2016: Nil)	299,621	-
Units redeemed / transferred out 14,727,144 units (2016: Nil)	167,191	-
Pakistan Centre for Philanthropy (Portfolio managed by the Management Company)		
Units issued / transferred in 1,032,247 units (2016: Nil)	11,335	-
Units redeemed / transferred out 543,642 units (2016: Nil)	6,176	-
Thal Limited Employees Provident Fund (Portfolio managed by the Management Company)		
Purchase of Market Treasury Bill	-	4,767
Pak Arab Refinery Limited Supervisory Staff Gratuity Fund (Portfolio managed by the Management Company)		
Purchase of Market Treasury Bill	-	5,406
* Prour year transations with these parties have not been disclosed as they did not remain conected perssons and related parties during the years.		

NAFA INCOME OPPORTUNITY FUND

	2017	2016
	(Rupees in '000)	
22.6 Amounts outstanding as at year end are as follows:		
NBP Fullerton Asset Management Limited (Management Company)		
Remuneration of the Management Company	8,475	9,679
Sindh Sales Tax on remuneration of the Management Company	1,102	1,570
Federal Excise Duty on remuneration of the Management Company	39,241	39,241
Operational expenses	12,541	5,986
Sales load	336	2,390
Contingent load	-	23,161
Central Depository Company of Pakistan Limited (Trustee)		
Remuneration of the trustee	1,690	650
Sindh sales tax on remuneration of the trustee	220	91
CDS charges	1,394	112
Security deposit	100	100
National Bank of Pakistan (Parent of the Management Company)		
Bank balance	25,691	2,220
Accrued mark-up on bank balance	-	1
Summit Bank Limited (Common Directorship with the Management Company)		
Investment held in the Fund: Nil units (2016: 1,219,535 units)	-	13,051
Bank balance	16,732	19,927
*BankIslami Pakistan Limited (Common Directorship with the Management Company)		
Bank Balance	1,596	3,822
Accrued markup on bank balance	0	-
Askari Bank Limited (Common Directorship with the Management Company)		
Bank Balance	2,247	1,202
Accrued markup on bank balance	1	-
Pakistan Centre for Philanthropy (Portfolio managed by the Management Company)		
Investment held in the Fund: 488,605 units (June 30, 2016: Nil units)	5,226	-
Telenor Employees Gratuity Fund (Portfolio managed by the Management Company)		
Investment held in the Fund: 12,685,385 units (June 30, 2016: Nil units)	135,688	-
NBP Employees Pension Fund (Pension Fund of the parent of the Management Company)		
Investment held in the Fund: 84,145,983 units (June 30, 2016: 79,127,910 units)	900,059	846,795
NBP Employees Benevolent Fund Trust (Benevolent Fund of the parent of the Management Company)		
Investment held in the Fund: 2,856 units (June 30, 2016: 2,726 units)	31	29
Employees of the Management Company		
Investment held in the Fund: 8,125,786 units (June 30, 2016: 1,942,017 units)	760	20,783
Amount receivable / (payable) against issue of units from:		
NAFA Financial Sector Income Fund	9,009	(423,934)
NAFA Islamic Income Fund	-	(51,671)
NAFA Islamic Asset Allocation Fund	1,440	(35,775)
NAFA Islamic Asset Allocation Fund Plan-II	-	760
NAFA Islamic Stock Fund	3,212	(1,653)
NAFA Money Market Fund	-	(2,070,745)
NAFA Multi Asset Fund	-	(655)
NAFA Savings Plus Fund	-	(1,529)
NAFA Stock Fund	3,281	(8,501)

* Prour year transations with these parties have not been disclosed as they did not remain conected perssons and related parties during the years.

NAFA INCOME OPPORTUNITY FUND

23 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

S.No.	Name	Qualification	Experience in years
1	Dr. Amjad Waheed	MBA, Doctorate in Business Administration, CFA	29
2	Sajjad Anwar	MBA & CFA	17
3	Hasan Raza	MBA & CFA	6
4	Muhammad Ali Bhabha	CFA, FRM, MBA & MS(CS)	22
5	Taha Khan Javed	MBA & CFA	11

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

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

24 TRANSACTIONS WITH BROKERS / DEALERS

List of top ten brokers by percentage of commission charged during the year June 30, 2017

S. No.	Particulars	Percentage
1	M.R.A Securities	38.74%
2	Adam Securities (Private) Limited	25.51%
3	J.S Global Capital Limited	13.10%
4	EFG Hermes Pakistan Limited (Formerly Invest & Finance Securities Limited)	9.18%
5	First Capital Equities Limited	6.36%
6	Sherman Securities (Private) Limited	4.56%
7	Al-Falah Securities (Private) Limited	1.16%
8	Topline Securities (Private) Limited	1.07%
9	Intermarket Securities	0.25%
10	Ismail Iqbal Securities (Private) Limited	0.07%

List of top ten brokers by percentage of commission charged during the year June 30, 2016

S. No.	Particulars	Percentage
1	BMA Capital Management Limited	34.55%
2	Invest & Finance Securities (Private) Limited	17.65%
3	KASB Securities Limited	12.20%
4	Magenta Capital Private Limited	11.72%
5	Vector Capital (Private) Limited	10.76%
6	Invest Capital Markets Limited	5.21%
7	Invest One Markets Limited	3.21%
8	Next Capital Limited	3.14%
9	Currency Market Associates Private Limited	0.92%
10	Pearl Securities (Private) Limited	0.65%

25 PATTERN OF UNIT HOLDING

----- As at June 30, 2017 -----

Category	Number of unit holders	Net asset value of the amount invested	Percentage of investment
Rupees in '000			
Individuals	1,682	1,652,287	20.15%
Associated companies and directors	3	900,649	10.98%
Insurance companies	6	317,187	3.87%
Retirement funds	57	1,232,759	15.04%
Bank / development finance institution	1	213,032	2.60%
Public listed companies	6	1,752,675	21.38%
Others	114	2,130,539	25.98%
	1869	8,199,128	100%

NAFA INCOME OPPORTUNITY FUND

----- As at June 30, 2016 -----

Category	Number of unit holders	Net asset value of the amount invested	Percentage of investment
Rupees in '000			
Individuals	1,936	1,752,377	27.93%
Associated companies and directors	2	846,824	13.50%
Insurance companies	6	398,562	6.35%
Retirement funds	39	984,263	15.69%
Bank / development finance institution	3	403,217	6.43%
Public listed companies	2	30	0.00%
Others	110	1,888,950	30.11%
	<u>2,098</u>	<u>6,274,223</u>	<u>100%</u>

26 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 60th, 61st, 62nd, 63rd Board meetings were held on September 23, 2016, October 28, 2016, February 28, 2017, April 28, 2017, respectively. Information in respect of attendance by directors in the meetings is given below:

Name of Directors	Number of meetings			Meeting not attended
	Held	Attended	Leave granted	
Mr. Nausherwan Adil	4	4	-	-
Mr. Aamir Sattar	4	4	-	-
Mr. Abdul Hadi Palekar	4	3	1	61st Meeting
Mr. Koh Boon San [note 26]	2*	2	-	-
Mr. Lui Mang Yin (Martin Lui)	4	4	-	-
Dr. Foo Chiah Shiung (Kelvin Foo) [note 26]	2*	1	1	63rd Meeting
Mr. Kamal Amir Chinoy	4	4	-	-
Mr. Shehryar Faruque	4	3	1	62nd Meeting
Mr. Saiyed Hashim Ishaque [note 26]	3*	3	-	-
Mr. Humayun Bashir [note 26]	1*	1	-	-
Dr. Amjad Waheed	4	4	-	-

26.1 Mr. Koh Boon San retired in Extra Ordinary General Meeting held on 21 November 2016.

26.2 Dr. Foo Chiah Shiung (Kelvin Foo) opted as director on the Board with effect from 21 November 2016.

26.3 Mr. Saiyed Hashim Ishaque retired in Extra Ordinary General Meeting held on 17 March 2017.

26.4 Mr. Humayun Bashir opted as director on the Board with effect from 17 March 2017.

*These directors were appointed and retired 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.

27 FINANCIAL INSTRUMENTS BY CATEGORY

----- June 30, 2017 -----

Particulars	Loans and receivables	At fair value through profit or loss - held for trading	Available for sale	Total
----- Rupees in '000 -----				
Balance with banks	2,174,206	-	-	2,174,206
Investments	1,295,252	899,980	36,281	2,231,513
Receivable against margin trading system	87,869	-	-	87,869
Mark-up accrued	56,609	-	-	56,609
Receivable against sale of investments	3,203,158	-	-	3,203,158
Deposits and other receivables	612,369	-	-	612,369
	<u>7,429,463</u>	<u>899,980</u>	<u>36,281</u>	<u>8,365,724</u>

NAFA INCOME OPPORTUNITY FUND

-----June 30, 2017-----

Particulars	At fair value through profit or loss	At amortized cost	Total
-------------	--------------------------------------	-------------------	-------

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

Financial liabilities

Payable to the Management Company	-	24,056	24,056
Payable to the Trustee	-	1,910	1,910
Accrued expenses and other liabilities	-	47,636	47,636
Net assets attributable to redeemable units	-	8,199,128	8,199,128
	<u>-</u>	<u>8,272,730</u>	<u>8,272,730</u>

-----June 30, 2016-----

Particulars	Loans and receivables	At fair value through profit or loss - held for trading	Available for sale	Total
-------------	-----------------------	---------------------------------------------------------	--------------------	-------

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

Financial assets

Balances with banks	7,112,317	-	-	7,112,317
Investments	800,000	891,924	34,704	1,726,628
Receivable against Margin Trading System	109,868	-	-	109,868
Mark-up accrued	66,079	-	-	66,079
Deposits and other receivables	481,835	-	-	481,835
	<u>8,570,099</u>	<u>891,924</u>	<u>34,704</u>	<u>9,496,727</u>

-----June 30, 2016-----

Particulars	At fair value through profit or loss	At amortized cost	Total
-------------	--------------------------------------	-------------------	-------

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

Financial liabilities

Payable to the Management Company	-	19,625	19,625
Payable to the Trustee	-	741	741
Accrued expenses and other liabilities	-	3,091,680	3,198,012
Net assets attributable to redeemable units	-	6,274,223	6,274,223
	<u>-</u>	<u>9,386,269</u>	<u>9,492,601</u>

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.

NAFA INCOME OPPORTUNITY FUND

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.

(a) Sensitivity analysis for variable rate instruments

As at June 30, 2017, the Fund holds KIBOR based interest bearing term finance certificates and sukuks exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2017 with all other variables held constant, the net assets of the Fund and net assets for the year would have been higher / lower by Rs. 4.72 million (2016: Rs. 4.57 million).

(b) Sensitivity analysis for fixed rate instruments

As at June 30, 2017 the Fund holds Pakistan Investment Bonds which are classified as financial assets at 'fair value through profit or loss' exposing the Fund to fair value interest rate risk. In case of 100 basis point increase in rates announced by the Financial Market Association of Pakistan (FMAP) on June 30, 2017, with all other variables held constant, the net income and the net assets would be higher / lower by Rs. 1 million (2016: higher / lower by Rs. 6.607 / 6.347 million).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by the Financial Market Association are expected to change over time. Further, in case of variable instruments, the sensitivity analysis has been done from the last repricing date. Accordingly, the sensitivity analysis prepared as of June 30, 2017 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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

As at June 30, 2017

Particulars	Yield / profit 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

Balance with banks	4.5 - 10.25	2,174,206	2,159,597	-	-	14,609
Investments	7.61 - 12	2,231,513	1,100,000	195,252	732,074	204,187
Receivable against margin trading system		87,869	87,869	-	-	-
Mark-up accrued		56,609	-	-	-	56,609
Receivable against sale of investments		3,203,158	-	-	-	3,203,158
Deposits and other receivables		612,369	-	-	-	612,369
		8,365,724	3,347,466	195,252	732,074	4,090,932

Financial liabilities

Payable to the Management Company	24,056	-	-	-	24,056
Payable to the Trustee	1,910	-	-	-	1,910
Accrued expenses and other liabilities	47,636	-	-	-	47,636
Net assets attributable to redeemable units	8,199,128	-	-	-	8,199,128
	8,272,730	-	-	-	8,272,730

On-balance sheet gap

Off-balance sheet financial instruments

Off-balance sheet gap

	92,994	3,347,466	195,252	732,074	(4,181,798)
	-	-	-	-	-
	-	-	-	-	-

NAFA INCOME OPPORTUNITY FUND

As at June 30, 2016

Particulars	Yield / profit 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						
Balances with banks	4.5 - 9	7,112,317	7,094,451	-	-	17,866
Investments - net	7.61 - 12	1,726,628	800,000	541,049	-	385,579
Receivable against Margin Trading System		109,868	109,968	-	-	-
Mark-up accrued		66,079	-	-	-	66,079
Deposits and other receivables		481,835	-	-	-	481,835
		9,496,727	8,004,419	541,049	-	951,359
Financial liabilities						
Payable to the Management Company		19,625	-	-	-	19,625
Payable to the Trustee		741	-	-	-	741
Accrued expenses and other liabilities		3,198,012	-	-	-	3,198,012
Net assets attributable to redeemable units		6,274,223	-	-	-	6,274,223
		9,492,601	-	-	-	9,492,601
On-balance sheet gap		4,126	8,004,419	541,049	-	(8,541,242)
Off-balance sheet financial instruments		-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-

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.

The fund is exposed to equity price risk because of investment held by the Fund and classified in the statement of assets and liabilities as 'available for sale' and 'at fair value through profit and loss'.

In case of 5% increase / decrease in fair value on June 30, 2017, the net income for the year would increase / decrease by Rs. 1.814 million (2016: Rs 1.735 million) and net assets of the Fund would increase / decrease by the same amount as a result of gains / losses on equity securities classified as 'available for sale'. The sensitivity analysis is based on the Fund's equity security as at the statements of assets and liabilities date with all other variables held constant.

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.

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

Bank balances by rating category

	June 30, 2017
A	24.31%
A-	1.03%
A+	16.38%
AA	0.36%
AA-	28.95%
AA+	25.98%
AAA	2.99%

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Term finance certificates and sukuks by rating category

A+, AA-,AA+	40.26%
Un-rated	59.74%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2017 is as follows:

	June 30, 2017		June 30, 2016	
	Amount of financial assets	Maximum exposure	Amount of financial assets	Maximum exposure
	-----Rupees in '000 -----		-----Rupees in '000 -----	
Balances with banks	2,174,206	2,174,206	7,112,317	7,112,317
Investments	2,231,513	1,948,602	1,726,628	1,375,753
Receivable against margin trading system	87,869	87,869	109,868	109,868
Mark-up accrued	56,609	51,349	66,079	57,266
Receivable against sale of investments	3,203,158	3,203,158	-	-
Deposits and other receivables	612,369	612,369	481,835	481,835
	8,365,724	8,077,553	9,496,727	9,137,039

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.

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

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

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

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

	----- 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				
Payable to the Trustee	24,056	24,056	-	-
Accrued expenses and other liabilities	1,910	1,910	-	-
Net assets attributable to redeemable units	47,636	47,636	-	-
	8,199,128	8,199,128	-	-
	8,272,730	8,272,730	-	-

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----- June 30, 2016 -----			
Total	Upto three months	Over three months and upto one year	Over one year
-----Rupees in '000-----			
Financial liabilities			
Payable to the Management Company			
Payable to the Trustee	19,625	19,625	-
Accrued expenses and other liabilities	741	741	-
Net assets attributable to redeemable units	3,198,012	3,198,012	-
	6,274,223	6,274,223	-
	<u>9,492,601</u>	<u>9,492,601</u>	<u>-</u>

29 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).

The following table presents the Fund's financial assets which are carried at fair value:

----- 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	-	282,911	-	282,911
Term finance certificates and sukuks	-	617,069	-	617,069
Investments - available for sale				
Equity securities - listed	36,281	-	-	36,281
----- As at June 30, 2016 -----				
Assets	Level 1	Level 2	Level 3	Total
----- (Rupees in '000) -----				
At fair value through profit or loss - held for trading				
Government securities	-	350,875	-	350,875
Term finance certificates and sukuks	-	441,049	-	441,049
Investments - available for sale				
Equity securities - listed	34,704	-	-	34,704

There were no transfers between above levels 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 Fund has not disclosed the fair values for other financial assets and financial liabilities, as these are either short term in nature or repriced periodically. Therefore, their carrying amounts are reasonable approximation of fair value.

NAFA INCOME OPPORTUNITY FUND

30. 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.

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

31. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 15, 2017.

32. GENERAL

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

32.2 Corresponding figures have been rearranged and reclassified to reflect more appropriate presentation of events and transactions for the purpose of comparison, which are as follows:

Statement	Rupees in '000	Reclassified	
		From	To
Statement of assets and liabilities	39,241	Payable to NBP Fullerton Asset Management Limited - Management Company	Accrued expenses and other liabilities

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA INCOME OPPORTUNITY FUND

Performance Table

Particulars	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	For the year ended June 30, 2012
Net assets (Rs. '000')	8,199,128	6,274,223	5,242,537	4,352,570	1,869,352	1,545,532
Net Income / (loss) (Rs. '000')	290,906	226,587	301,448	474,424	154,541	(244,460)
Net Asset Value per units (Rs.)	10.6964	10.7016	11.559	10.4676	10.6595	9.6618
Offer price per unit	10.8173	10.8431	11.7132	10.6085	10.6595	9.6618
Redemption price per unit	10.6964	10.7016	11.559	10.4676	10.6595	9.6618
Ex - Highest offer price per unit (Rs.)	10.8225	10.8431	10.8419	10.6085	10.6694	9.9179
Ex - Lowest offer price per unit (Rs.)	10.1963	10.0903	9.5761	9.0910	9.6456	9.1192
Ex - Highest redemption price per unit (Rs.)	10.7023	10.7016	10.6992	10.4676	10.6694	9.9179
Ex - Lowest redemption price per unit (Rs.)	10.0663	9.9553	9.45	8.9703	9.6456	9.1192
Fiscal Year Opening Ex NAV	10.0640	9.9539	9.4481	8.9772	9.6600	9.7139
Total return of the fund	6.28%	7.51%	13.21%	16.60%	10.33%	-0.54%
Capital growth	-0.45%	0.06%	0.96%	3.32%	3.73%	-0.54%
Income distribution as % of Ex-NAV	6.74%	7.46%	12.25%	13.28%	6.60%	0.00%
Income distribution as % of Par Value	6.78%	7.97%	11.58%	11.93%	6.38%	0.00%
Interim distribution per unit	0.6780	0.7971	0.29	1.19		
Final distribution per unit	-		0.87		0.6377	
Distribution dates						
Interim	21-Jun-17	30-June-2016	29-June-201513-Feb-2015	2014 & 26-Jun-2014		
Final			14-July-2015		11-Jul-13	
Average annual return (launch date 28-03-08)						
(Since inception to June 30, 2017)	8.20%					
(Since inception to June 30, 2016)		8.39%				
(Since inception to June 30, 2015)			8.85%			
(Since inception to June 30, 2014)				7.92%		
(Since inception to June 30, 2013)					6.77%	
(Since inception to June 30, 2012)						6.21%
(Since inception to June 30, 2011)						
(Since inception to June 30, 2010)						
Portfolio Composition (Please see Fund Manager Report)						
Weighted average portfolio duration	30 Days	57 Days	57 Days	241 Days	47 days	77 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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