

AM2++
Rated by PACRA



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

NAFA INCOME OPPORTUNITY FUND

ANNUAL REPORT 2016



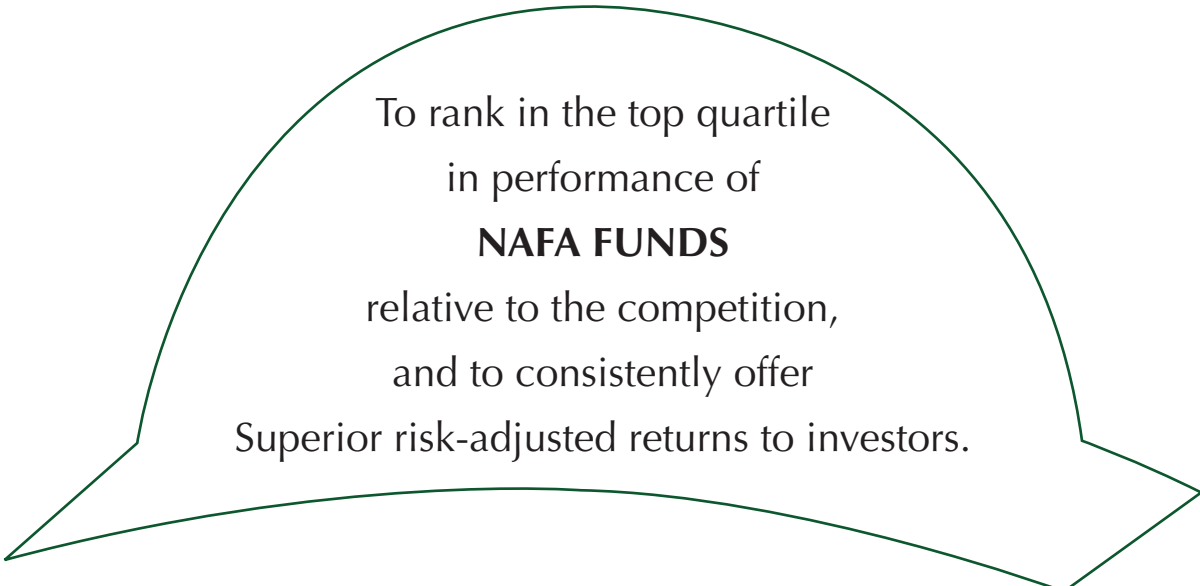
Your investments & "NAFA" grow together



**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. Nausherwan Adil	Chairman
Dr. Amjad Waheed	Chief Executive Officer
Mr. Nigel Poh Cheng	Director
Mr. Koh Boon San	Director
Mr. Kamal Amir Chinoy	Director
Mr. Shehryar Faruque	Director
Mr. Aamir Sattar	Director
Mr. Abdul Hadi Palekar	Director

Company Secretary & COO

Mr. Muhammad Murtaza Ali

Chief Financial Officer

Mr. Khalid Mehmood

Audit & Risk Committee

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

Human Resource and Remuneration Committee

Mr. Nausherwan Adil	Chairman
Mr. Nigel Poh Cheng	Member
Mr. Kamal Amir Chinoy	Member

Trustee

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

Bankers to the Fund

Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
JS Bank Limited
KASB Bank Limited
MCB Bank Limited
National Bank of Pakistan
NIB Bank Limited
SILK Bank Limited
Soneri Bank Limited
The Bank of Punjab
Summit Bank Limited
United Bank Limited
Samba Bank Limited
Burj 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

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

Contents

DIRECTORS' REPORT	05
TRUSTEE REPORT TO THE UNIT HOLDERS	10
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE	11
FUND MANAGER REPORT	14
REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE	17
INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS	18
STATEMENT OF ASSETS AND LIABILITIES	20
INCOME STATEMENT	21
STATEMENT OF COMPREHENSIVE INCOME	22
DISTRIBUTION STATEMENT	23
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND	24
CASH FLOW STATEMENT	25
NOTES TO THE FINANCIAL STATEMENTS	26
PERFORMANCE TABLE	55

Board of Directors



Mr. Nausherwan Adil
Chairman



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. Kamal Amir Chinoy
Director



Mr. Koh Boon San
Director



Mr. Aamir Sattar
Director



Mr. Shehryar Faruque
Director



Mr. Nigel Poh Cheng
Director



Mr. Abdul Hadi Palekar
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



Syed Suleman Akhtar CFA
Head of Research



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



Mr. Asim Wahab Khan, CFA
Head of Equity



Mr. Salman Ahmed
Head of Risk Management



Mr. Raheel Rehman ACA, CICA
Senior Manager Compliance

NAFA INCOME OPPORTUNITY FUND

DIRECTORS' REPORT

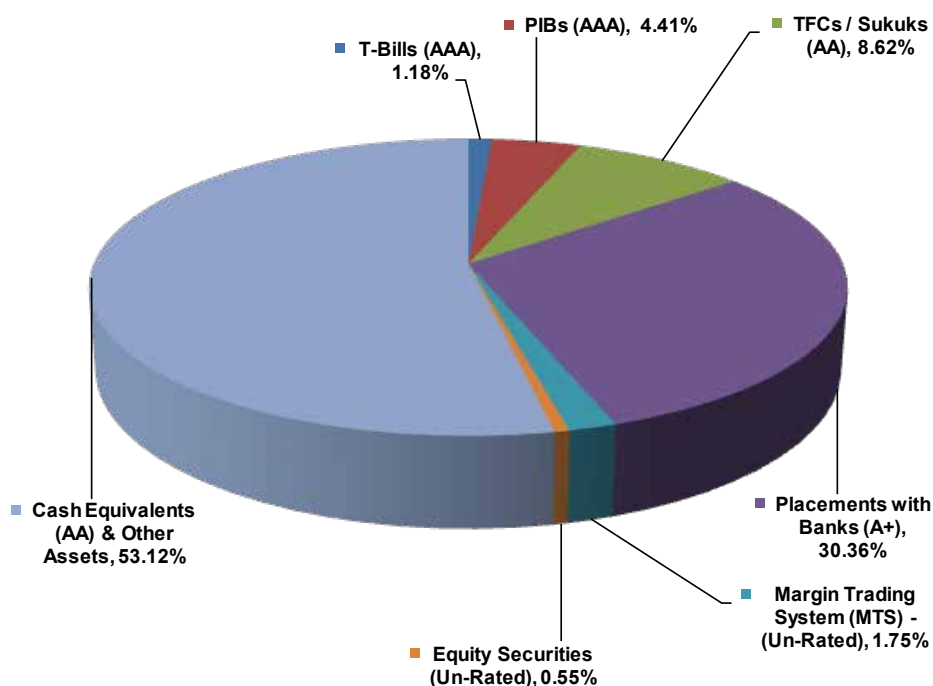
The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Eleventh Annual Report of **NAFA Income Opportunity Fund** for the year ended June 30, 2016.

Fund's Performance

The size of NAFA Income Opportunity Fund has increased from Rs. 5,243 million to Rs. 6,274 million during the period, i.e. a growth of 19.66%. During the said period, the unit price of the Fund has increased from Rs. 9.9539 (Ex-Div) on June 30, 2015 to Rs. 10.7016 on June 30, 2016, thus posting a return of 7.49% as compared to its Benchmark (6-Month KIBOR) return of 6.53% 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. On the corporate debt sphere, trading activity in TFCs/Sukuks remained skewed towards high quality issues with total trade value touching around Rs 8 billion. The trades were mainly concentrated in the Banking sector, making up 43% share. During the period under review (FY16), due to further abatement in inflationary pressures (average inflation of 2.9%), State Bank of Pakistan (SBP) reduced the policy rate by a cumulative 75 bps following a cumulative 300 bps reduction in FY15. SBP in its policy statement highlighted (i) improvement in the macroeconomic conditions, (ii) better law and order situation; and (iii) positive growth prospects underpinned by investment under China Pakistan Economic Corridor (CPEC). During the period under review, sovereign yields responded accordingly to policy rate cut of 75 bps. We see pickup in inflation to 6% by FY17 year-end due to partial recovery in commodity prices, measured PKR devaluation, and uptick in private sector borrowing.

The Fund has earned a total income of Rs.389.23 million during the year. After accounting for total expenses of Rs.162.65 million, the net income is Rs.226.58 million. The asset allocation of NAFA Income Opportunity Fund as on June 30, 2016 is as follows:



NAFA INCOME OPPORTUNITY FUND

Income Distribution

The Board of Directors of the Management Company has approved cash dividend of 7.46% of opening ex-NAV (7.971% 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, M/S Deloitte Yousuf Adil, Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2017.

Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held six meetings during the current financial year. The attendance of all directors is disclosed in the note 25 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 24 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 21 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 23, 2016
Place: Karachi.

NAFA INCOME OPPORTUNITY FUND

ڈائریکٹرز رپورٹ

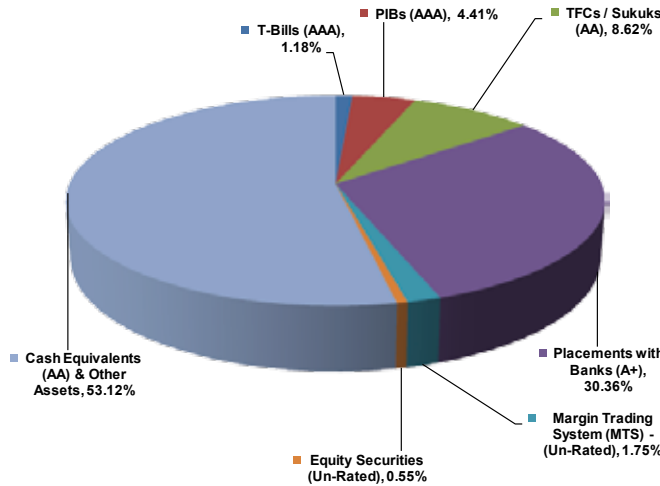
NBP فلٹرن ایسیٹ منیجمنٹ لمیٹڈ کا بورڈ آف ڈائریکٹرز بھد مسرت 30 جون 2016ء کو ختم ہونے والے سال کے لیے NAFA انکم اپرچونٹی فنڈ کی گیارہویں سالانہ رپورٹ پیش کرتا ہے۔

فنڈ کی پرفارمنس

NAFA انکم اپرچونٹی فنڈ کے حجم میں مدت کے دوران 5,243 ملین روپے سے 6,274 ملین روپے تک اضافہ ہوا ہے، یعنی 19.66% اضافہ۔ اس مدت کے دوران فنڈ کے یونٹ کی قیمت 30 جون 2015 کو 9.9539 روپے (Ex-Div) سے 30 جون 2016 کو 10.7016 روپے تک بڑھ چکی ہے، لہذا اسی مدت کے لیے اپنے بیچ مارک منافع (6 ماہ KIBOR) کے 6.53% کے مقابلے میں 7.49% منافع درج کرایا۔ فنڈ کا منافع منیجمنٹ فیس اور دیگر اخراجات کے بعد خالص ہے۔

NIOF کی درجہ بندی بطور ایک انکم اسکیم کی گئی ہے اور اسے PACRA کی طرف سے A(f) کی اسٹیبلٹی ریٹنگ دی گئی ہے۔ کاروباری قرض کے حلقے میں TFCs / سکوک میں تجارتی سرگرمیوں کے اعلیٰ کوالٹی اجرائی کارروائیوں کی طرف جھکاؤ کے ساتھ مجموعی تجارتی حجم تقریباً 8 ارب روپے کی سطح تک پہنچ گیا۔ لین دین کا اصل ارتکاز بینکاری کے شعبے میں رہا جس کا حصہ 43% بنتا ہے۔ زیر جائزہ مدت (مالی سال 2016) کے دوران، افراط زر کے دباؤ میں مزید کمی کے ساتھ (اوسط افراط زر 2.9%)، اسٹیٹ بینک آف پاکستان نے مالی سال 2015 میں پالیسی ریٹ میں 300 بنیادی پوائنٹس کی مجموعی کمی کے بعد 75 بنیادی پوائنٹ مجموعی طور پر مزید کم کر دیے۔ SBP نے اپنے پالیسی بیان میں درج ذیل کی نشان دہی کی ہے (i) مجموعی معاشی حالات میں بہتری (ii) امن و امان کی بہتر صورت حال اور (iii) چین پاکستان اقتصادی راہداری (CPEC) کے تحت سرمایہ کاری کی بدولت نمو کے مثبت امکانات۔ زیر جائزہ مدت کے دوران آزادانہ منافع جات نے پالیسی ریٹ میں 75 بنیادی پوائنٹ کی کمی کے مطابق ردعمل دکھایا۔ ہم مالی سال 2017 کے آخر تک اشیاء صرف کی قیمتوں کی جزوی بحالی، پاکستانی روپے کی قدر میں محدود کمی اور نجی شعبے کے قرضوں میں اضافے کی وجہ سے افراط زر کو 6% تک بڑھتا دیکھ رہے ہیں۔

فنڈ نے سال کے دوران 400.30 ملین روپے کی مجموعی آمدنی کمائی ہے۔ 147.79 ملین روپے کے مجموعی اخراجات منہا کرنے کے بعد خالص آمدنی 252.51 ملین روپے ہے۔ NAFA انکم اپرچونٹی فنڈ کی ایسیٹ ایلوکیشن 30 جون 2016 کو بمطابق ذیل ہے:



آمدنی کی تقسیم

منیجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز نے سال کے لیے ابتدائی ex-NAV کا 7.46% (مساوی قیمت کا 7.971%) کیش ڈیویڈنڈ منظور کیا ہے۔

ٹیکسیشن

جیسا کہ مندرجہ بالا کیش ڈیویڈنڈ، انویسٹمنٹس کے تصرف شدہ اور غیر تصرف شدہ (realized and unrealized) مالیاتی منافع جات کے علاوہ، انویسٹمنٹس پر سال کے دوران کمائی گئی آمدنی کے 90% سے زائد ہے، انکم ٹیکس آرڈیننس 2001 کے دوسرے شیڈول کے حصہ 1 کی شق 99 کے تحت فنڈ پر ٹیکس لاگو نہیں ہے۔

آڈیٹرز

موجودہ آڈیٹر M/S Deloitte Yousuf Adil، ریٹائر ہوئے ہیں اور بر بنائے اہلیت، خود کو ختم سال 30 جون 2017 کے لیے دوبارہ تقرری کے لیے پیش کرتے ہیں۔

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۔ شریاتی تخمینے مناسب اور معقول نظریات پر مبنی ہیں۔
- 4- ان مالیاتی گوشواروں کی تیاری میں مالیاتی رپورٹنگ کے بین الاقوامی معیاروں، جہاں تک وہ پاکستان میں قابل اطلاق ہیں، کی پیروی کی گئی ہے۔
- 5- انٹرنل کنٹرول کا نظام مستحکم اور مؤثر طریقے سے نافذ ہے اور اس کی مسلسل نگرانی کی جاتی ہے۔
- 6- فنڈ کی رواں دواں رہنے کی صلاحیت کے بارے میں کوئی شکوک و شبہات نہیں ہیں۔
- 7- لسٹنگ ریگولیشنز میں تفصیلاً درج کارپوریٹ گورننس کی اعلیٰ ترین روایات سے کوئی پہلو تہی نہیں کی گئی۔
- 8- پرفارمنس ٹیبیل / 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 چھ اجلاس منعقد ہوئے۔ تمام ڈائریکٹرز کی حاضری ان مالیاتی گوشواروں کے نوٹ 25 میں ظاہر کی گئی ہے۔
- 11- یونٹ ہولڈنگ کا تفصیلی پیٹرن مالیاتی گوشواروں کے نوٹ 24 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 21 میں ظاہر کی گئی ہے۔

اعتراف

بورڈ اس موقع کا فائدہ اٹھاتے ہوئے منجمنٹ کمپنی پر اعتماد اور 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 ڈسٹری بیوٹرز 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

23 ستمبر 2016

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, 2016 in accordance with the provisions of the following:

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

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

Karachi: September 30, 2016

NAFA INCOME OPPORTUNITY FUND

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2016

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.

The Company, though an un-listed Public Limited Company complies with the CCG as the Fund under its management is listed on Pakistan Stock Exchange Limited.

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, 2016, the Board included:

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

The independent directors meets 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. No casual vacancy occurred during the year.
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 2016, three directors of the Company had acquired the director's training certificate as required under the Code. The Company plans to arrange a Director's Training Program in future, for the remaining directors.
10. The Board has approved the appointment of Chief Financial Officer (CFO) of the Company with their remuneration and terms and conditions of employment. There has been no new appointment of the Company Secretary and Head of Internal Audit 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 19 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 including an independent director and the chairman of the committee is non-executive director.

NAFA INCOME OPPORTUNITY FUND

18. The Board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. Since there is no practical implication of closed period on the announcement of interim and final results of open end Fund. Therefore, there was no 'closed period' prior to the announcement of interim / final results.
22. Material / price sensitive information has been disseminated amongst all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the CCG have been complied with except the following:
 - As per the Code, 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.

For and behalf of the Board

Karachi
September 23, 2016

Dr. Amjad Waheed
Chief Executive Officer

NAFA INCOME OPPORTUNITY FUND

FUND MANAGER REPORT

NAFA Income Opportunity Fund

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

Investment Objective of the Fund

The objective of NIOF is to seek 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 eleventh Annual report since the launch of the Fund on April 21, 2006. The Fund size increased by 19.66% during FY16 and stands at Rs 6.27 billion as on June 30, 2016. The Fund's return since its inception is 8.39% versus the benchmark return of 10.82%. During FY16, the Fund posted a return of 7.49% as compared to the benchmark return of 6.53%. This translates into an outperformance of 0.96%. This outperformance is net of management fee and all other expenses. Hence, the Fund has achieved its stated objectives.

Key factors that contributed to the better performance of the Fund during the year were principal and profit payment from a non-performing sukuks along with mark to market gains on PIB holdings and performing TFCs/Sukuks. The Yield to Maturity of the Fund at year end FY16 is around 10.30% while that of TFC portfolio is 7.80%. The yield does not include potential recovery in fully provided TFCs (Face Value of around Rs 914 million), which is potential upside for the Fund. The Fund's TFC portfolio allocation is fairly diversified with exposure to Electricity, Banking and Financial Services sectors.

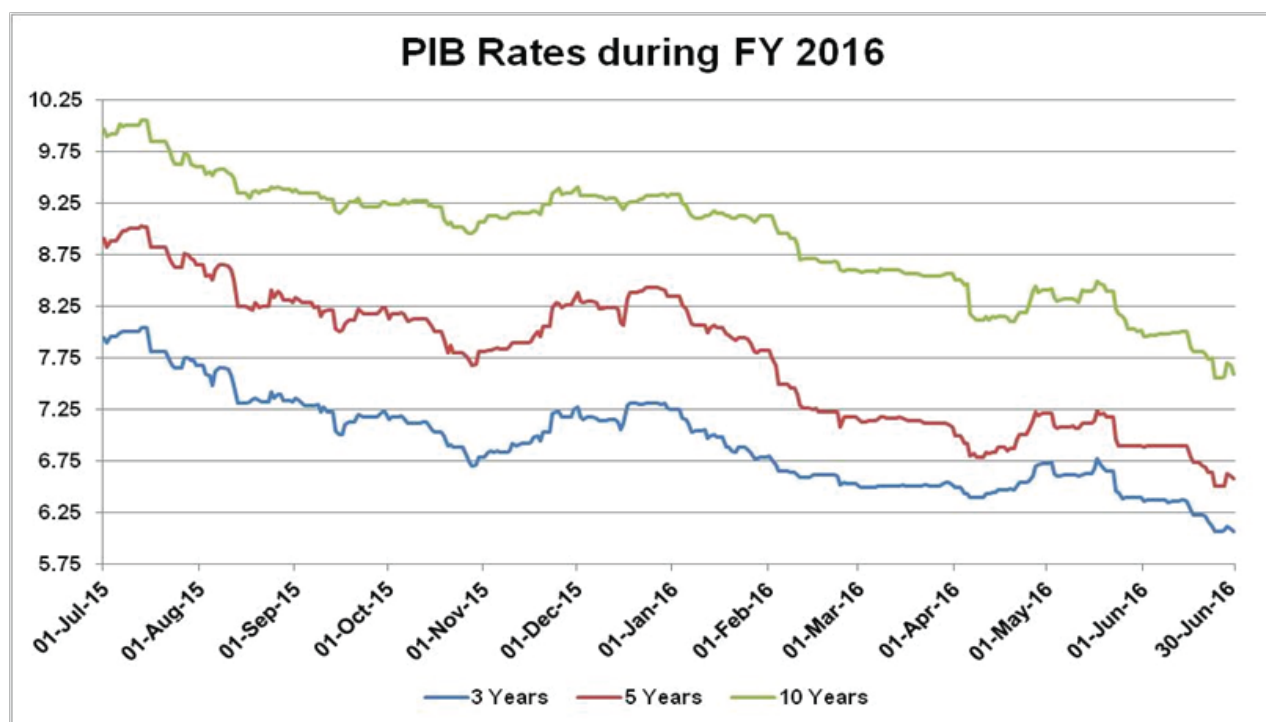
On the corporate debt sphere, trading activity in TFCs/Sukuks remained skewed towards high quality issues with total trade value touching around Rs 8 billion. The trades were mainly concentrated in the Banking sector, making up 43% share. Due to further abatement in inflationary pressures as captured in FY16 average inflation of 2.9%, State Bank of Pakistan (SBP) reduced the policy rate by a cumulative 75 bps in FY16 up on the heels of a cumulative 300 bps reduction in FY15. SBP in its policy statement highlighted (i) improvement in the macroeconomic conditions, (ii) better law and order situation; and (iii) positive growth prospects underpinned by investment under China Pakistan Economic Corridor (CPEC). During the period under review, sovereign yields responded accordingly to policy rate cut of 75 bps. We see pickup in inflation to 5.5% by year-end due to partial recovery in commodity prices, measured PKR devaluation, and uptick in private sector borrowing.

Asset Allocation of Fund (% of NAV)

Particulars	30-Jun-16	30-Jun-15
Cash (Cash Equivalents) & Other Assets	53.12%	60.51%
Placements with Banks	30.36%	3.81%
TFCs/Sukuks	8.60%	17.67%
PIBs	4.41%	2.81%
T-Bills	1.18%	2.30%
Margin Trading System (MTS)	1.75%	12.31%
Equity	0.55%	0.59%
Total	100.00%	100.00%

NAFA INCOME OPPORTUNITY FUND

PIB yields during the year are shown in below graph:



Distribution for the Financial Year 2016

Interim Period/Quarter	Dividend as a % of Par Value (Rs.10)	Cumulative Div. Price / Unit	Ex- Div. Price
Interim	7.97%	11.4886	10.6915

Details of Non-Compliant Investments

Particulars	Type of Investment	Details of Non-Compliant Investment					
		Value of Investments before Provision	Provision held	Value of Investments after Provision	% of Net Assets	% of Gross Assets	Yield to Maturity per annum
Agritech Limited I	TFC	149,860,200	149,860,200	-	-	-	n/a
Agritech Limited V	TFC	32,320,000	32,320,000	-	-	-	n/a
Azgard Nine Limited III	TFC	108,376,850	108,376,850	-	-	-	n/a
Azgard Nine Limited V	TFC	82,180,000	82,180,000	-	-	-	n/a
BRR Guardian Modaraba	SUKUK	26,562,500	26,562,500	-	-	-	n/a
Dewan Cement Limited	TFC	150,000,000	150,000,000	-	-	-	n/a
Eden Housing (Sukuk II)	SUKUK	9,056,250	9,056,250	-	-	-	n/a
New Allied Electronics (PPTFC)	TFC	31,706,536	31,706,536	-	-	-	n/a
New Allied Electronics (Sukuk II)	SUKUK	44,148,934	44,148,934	-	-	-	n/a
PACE Pakistan Limited	TFC	149,820,000	149,820,000	-	-	-	n/a
Saudi Pak Leasing	TFC	41,321,115	41,321,115	-	-	-	n/a
World Call Telecom Limited	TFC	88,455,825	88,455,825	-	-	-	n/a
Azgard Nine Limited (Non-Voting Ordinary Shares)	Equity	12,854	12,854	-	-	-	n/a
Agritech Limited Shares	Equity	141,403,150	106,698,777	34,704,373	0.6%	0.3%	n/a
Total		1,055,224,214	1,020,519,841	34,704,373	0.6%	0.3%	

NAFA INCOME OPPORTUNITY FUND

Unit Holding Pattern of NAFA Income Opportunity Fund as on 30th June 2016

Size of Unit Holding (Units)	# of Unit Holders
1-1000	373
1001-5000	281
5001-10000	179
10001-50000	546
50001-100000	285
100001-500000	308
500001-1000000	57
1000001-5000000	50
5000001-10000000	9
10000001-100000000	10
Total	2096

During the period under question:

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

Workers' Welfare Fund (WWF)

The scheme has maintained provisions against Workers' Welfare Fund's liability to the tune of Rs 31,218,042. If the same were not made the NAV per unit/FY16 return of scheme would be higher by Rs 0.0532/ 0.53%. For details investors are advised to read note 17 of the latest Financial Statement of the Scheme for the year ended June 30, 2016.

NAFA INCOME OPPORTUNITY FUND

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

We have reviewed the 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, 2016, 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, 2016.

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 'close period' prior to the announcement of interim / final results, however there was no such 'close period' announced during the year ended 30 June 2016.
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
Dated: September 30, 2016
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, 2016, 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, 2016, 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.

Other Matter

The Financial statements of the Fund for the year ended June 30, 2015 were audited by another firm of Chartered Accountants who vide their report dated September 30, 2015 expressed an unmodified opinion thereon.

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner:
Naresh Kumar

Date: September 30, 2016

Place: Karachi

NAFA INCOME OPPORTUNITY FUND

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2016

	Note	2016 (Rupees in '000)	2015
ASSETS			
Balances with banks	4	7,112,317	2,218,579
Investments	5	1,726,628	1,225,444
Receivable against Margin Trading System	6	109,868	645,319
Mark-up accrued	7	66,079	78,541
Advances, deposits, prepayments and other receivables	8	484,545	1,681,315
Total assets		<u>9,499,437</u>	<u>5,849,198</u>
LIABILITIES			
Payable to the NBP Fullerton Asset Management Limited - Management Company	9	58,866	32,572
Payable to the Central Depository Company of Pakistan Limited - Trustee	10	741	562
Payable to the Securities and Exchange Commission of Pakistan	11	6,836	4,288
Accrued expenses and other liabilities	12	3,158,771	569,239
Total liabilities		3,225,214	606,661
NET ASSETS		<u>6,274,223</u>	<u>5,242,537</u>
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		<u>6,274,223</u>	<u>5,242,537</u>
(Number of units)			
Contingencies and commitments	13		
Number of units in issue	14	<u>586,288,408</u>	<u>453,547,333</u>
(Rupees)			
Net asset value per unit	15	<u>10.7016</u>	<u>11.5590</u>

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME OPPORTUNITY FUND

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2016

INCOME	Note	2016	2015
(Rupees in '000)			
Return / mark-up on:			
- bank balances and term deposits		499,973	207,557
- term finance certificates and sukus		106,438	159,541
- government securities		85,843	202,686
- letter of placement and commercial paper		9,088	2,301
Income from Margin Trading System		30,579	30,066
Income from spread transactions		1,197	-
Net gain on sale of investments		12,765	147,343
Net unrealised gain / (loss) on re-measurement of investments at fair value through profit or loss - held for trading	5.13	14,938	(5,730)
Total income		<u>760,821</u>	<u>743,764</u>
EXPENSES			
Remuneration of the NBP Fullerton Asset Management Limited - Management Company	9.1	125,392	85,773
Sindh sales tax on remuneration of the Management Company	9.2	20,364	14,924
Federal Excise Duty on remuneration of the Management Company	9.3	20,063	13,724
Reimbursement of operational expenses to the Management Company	9.4	5,986	-
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	10.1	7,977	5,546
Sindh Sales Tax on remuneration of the Trustee	10.2	1,117	-
Annual fee to the Securities and Exchange Commission of Pakistan	11.1	6,836	4,288
Securities transaction cost		330	524
Settlement and bank charges		4,460	3,284
Auditors' remuneration	16	530	540
Fund rating fee		333	296
Legal and professional charges		10	125
Annual listing fee		40	40
Printing and other charges		195	446
Provision against accrued mark-up	8.2	14,859	-
(Reversal of impairment) / provision against non-performing term finance certificates and sukus	5.15	(45,847)	31,650
Total expenses		<u>162,645</u>	<u>161,160</u>
Net income from operating activities		<u>598,176</u>	<u>582,604</u>
Net element of loss and capital losses included in prices of units issued less those in units redeemed		(371,589)	(275,004)
Provision for Workers' Welfare Fund	17	-	(6,152)
Net income for the year before taxation		<u>226,587</u>	<u>301,448</u>
Taxation	18	-	-
Net income for the year after taxation		<u>226,587</u>	<u>301,448</u>
Earnings per unit	19		

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME OPPORTUNITY FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2016

	<i>Note</i>	2016	2015
		(Rupees in '000)	
Net income for the year after taxation		226,587	301,448
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	3,595	80,119
Reclassification to income statement relating to loss realised on maturity / disposal of investment classified as 'available for sale'		25,927	-
Items that will not be reclassified subsequently to income statement		-	-
Total comprehensive income for the year		<u>256,109</u>	<u>381,567</u>

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME OPPORTUNITY FUND

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
	(Rupees in '000)	
Undistributed income brought forward comprising of:		
- realised income	743,075	321,620
- unrealised income	1,075	7,705
	744,150	329,325
Net income for the year	226,587	301,448
Final distribution for the year ended June 30, 2015:		
- cash distribution @ Rs. 0.8675 per unit declared on July 16, 2015 (2014: Nil)	(237,655)	-
Final distribution for the year ended June 30, 2016:		
- cash distribution @ Rs. 0.7971 per unit declared on June 30, 2016 (2015: Rs. 0.29 per unit declared on June 29, 2015)	(263,254)	(64,092)
Net element of income and capital gains included in prices of units issued less those in units redeemed	13,124	177,469
Undistributed income carried forward	482,952	744,150
Undistributed income carried forward comprising of:		
- realised income	464,419	743,075
- unrealised income	18,533	1,075
	482,952	744,150

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME OPPORTUNITY FUND

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
	(Rupees in '000)	
Net assets at the beginning of the year	5,242,537	4,352,570
Issuance of 1,983,189,203 units (2015: 1,250,854,393 units)	21,929,709	14,318,696
Redemption of 1,850,448,128 units (2015: 1,213,119,454 units)	(21,024,812)	(14,021,208)
	904,897	297,488
Net element of loss and capital losses included in prices of units issued less those in units redeemed - transferred to income statement	371,589	275,004
Net element of income and capital gains included in prices of units issued less those in units redeemed - transferred to distribution statement	(13,124)	(177,469)
Total comprehensive income for the year	256,109	381,567
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 (2014: Nil)	(237,655)	-
Final distribution for the year ended June 30, 2016: - cash distribution @ Rs. 0.7971 per unit declared on June 30, 2016 (2015: Rs. 0.29 per unit declared on June 29, 2015)	(263,254)	(64,092)
	(500,909)	(64,092)
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	13,124	177,469
Net assets as at the end of the year	6,274,223	5,242,537
	(Rupees in '000)	
Net asset value per unit at the beginning of the year	11.5590	10.4676
Net asset value per unit at the end of the year	10.7016	11.5590

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME OPPORTUNITY FUND

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2016

	Note	2016	2015
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year before taxation		226,587	301,448
Adjustments:			
Return / markup on:			
- bank balances and term deposits		(499,973)	(207,557)
- term finance certificates, sukuks and commercial paper		(106,438)	(159,541)
- government securities		(85,843)	(202,686)
- letter of placement and commercial paper		(9,088)	(2,301)
Income from Margin Trading System		(30,579)	(30,066)
Income from spread transactions		(1,197)	-
Net unrealised gain/ (loss) on re-measurement of investments at fair value through profit or loss - held for trading ¹		(14,938)	5,730
Net element of loss and capital losses included in prices of units issued less those in units redeemed		371,589	275,004
Provision against accrued mark-up		14,859	-
Reversal of impairment / (provision) against non-performing term finance certificates and sukuks		(45,847)	31,650
		<u>(407,455)</u>	<u>(289,767)</u>
		(180,868)	11,681
(Increase) / decrease in assets			
Investments - net		(351,591)	1,688,761
Receivable against Margin Trading System		535,451	(645,319)
Advances, deposits, prepayments and other receivables		(18,516)	(279)
		165,344	1,043,163
Increase / (decrease) in liabilities			
Payable to the Management Company		26,294	25,882
Payable to the Trustee		179	204
Payable to the Securities and Exchange Commission of Pakistan		2,548	2,471
Accrued expenses and other liabilities		45,506	27,541
		74,527	56,098
Mark-up on bank balances and term deposits received		479,996	197,814
Mark-up on term finance certificates and sukuks received		123,798	185,755
Mark-up on government securities received		24,763	232,918
Mark-up on letter of placement received		9,088	185
Income from spread transactions received		1,197	-
Income from Margin Trading System received		32,593	27,640
		<u>730,438</u>	<u>1,755,254</u>
Net cash generated from operating activities		730,438	1,755,254
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash generated from investing activities		-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts received from issuance of units		23,144,995	13,102,650
Amounts paid on redemption of units		(18,480,751)	(13,984,188)
Distributions paid		(500,944)	(62,926)
Net cash generated from / (used in) financing activities		<u>4,163,300</u>	<u>(944,464)</u>
Net increase in cash and cash equivalents during the year		4,893,738	810,790
Cash and cash equivalents at the beginning of the year		2,218,579	1,407,789
Cash and cash equivalents at the end of the year	4	<u><u>7,112,317</u></u>	<u><u>2,218,579</u></u>

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME OPPORTUNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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 as per the criteria for categorization of open end collective investment scheme as specified by SECP and other allied matters.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 7th Floor, Clifton Diamond Building, Block No. 4, Scheme No. 5, Clifton, Karachi. Due to the fire incident at the registered office of the Management Company in the month of June 2016, its office has been temporarily shifted to 2nd floor, Ex - NDFC Building, Tariq Road, Karachi. The Management Company is a member of the Mutual Fund Association Of Pakistan (MUFAP).

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 (formerly Lahore Stock Exchange). Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.

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

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

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

2.1 BASIS OF PREPARATION

Statement of compliance

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.

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. Figures have been rounded off to the nearest thousand rupees, except otherwise stated.

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, 2016

The following standards, amendments and interpretations are effective for the year ended June 30, 2016. 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

- IFRS 10 – Consolidated Financial Statements	Effective from accounting period beginning on or after January 01, 2015
- IFRS 11 – Joint Arrangements	Effective from accounting period beginning on or after January 01, 2015
IFRS 12 – Disclosure of Interests in Other Entities	Effective from accounting period beginning on or after January 01, 2015
IAS 27 (Revised 2011) – Separate Financial Statements	Effective from accounting period beginning on or after January 01, 2015
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures	Effective from accounting period beginning on or after January 01, 2015

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

IFRS 13 – Fair Value Measurement

In addition to the above standards, IFRS 13 'Fair Value Measurement' also became effective in the current year. IFRS 13 consolidates the guidance on how to measure fair value, which was spread across various IFRSs, into one comprehensive standard. It introduces the use of an exit price, as well as extensive disclosure requirements, particularly the inclusion of non-financial instruments into the fair value hierarchy. The application of IFRS 13 did not have an impact on the financial statements of the Fund (refer note 28).

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 Company'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 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 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
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

NAFA INCOME OPPORTUNITY FUND

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

2.5 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 3.10)

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.

Available for sale

- c) 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.

NAFA INCOME OPPORTUNITY FUND

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

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

a) 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.

b) 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.

c) 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.

Investments of the Fund in unquoted equity securities are carried at lower of investment price or their break-up value as per the latest audited financial statements.

d) 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.

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'.

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.

NAFA INCOME OPPORTUNITY FUND

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.

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 Securities under repurchase / resale agreements

Transactions of purchase under an agreement for resale (reverse-repo) of marketable and government securities, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognized in the statement of assets and liabilities. Amount paid under these agreements are included as receivable in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions and accrued over the life of the reverserepo transaction.

All reverse repo are accounted for on the settlement date

3.6 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.

3.7 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund and the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

3.8 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.

NAFA INCOME OPPORTUNITY FUND

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

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

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.

3.10 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.

3.11 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the 'income statement' on the date at which the transaction takes place.
- 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 government securities, term finance certificates, sukuks, commercial papers, clean placements, bank balances and term deposits are recognised on a time apportionment basis using the effective interest method.
- Income on MTS transactions is recognised on an accrual basis.

3.12 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.

3.13 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.

3.14 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	2016	2015
(Rupees in '000)			
Current accounts		17,866	7,206
Saving accounts	4.1	5,989,525	2,011,373
Term deposits	4.2	<u>1,104,926</u>	<u>200,000</u>
		<u>7,112,317</u>	<u>2,218,579</u>

4.1 These saving accounts carry mark-up at the rates ranging from 4.5% to 9% per annum (2015: 4.5% to 10% per annum).

4.2 These represents short term deposits having original maturity period of less than three months. These carry mark-up rate of 7.35% to 11.10% per annum (2015: 7.65%).

NAFA INCOME OPPORTUNITY FUND

5 INVESTMENTS

Notes 2016 2015
(Rupees in '000)

INVESTMENTS

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	350,875	267,963
Term finance certificates - listed	5.4	225,875	264,895
Term finance certificates - unlisted	5.5	100,000	-
Sukuks	5.6	215,174	215,948
		891,924	748,806

Available for sale

Equity securities - listed	5.7	34,704	31,109
Term finance certificates - listed	5.8	-	65,400
Term finance certificates - unlisted	5.9	-	235,907
Sukuks	5.10	-	144,222
		34,704	476,638

Loans and receivables

Term deposits	5.12	800,000	-
		1,726,628	1,225,444

5.1 Equity securities - listed

Name of the investee company	As at July 1, 2015	Purchased during the year	Bonus / Right shares	Sold during the year	As at June 30, 2016	Market value as at June 30, 2016	Market value as a percentage of net assets	Market value as a percentage of total investment	Investment as a percentage of paid up capital of the investee company
------------------------------	--------------------	---------------------------	----------------------	----------------------	---------------------	----------------------------------	--	--	---

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, 2016						13			
Accumulated impairment						13			

5.2 Equity securities - listed (spread transactions)

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	As at July 1, 2015	Purchased during the year	Sold during the year	As at June 30, 2016	Market value as at June 30, 2016	Market value as a percentage of net assets	Market value as a percentage of total investment	Investment as a percentage of paid up capital of the investee company
------------------------------	--------------------	---------------------------	----------------------	---------------------	----------------------------------	--	--	---

----- Number of shares ----- Rs in '000 ----- % -----

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

CONSTRUCTION AND MATERIALS

D.G Khan Cement Company Limited	-	149,000	149,000	-	-	-	-	-
Maple Leaf Cement Factory Limited	-	169,500	169,500	-	-	-	-	-
Pioneer Cement Limited	-	21,500	21,500	-	-	-	-	-
Fauji Cement Company Limited	-	71,000	71,000	-	-	-	-	-
Lucky Cement Limited	-	17,500	17,500	-	-	-	-	-

COMMERCIAL BANKS

United Bank Limited	-	52,500	52,500	-	-	-	-	-
Bank Al Falah Limited	-	7,500	7,500	-	-	-	-	-

NAFA INCOME OPPORTUNITY FUND

Name of the investee company	As at July 1, 2015	Purchased during the year	Sold during the year	As at June 30, 2016	Market value as at June 30, 2016	Market value as a percentage of net assets	Market value as a percentage of total investment	Investment as a percentage of paid up capital of the investee company
	----- Number of shares -----			----- Rs in '000 -----		----- % -----		
CHEMICALS								
Engro Fertilizers Limited	-	533,000	533,000	-	-	-	-	-
Engro Corporation Limited	-	55,500	55,500	-	-	-	-	-
Fauji Fertilizer Company Limited	-	62,000	62,000	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	54,000	54,000	-	-	-	-	-
ELECTRICITY								
Hub Power Company Limited	-	1,000	1,000	-	-	-	-	-
OIL AND GAS								
Oil and Gas Development Company Limited	-	60,000	60,000	-	-	-	-	-
Pakistan Petroleum Limited	-	40,000	40,000	-	-	-	-	-
Pakistan State Oil Company Limited	-	51,500	51,500	-	-	-	-	-
PERSONAL GOODS (TEXTILE)								
Nishat Mills Limited	-	264,500	264,500	-	-	-	-	-
					-			
Carrying value as at June 30, 2016					-			

5.3 Government securities

Issue Date	Tenor	Face value				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
		----- Rupees in '000 -----				----- Rs in '000 -----		----- % -----
Market Treasury Bills								
January 8, 2015	12 Months	125,000	-	125,000	-	-	-	-
March 5, 2015	6 Months	-	50,000	50,000	-	-	-	-
April 16, 2015	6 Months	-	1,000,000	1,000,000	-	-	-	-
May 14, 2015	6 Months	-	100,000	100,000	-	-	-	-
May 28, 2015	3 Months	-	168,000	168,000	-	-	-	-
August 6, 2015	3 Months	-	150,000	150,000	-	-	-	-
August 6, 2015	6 Months	-	100,000	100,000	-	-	-	-
August 6, 2015	12 Months	-	900,000	900,000	-	-	-	-
August 20, 2015	6 Months	-	5,500	5,500	-	-	-	-
August 20, 2015	12 Months	-	3,345,000	3,345,000	-	-	-	-
September 3, 2015 (5.3.1)	12 Months	-	2,628,000	2,553,000	75,000	74,246	1.18%	4.30%
Pakistan Investment Bonds								
July 22, 2010	10 Years	100,000	-	-	100,000	119,936	1.91%	6.95%
July 19, 2012	03 Years	35,000	-	35,000	-	-	-	-
March 26, 2015	03 Years	-	400,000	250,000	150,000	156,693	2.50%	9.08%
						350,875		
Carrying value as at June 30, 2016						339,172		

NAFA INCOME OPPORTUNITY FUND

5.3.1 Investments include treasury bills with market value of Rs. 74.246 million (2015: Nil) 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 the SECP.

5.4 Term finance certificates - listed

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.

Bank Alfalah Limited - V	32,550	-	-	32,550	165,861	2.64%	9.61%	3.26%
Jahangir Siddiqui and Company Limited (October 30, 2012)	18,400	-	18,400	-	-	-	-	-
Jahangir Siddiqui and Company Limited (April 08, 2014)	15,000	-	-	15,000	60,014	0.96%	3.48%	10.00%
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%
					<u>225,875</u>			
Carrying value before mark to market as at June 30, 2016					<u>413,007</u>			
Accumulated impairment					<u>191,141</u>			

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 circular.

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 circular.

5.4.3 Other particulars of term finance certificates - listed outstanding as at June 30, 2016 are as follows:

Name of the investee company	Repayment frequency	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
Bank Alfalah Limited - V	Semi-annually	4,994	6 months KIBOR offer rate + 1.25%	AA-	20-Feb-13	20-Feb-21
Jahangir Siddiqui and Company Limited (April 08, 2014)	Semi Annually	4,000	6 months KIBOR offer rate + 1.75%	AA+	8-Apr-14	8-Apr-19
Pace (Pakistan) Limited	Semi Annually	4,994	6 months KIBOR offer rate + 2.00%	Not rated	15-Feb-08	15-Feb-17
Saudi Pak Leasing Company Limited	Semi Annually	2,755	6.87% fixed rate	Not rated	13-Mar-08	13-Mar-17

5.5 Term finance certificates - unlisted

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.

Jahangir Siddiqui and Company Limited (May 16, 2016)	-	20,000	-	20,000	<u>100,000</u>	1.59%	5.79%	10.00%
Carrying value as at June 30, 2016					<u>100,000</u>			

5.5.1 Other particulars of term finance certificates - unlisted outstanding as at June 30, 2016 are as follows:

Name of the investee company	Repayment frequency	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
Jahangir Siddiqui and Company Limited (May 16, 2016)	Semi-annually	5,000	6 months KIBOR offer rate + 1.65%	AA+	16-May-16	16-May-21

NAFA INCOME OPPORTUNITY FUND

5.6 Sukuks

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.

K-Electric Azm Sukuk	43,120	-	-	43,120	215,174	3.43%	12.46%	5.75%
Carrying value before mark to market as at June 30, 2016					<u>215,948</u>			

5.6.1 Other particulars of sukuks outstanding as at June 30, 2016 are as follows:

Name of the investee company	Repayment frequency	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
K-Electric Limited - AZM Sukuk	Quarterly	5,000	3 Month KIBOR offer rate + 2.25%	AA	19-Mar-14	19-Mar-17

5.7 Equity securities - listed

Name of the investee company	Number of shares				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	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	34,704	0.55%	2.01%	1.03%
Carrying cost as at June 30, 2016					<u>49,693</u>			
Accumulated impairment					<u>18,584</u>			

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.

These shares have been marked to market at prevailing market price as of June 30, 2016 and provision for impairment loss of Rs. 18.584 million has been recorded in these financial statements.

5.8 Term finance certificate - listed

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 ----- % -----

Worldcall Telecom Limited (note 5.8.1)	45,000	-	-	45,000	-	-	-	5.63%
Allied Bank Limited	13,400	-	13,400	-	-	-	-	-
Carrying value before mark to market as at June 30, 2016					<u>88,456</u>			
Accumulated impairment					<u>88,456</u>			

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 circular.

5.8.2 Other particulars of term finance certificate - listed outstanding as at June 30, 2016 are as follows:

Name of the investee company	Repayment frequency	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
Worldcall Telecom Limited	Semi-annually	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, 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	%	
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%
Engro Fertilizers Limited	46,370	-	46,370	-	-	-	-	-
Agri-tech Limited I (note 5.9.4)	30,000	-	-	30,000	-	-	-	10.00%
Agri-tech Limited V (note 5.9.5)	6,464	-	-	6,464	-	-	-	10.00%
					-			
Carrying value as at June 30, 2016					<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 5.7.1) 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 circular.

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 circular.

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 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 circular.

5.9.4 This represents investment in listed term finance certificates with a term of seven years. On May 30, 2010, Agri-tech 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 circular.

5.9.5 This represents investment in privately placed term finance certificates of Agri-tech V received against due markup of Agri-tech 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 circular.

5.9.6 Other particulars of term finance certificate - unlisted outstanding as at June 30, 2016 are as follows:

Name of the investee company	Repayment frequency	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
Azgard Nine Limited III	Semi-annually	2,168	6 months KIBOR offer rate + 2.25%	Not rated	4-Dec-07	4-Dec-14
Azgard Nine Limited V	Semi-annually	5,000	-	Not rated	31-Mar-12	31-Mar-17
Dewan Cement Limited	Semi-annually	5,000	6 months KIBOR offer rate + 2%	Not rated	14-Jan-08	14-Jan-14
New Allied Electronics Industries (Private) Limited	Quarterly	2,114	3 months KIBOR offer rate + 3%	Not rated	15-May-07	15-May-11
Agri-tech Limited I	Semi-annually	4,995	6 months KIBOR offer rate + 1.75%	Not rated	29-Nov-07	29-Nov-14
Agri-tech Limited V	Semi-annually	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, 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 -----		----- % -----	
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%
Kohat Cement Company Limited (note 5.10.2)	50,000	-	50,000	-	-	-	-	-
Maple Leaf Cement Factory Limited	80,000	-	80,000	-	-	-	-	-
Pak Elektron Limited (note 5.10.3)	24,000	-	24,000	-	-	-	-	-
BRR Guardian Modaraba (note 5.10.4)	10,000	-	-	10,000	-	0.00%	0.00%	6.25%
					-			
Carrying value as at June 30, 2016					79,768			
Accumulated impairment					79,768			

5.10.1 This represents investment in privately placed sukuks 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 circular.

5.10.2 This represents investment in sukuks with original term of five years from December 20, 2007 to December 20, 2012, the tenor of the sukuks was extended by 2.5 years, by virtue of the agreement between Kohat Cement Company Limited and National Bank of Pakistan acting as trustee for the certificate holders, and a schedule of rental payment was agreed, however the issuer defaulted on rental payment that was due on September 20, 2011 as per the schedule. A new agreement dated December 16, 2011 was signed, which restructured the rental payment plan. The certificate has been matured and the rentals have been received as per the revised rental payment schedule.

5.10.3 This represents investment in privately placed sukuks. 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 13, 2012. 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. The principal amount has been redeemed and some portion of interest amount has been received during the current year.

5.10.4 This represents investment in privately placed sukuks. 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.

5.10.5 Other particulars of sukuks - available for sale outstanding as at June 30, 2016 are as follows:

Name of the investee company	Repayment frequency	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue date	Maturity date
New Allied Electronics Industries (Private) Limited	Semi-annually	4,905	6 months KIBOR offer rate + 2.2%	Not rated	3-Dec-07	3-Dec-12
Eden Housing Limited	Semi-annually	984	6 months KIBOR offer rate + 2.5%	Not rated	29-Mar-08	29-Sep-15
BRR Guardian Modaraba	Semi-annually	2,656	1 month KIBOR offer rate	Not rated	7-Jun-08	7-Dec-16

5.11 The term finance certificates and sukuks 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 10% per annum.

	Notes	2016	2015
		(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	891,924	748,806
Less: Carrying value of investments	5.1, 5.2, 5.3, 5.4, 5.5 & 5.6	(1,068,127)	(945,677)
		(176,203)	(196,871)
Provision against investments	5.16	191,141	191,141
		14,938	(5,730)

NAFA INCOME OPPORTUNITY FUND

	Notes	2016 (Rupees in '000)	2015
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	34,704	476,638
Less: Carrying value of investments	5.7, 5.8, 5.9 & 5.10	<u>(772,360)</u>	<u>(1,183,617)</u>
		(737,656)	(706,979)
Provision against investments	5.16	<u>741,251</u>	<u>787,098</u>
		<u>3,595</u>	<u>80,119</u>
5.16	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"		741,251	787,098
		<u>932,392</u>	<u>978,239</u>
5.15	Movement in provision against investments		
Opening balance		978,239	946,589
Add: Charge for the year		-	46,084
Less: Reversal of provision due to recovery		(45,847)	(14,434)
Closing balance		<u>932,392</u>	<u>978,239</u>
6.	RECEIVABLE AGAINST MARGIN TRADING SYSTEM		
6.1	This carries average mark-up rate of 8.63% and are matured at the option of financee subject to maximum period of 60 days.		
7.	MARK-UP ACCRUED	Notes	2016 (Rupees in '000)
Mark-up accrued on bank balances and term deposits			81,529
Mark-up accrued on margin trading system			412
Mark-up accrued on:			
- Term finance certificate and sukuks			562,338
- Pakistan Investment Bonds			8,813
Less: Income suspended over non-performing debt securities			<u>(555,142)</u>
			16,009
Less: Provision against accrued mark-up	8.2		<u>(31,871)</u>
			<u>66,079</u>
			<u>78,541</u>
8.	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Receivable against transfer of units	8.1	760	1,216,046
Security deposits with:			
- Central Depository Company of Pakistan Limited		100	100
- National Clearing Company of Pakistan Limited		17,750	250
		17,850	350
Advance tax		2,539	1,532
Prepayments		171	162
Receivable from KASB Bank Limited (now BankIslami Pakistan Limited)	8.2	463,225	463,225
		<u>484,545</u>	<u>1,681,315</u>

NAFA INCOME OPPORTUNITY FUND

- 8.1** 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 amount has been received from respective collective investment scheme subsequent to the year ended June 30, 2016.
- 8.2** This represents receivable of Rs. 463.225 million on account of deposit maintained with KASB Bank Limited (now BankIslami Pakistan Limited) ("the Bank").

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") which is pending in the Court. The Management Company is confident that the matter would be resolved in Fund's favor.

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.

The Management Company is making every effort for recovery of profit at a rate higher than seven percent. However on prudent basis, it brought down the accrued profit at seven percent and has recorded provision of Rs. 17.012 million till June 30, 2015 and has further fully provided for the accrued mark-up and has recorded provision against accrued mark-up amounting to Rs. 14.859 during the current year. Aggregate provision against accrued mark-up as at year end is Rs. 31.871 million (2015: Rs. 17.012 million).

	<i>Notes</i>	2016	2015
		(Rupees in '000)	
9	PAYABLE TO THE NBP FULLERTON MANAGEMENT LIMITED - MANAGEMENT COMPANY		
	Remuneration of the Management Company	9,679	9,304
	Sindh Sales Tax on remuneration of the Management Company	1,570	1,619
	Federal Excise Duty on remuneration of the Management Company	39,241	19,178
	Operational expenses	5,986	-
	Sales load	2,390	2,471
		<u>58,866</u>	<u>32,572</u>

- 9.1** The Management Company is entitled to a remuneration for services rendered to the Fund under the provisions of the NBFC Regulations during the first five years of a Fund's existence 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.

NAFA INCOME OPPORTUNITY FUND

- 9.1 On November 25, 2015, Securities and Exchange Commission Of Pakistan (SECP) has made certain amendments in the NBFC Regulations through S.R.O 1160(1)/2015. As per the provisions of amended NBFC, the above applicable rate has been changed from 2% to 1.5%. for income schemes. Management remuneration is paid on a monthly basis in arrears.

The Management Company has charged management remuneration at the rate of 1.5% per annum until December 6, 2015. Thereafter from December 7, 2015, the Management Company has charged management remuneration at the rate of 1.3% per annum.

- 9.2 This represents amount payable in respect of Sindh Sales Tax at the rate of 14% (2015: 15%) on the remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011.

- 9.3 As per the requirement of Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on management remuneration had been made applicable effective from June 13, 2013. In this regard, demand notices were received by some asset management companies, including the Management Company, for collection of FED on management remuneration. Mutual Fund Association of Pakistan (MUFAP) took up the matter collectively and filed a petition with the Honorable Sindh High Court and was granted stay in this regard.

That time, the Management Company took the view that since the remuneration was already subject to provincial sales tax, further levy of FED may result in double taxation, which did not appear to be the spirit of the law. Therefore, the Management Company also filed a petition against the demand notice in the Honorable Sindh High Court and were granted stay on the basis of the pending constitutional petition from MUFAP in the said court as referred above.

During the current year, the Honorable Sindh High Court, in its judgement dated June 30, 2016, on Constitutional Petition instituted by MUFAP declared that the provisions of Federal Excise Act, 2005, insofar as they relate to providing or rendering of services, are ultra vires to the 18th amendment of the Constitution with effect from July 1, 2011, the date on which Sindh Sales Tax on Services Act, 2011 came into force.

However, the Federal Board of Revenue (FBR) has right to challenge the decision in the Supreme Court of Pakistan within 90 days of the above decision of the Court, and the petition of the Management Company is still pending in the Court; therefore, as a matter of prudence, the Fund has recorded provision for the year amounting to Rs, 20.063 million and maintained the accumulated provision against FED amounting to Rs. 39.240 million as of June 30, 2016.

- 9.4 This represents reimbursement of certain expenses to the Management Company. As per regulation 60(3)(s) of the amended NBFC Regulations dated November 25, 2015, fee and expenses pertaining to registrar services, accounting, operation and valuation services related to a Collective Investment Scheme (CIS) are chargeable to the scheme, maximum up to 0.1% of the average annual net assets or the actual cost whichever is lower. Accordingly, the Management Company has charged 0.1% of the average annual net assets, being the lower amount, to the Fund with effect from November 25, 2015.

	Notes	2016	2015
		(Rupees in '000)	
10	PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		
	Remuneration of the trustee	650	562
	Sindh Sales Tax on remuneration of the trustee	91	-
		<u>741</u>	<u>562</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, 2016 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 The Sindh Revenue Board through circular no. SRB-3-4/TP/01/2015/86554 dated June 13, 2015, amended definition of services of shares, securities and derivatives and included the custodianship services within purview of the Sindh Sales Tax. Accordingly Sindh Sales Tax of 14% is applicable on remuneration of the trustee which is now covered under section 27(79A) of the Sindh Sales Tax on Services Act, 2011.

NAFA INCOME OPPORTUNITY FUND

	<i>Notes</i>	2016	2015
		(Rupees in '000)	
11 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN			
Annual fee	11.1	<u>6,836</u>	<u>4,288</u>
11.1	Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, 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		2016	2015
		(Rupees in '000)	
Auditors' remuneration payable		410	395
Provision for Workers' Welfare Fund	17	31,218	31,218
Brokerage charges		204	74
Settlement charges		203	274
Printing charges		200	150
Withholding tax		24,973	3,014
Capital gain tax		42,118	18,720
Legal and professional charges		10	125
Payable against redemption of units	12.1	2,594,595	50,534
Payable to KASB Bank Limited (now BankIslami Pakistan Limited)	8.2	440,064	440,064
Contingent load	8.2	23,161	23,161
Dividend payable		1,131	1,166
Others		484	344
		<u>3,158,771</u>	<u>569,239</u>
12.1	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. Major portion of these amounts have been paid to the respective collective investment schemes subsequent to the year ended June 30, 2016.		
13. CONTINGENCIES AND COMMITMENTS			
13.1 Contingencies			
There were no contingencies outstanding as at June 30, 2016 and as at June 30, 2015, other than those disclosed elsewhere in these financial statements.			
13.2 Commitments		2016	2015
		(Rupees in '000)	
Margin Trading System (MTS) transactions entered into by the Fund in respect of which the purchase transactions have not been settled		-	158,287
Margin Trading System (MTS) transactions entered into by the Fund in respect of which the released transactions have not been settled		22,530	68,240
14 NUMBER OF UNITS IN ISSUE		2016	2015
		-----Number of Units-----	
Total units in issue at the beginning of the year		453,547,333	415,812,394
Add: units issued during the year		1,983,189,203	1,250,854,393
Less: units redeemed during the year		(1,850,448,128)	(1,213,119,454)
Total units in issue at the end of the year		<u>586,288,408</u>	<u>453,547,333</u>
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.			

NAFA INCOME OPPORTUNITY FUND

	2016	2015
	(Rupees in '000)	
16 AUDITORS' REMUNERATION		
Annual audit fee	300	300
Half yearly review fee	141	141
Out of pocket expenses	89	99
	<u>530</u>	<u>540</u>

17. PROVISION FOR WORKERS' WELFARE FUND

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

Subsequently, the Ministry of Labour and Manpower (the Ministry) vide its letter dated July 15, 2010 clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income on Mutual Fund(s), the product being sold, is exempted under the law *ibid*".

Further, the Secretary (Income Tax Policy) Federal Board of Revenue (FBR) issued a letter dated October 6, 2010 to the Members (Domestic Operation) North and South FBR. In the letter, reference was made to the clarification issued by the Ministry of Labour and Manpower stating that mutual funds are a product and their income are exempted under the law *ibid*. The Secretary (Income Tax Policy) Federal Board of Revenue directed that the Ministry's letter may be circulated amongst field formations for necessary action. Following the issuance of FBR Letter, show cause notice which had been issued by taxation office to certain mutual funds for payment of levy under WWF were withdrawn. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter January 4, 2011 has cancelled ab-initio clarificatory letter dated October 6, 2010 on applicability of WWF on mutual funds and issued show cause notices to certain mutual funds for collecting WWF. In respect of such show cause notices, certain mutual funds have been granted stay by the Honourable High Court of Sindh on the basis of the pending constitutional petition in the said court as referred above.

Furthermore, in 2011, the Honourable Lahore High Court in a Constitutional Petition relating to the amendments brought in WWF Ordinance through the Finance Act 2006, and the Finance Act, 2008, declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the Honourable Lahore High Court, will lend further support to the Constitutional Petition which is pending in the Honourable High Court of Sindh.

During the year ended June 30, 2013, the Larger Bench of the Sindh High Court issued a judgment in response to a petition in another similar case in which it is held that the amendments introduced in the WWF Ordinance through Finance Acts, 2006 and 2008 do not suffer from any constitutional or legal infirmity.

During the year ended June 30, 2014, the Honourable Peshawar High Court on a petition filed by certain aggrieved parties (other than the mutual funds) adjudicated that the amendments introduced in the Workers Welfare Fund Ordinance, 1971, through the Finance Acts of 1996 and 2009 lacked the essential mandate to be introduced and passed through the money bill under the Constitution of Pakistan and hence were declared as ultra vires the Constitution.

The Finance Act 2015, incorporated an amendment in WWF Ordinance by excluding CIS from the definition of Industrial Establishment, and consequently CIS are no more liable to pay contribution to WWF with effect from July 1, 2015.

However, without prejudice to the above and owing to the fact that the decision of Sindh High Court on the applicability of WWF (till June 30, 2015) to the CISs is currently pending for adjudication, the Management Company has decided to record and retain provision of WWF in financial statements till June 30, 2015 which aggregates to Rs. 31.218 million. Had the same not been made the net asset value per unit of the Fund would have been higher by Rs. 0.0532 per unit (2015: Rs. 0.0688 per unit).

Further, Sindh Workers Welfare Fund (SWWF) Act 2014 enacted in June 2015 requires every Industrial Establishment located in the province of Sindh and having total income of Rs. 500,000 or more, to pay two percent of so much of its total income declared to SWWF. The said Act includes any concern engaged in the Banking or Financial Institution in the definition of "Industrial Undertaking" but does not define Financial Institution. The Management Company, based on the opinion obtained by MUFAP from its advisor who is of the view that Collective Investment Schemes (CIS) are not financial institutions, believes that SWWF is not applicable on the Fund.

NAFA INCOME OPPORTUNITY FUND

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, 2016 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. DETAILS OF NON-COMPLIANT INVESTMENTS

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009, required all asset management companies to categorize funds under their management on the basis of criteria laid down in the circular. The Board has approved the category of the fund as 'Income Scheme'.

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

Following is the detail of non-compliant investments :

Name of non-compliant investment	Non-compliance of clause	Type of investment	Value of investment before provision	Provision held, if any	Value of investment after provision	% of net assets	% of gross assets
Azgard Nine Limited III	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Term finance certificates (20.1)	108,377	(108,377)	-	-	-
Azgard Nine Limited V	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Term finance certificates (20.1)	82,180	(82,180)	-	-	-
Agritech Limited I	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Term finance certificates (20.1)	149,860	(149,860)	-	-	-
Agritech Limited V	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Term finance certificates (20.1)	32,320	(32,320)	-	-	-
BRR Guardian Modaraba	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Sukuks (20.1)	26,563	(26,563)	-	-	-
Dewan Cement Limited	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Term finance certificates (20.1)	150,000	(150,000)	-	-	-
Eden Housing Limited	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Sukuks (20.1)	9,056	(9,056)	-	-	-
New Allied Electronics Industries (Private) Limited - PPTFC	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Term finance certificates (20.1)	31,707	(31,707)	-	-	-
New Allied Electronics Industries (Private) Limited	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Sukuks (20.1)	44,149	(44,149)	-	-	-

NAFA INCOME OPPORTUNITY FUND

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
Pace Pakistan Limited	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Term finance certificates (20.1)	149,820	(149,820)	-		-
Saudi Pak Leasing Company Limited	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Term finance certificates (20.1)	41,321	(41,321)	-		-
Worldcall Telecom Limited	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Term finance certificates (20.1)	88,456	(88,456)	-		-
Azgard Nine Limited (Non-voting)	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Shares	13	(13)	-		-
Agritech Limited	Rating is below A- (A minus) as prescribed in clause (v) of circular 7 of 2009	Shares	34,704	(18,584)	16,120	0.003	0.002

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

21. TRANSACTIONS WITH CONNECTED PERSONS

21.1 Connected persons include NBP Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan being the Parent of the Management Company and Alexandra Fund Management Pte. Limited being the sponsor. It also includes associated companies of Management Company due to common directorship, post-employment benefit funds of the Management Company and its parent and sponsor. It also includes subsidiaries and associated companies of the Parent of the Management Company and other collective investment schemes managed by the Management Company, directors and key management personnel of the Management Company.

21.2 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.

21.3 Remuneration of the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.

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

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

	2016	2015
	(Rupees in '000)	
NBP Fullerton Asset Management Limited (Management Company)		
Remuneration of the Management Company	125,392	85,773
Sindh Sales Tax on remuneration of the Management Company	20,364	14,924
Federal Excise Duty on remuneration of the Management Company	20,063	13,724
Reimbursement of operational expenses to the Management Company	5,986	-
Sales load	6,709	5,343
Central Depository Company of Pakistan Limited (Trustee)		
Remuneration of the Trustee	7,977	5,546
Sindh sales tax on remuneration of the Trustee	1,117	-
CDS charges	631	524
National Bank of Pakistan (Parent of the Management Company)		
Units redeemed: Nil (2015: 4,020,905)	-	46,478

NAFA INCOME OPPORTUNITY FUND

	2016	2015
	(Rupees in '000)	
Chief Operating Officer and Company Secretary of the Management Company		
Issue / transfer in of Nil units (2015: 12,577)	-	147
Redemption / transfer out of Nil units (2015: 12,577)	-	148
Summit Bank Limited (Common Directorship with the Management Company)		
Mark-up on bank balances	7	-
Dividend re-invest 169,080 units (2015: Nil units)	1,816	-
Mark-up on term deposit receipts	1,964	-
Placement of term deposit receipts	250,000	-
Employees of the Management Company		
Units issued / transferred in 8,870,377 units (2015: 7,514,232 units)	98,126	85,266
Units redeemed / transferred out 10,144,897 units (2015: 5,334,752 units)	114,909	60,675
Dividend re-invest 130,737 units (2015: Nil units)	1,401	-
Cherat Cement Company Limited (Common Directorship with the Management Company)		
Units issued / transferred in 14,550,860 units (2015: 22,593,968 units)	164,672	250,000
Units redeemed / transferred out 14,550,860 units (2015: 22,593,968 units)	165,230	261,932
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	4,780	105,210
NAFA Financial Sector Income Fund (CIS managed by the Management Company)		
Purchase of Market Treasury Bill	94,538	234,085
NAFA Money Market Fund (CIS managed by the Management Company)		
Purchase of Market Treasury Bill	-	122,267
NAFA Government Securities Liquid Fund (CIS managed by the Management Company)		
Sale of Market Treasury Bill	-	239,491
NBP Employees Benevolent Fund Trust (Benevolent Fund of the parent of the Management Company)		
Dividend Re-invest - issued 378 units (2015: 57)	4	1
NBP Employees Pension Fund (Pension Fund of the parent of the Management Company)		
Issue / transfer in of 10,970,511 units (2015: 1,667,635)	117,827	19,282
*Allied Bank Limited		
Redemption of Nil units (2015: 49,464,433 units)	-	523,747
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	-

* Current year transactions with these persons have not been disclosed as they did not remain connected persons during the year.

NAFA INCOME OPPORTUNITY FUND

	2016	2015
	(Rupees in '000)	
21.6 Amounts outstanding as at year end are as follows:		
NBP Fullerton Asset Management Limited (Management Company)		
Remuneration of the Management Company	9,679	9,304
Sindh Sales Tax on remuneration of the Management Company	1,570	1,619
Federal Excise Duty on remuneration of the Management Company	39,241	19,178
Operational expenses	5,986	-
Sales load	2,390	2,471
Contingent load	23,161	23,161
Central Depository Company of Pakistan Limited (Trustee)		
Remuneration of the trustee	650	562
Sindh sales tax on remuneration of the trustee	91	-
CDS charges	112	56
Security deposit	100	100
National Bank of Pakistan (Parent of the Management Company)		
Bank balance	2,220	6,326
Cash dividend payable	-	1,166
Payable against redemption of units	-	46,478
Summit Bank Limited (Common Directorship with the Management Company)		
Investment held in the Fund: 1,219,535 units (June 30, 2015: 1,050,456)	13,051	12,142
Bank balance	20,630	7,196
Cash dividend payable	-	297
NBP Employees Pension Fund (Pension Fund of the parent of the Management Company)		
Investment held in the Fund: 79,127,910 units (June 30, 2015: 68,157,398 units)	846,795	787,831
Cash dividend payable	-	19,282
NBP Employees Benevolent Fund Trust (Benevolent Fund of the parent of the Management Company)		
Investment held in the Fund: 2,726 units (June 30, 2015: 2,348 units)	29	27
Cash dividend payable	-	1
Employees of the Management Company		
Investment held in the Fund: 1,942,017 units (June 30, 2015: 3,085,800)	20,783	35,669
Amount receivable / (payable) against issue of units from:		
NAFA Asset Allocation fund	-	3,404
NAFA Financial Sector Income Fund	(423,934)	297,013
NAFA Government Securities Liquid Fund	-	(1,531)
NAFA Income Fund	-	30,000
NAFA Islamic Aggressive Income Fund	(51,671)	(544)
NAFA Islamic Asset Allocation Fund	(35,775)	-
NAFA Islamic Asset Allocation Fund Plan-II	760	-
NAFA Islamic Stock Fund	(1,653)	733
NAFA Money Market Fund	(2,070,745)	824,969
NAFA Multi Asset Fund	(655)	(1,136)
NAFA Riba Free Savings Fund	-	1,794
NAFA Savings Plus Fund	(1,529)	58,133
NAFA Stock Fund	(8,501)	-

NAFA INCOME OPPORTUNITY FUND

22 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

S. No.	Name	Designation	Qualification	Experience in years
1	Dr. Amjad Waheed	Chief Executive Officer	Doctorate in Business Administration, MBA & CFA	28
2	Sajjad Anwar	Chief Investment Officer	MBA & CFA	16
3	Syed Suleman Akhtar	Head of Research	MBA & CFA	16
4	Muhammad Ali Bhabha	Head of Fixed Income	CFA, FRM, MBA & MS(CS)	21
5	Muhammad Imran	Fund Manager	CFA and FRM	10

22.1 Mr. Muhammad Imran is the manager of the Fund. Other funds being managed by the Fund Manager are as follows:

- NAFA Asset Allocation Fund
- NAFA Islamic Aggressive Income Fund

23 TRANSACTIONS WITH BROKERS / DEALERS

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	Mangenta 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%

List of top ten brokers by percentage of commission charged during the year June 30, 2015

S.No	Particulars	Percentage
1	J.S. Global Capital Limited	2.64%
2	ICON Securities (Private) Limited	0.06%
3	Invest One Markets Limited	1.97%
4	Invest One Markets Limited (IOML)	14.40%
5	Optimus Capital Management Limited	0.96%
6	KASB Securities Limited	5.29%
7	Elixir Securities Pakistan (Private) Limited	0.19%
8	BMA Capital Management Limited	9.07%
9	Invest Capital Markets Limited	44.68%
10	Invest & Finance Securities (Private) Limited	2.26%
11	Vector Capital (Private) Limited	7.61%
12	Next Capital Limited	10.87%

24 PATTERN OF UNIT HOLDING

----- As on June 30, 2016 -----

Category	Number of unit holders	Investment amount Rupees in '000	Percentage of investment
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%
	2098	6,274,223	100%

NAFA INCOME OPPORTUNITY FUND

-----As on June 30, 2015-----

Category	Number of unit holders	Investment amount	Percentage of investment
Rupees in '000			
Individuals	1,554	1,731,716	33.03%
Associated companies / directors	2	787,859	15.03%
Insurance companies	6	57,834	1.10%
Retirement funds	28	551,939	10.53%
Bank / development finance institution	3	321,553	6.13%
Public listed companies	3	813,709	15.52%
Others	86	977,927	18.65%
	<u>1,682</u>	<u>5,242,537</u>	<u>100%</u>

25 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 54th, 55th, 56th, 57th, 58th & 59th Board meetings were held on July 14, 2015, September 30, 2015, October 21, 2015, February 26, 2016, April 29, 2016 and June 28, 2016 respectively. Information in respect of attendance by directors in the meetings is given below:

Name of Director	Number of meetings			Meetings not attended
	Held during tenure of directorship	Attended	Leave granted	
Mr. Nausherwan Adil	6	5	1	54th meeting
Mr. Aamir Sattar	6	4	2	56th & 57th meeting
Mr. Abdul Hadi Palekar	6	5	1	58th meeting
Mr. Koh Boon San	6	4	2	54th & 57th meeting
Mr. Nigel Poh Cheng	6	3	3	56th, 58th & 59th meeting
Mr. Kamal Amir Chinoy	6	5	1	57th meeting
Mr. Shehryar Faruque	6	4	2	54th & 59th meeting
Dr. Amjad Waheed	6	6	-	-

26 FINANCIAL INSTRUMENTS BY CATEGORY

-----As on June 30, 2016-----

Loans and receivables	Financial assets at fair value through profit or loss	Available for sale	Total
-----------------------	---	--------------------	-------

Financial Assets

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

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>

-----As on June 30, 2016-----

At fair value through profit or loss	Other financial liabilities	Total
--------------------------------------	-----------------------------	-------

Financial Liabilities

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

Payable to the Management Company	-	58,866	58,866
Payable to the Trustee	-	741	741
Accrued expenses and other liabilities	-	3,060,462	3,060,462
Net assets attributable to redeemable units	-	6,274,223	6,274,223
	<u>-</u>	<u>9,394,292</u>	<u>9,394,292</u>

NAFA INCOME OPPORTUNITY FUND

-----As on June 30, 2015-----

	Loans and receivables	Financial assets at fair value through profit or loss	Available for sale	Total
Financial Assets				
Balances with banks	2,218,579	-	-	2,218,579
Investments	-	748,806	476,638	1,225,444
Receivable against Margin Trading System	645,319	-	-	645,319
Mark-up accrued	78,541	-	-	78,541
Deposits and other receivables	1,679,621	-	-	1,679,621
	<u>4,622,060</u>	<u>748,806</u>	<u>476,638</u>	<u>5,847,504</u>

-----Rupess in '000-----

-----As on June 30, 2015-----

	At fair value through profit or loss	Other financial liabilities	Total
Financial Liabilities			
Payable to the Management Company	-	32,572	32,572
Payable to the Trustee	-	562	562
Accrued expenses and other liabilities	-	519,498	519,498
Net assets attributable to redeemable units	-	5,242,537	5,242,537
	<u>-</u>	<u>5,795,169</u>	<u>5,795,169</u>

-----Rupess in '000-----

27. FINANCIAL RISK MANAGEMENT

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

27.1 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.

27.1.1 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.

27.1.2 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, 2016, 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, 2016 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. 4.57 million (net of WWF) (2015: Rs. 9.172 million)

(b) Sensitivity analysis for fixed rate instruments

As at June 30, 2016 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, 2016, with all other variables held constant, the net income and the net assets would be higher / lower by Rs. 6.607 / 6.347 million (net of WWF) (2015: 4.832 million).

NAFA INCOME OPPORTUNITY FUND

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

Yield / interest rate	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
	Upto three months	Over three months and upto one year	Over one year		
On-balance sheet financial instruments					
----- (Rupees in '000) -----					
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	109,868	-	-
Profit receivable		66,079	-	-	66,079
Deposits and other receivables		481,835	-	-	481,835
		9,496,727	8,004,319	541,049	951,359
Financial liabilities					
Payable to the Management Company		58,866	-	-	58,866
Payable to the Trustee		741	-	-	741
Accrued expenses and other liabilities		3,060,462	-	-	3,060,462
Net assets attributable to redeemable units		6,274,223	-	-	6,274,223
		9,394,292	-	-	9,394,292
On-balance sheet gap		102,435	8,004,319	541,049	(8,442,933)
Off-balance sheet financial instruments		-	-	-	-
Off-balance sheet gap		-	-	-	-

-----As on June 30, 2015-----

Yield / interest rate	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total
	Upto three months	Over three months and upto one year	Over one year		
On-balance sheet financial instruments					
----- (Rupees in '000) -----					
Financial assets					
Balances with banks	4.5 - 10	2,218,579	2,211,373	-	7,206
Investments - net	6.9 - 12	1,225,444	35,073	120,620	1,038,642
Receivable against Margin Trading System		645,319	645,319	-	-
Profit receivable		78,541	-	-	78,541
Deposits and other receivables		1,679,621	-	-	1,679,621
		5,847,504	2,891,765	120,620	1,038,642
1,796,477					
Financial liabilities					
Payable to the Management Company		32,572	-	-	32,572
Payable to the Trustee		562	-	-	562
Accrued expenses and other liabilities		516,287	-	-	516,287
Net assets attributable to redeemable units		5,242,537	-	-	5,242,537
		5,791,958	-	-	5,791,958
On-balance sheet gap		55,546	2,891,765	120,620	1,038,642
Off-balance sheet financial instruments		-	-	-	-
Off-balance sheet gap		-	-	-	-

NAFA INCOME OPPORTUNITY FUND

27.1.3 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, 2016, the net income for the year would increase / decrease by Rs. 1.735 million (net of WWF) (2015: Rs 1.555 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.

27.2 Credit risk

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

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

Bank balances by rating category	2016
AAA	0.36%
AA+	82.39%
AA	3.29%
AA-	2.79%
A+	2.48%
A	0.01%
A-	8.68%
BBB+	0.01%
Term finance certificates and sukuks by rating category	
AA, AA-,AA+	30.16%
Un-rated	69.84%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2016 is as follows :

	June 30, 2016		June 30, 2015	
	Amount of financial assets	Maximum exposure	Amount of financial assets	Maximum exposure
	-----Rupees in '000 -----		-----Rupees in '000 -----	
Balances with banks	7,112,317	7,112,317	2,218,579	2,218,579
Investments	1,726,628	1,375,753	1,225,444	957,481
Receivable against Margin Trading System	109,868	109,868	645,319	645,319
Mark-up accrued	66,079	57,266	78,541	71,522
Advances, deposits, prepayments and other receivables	481,835	481,835	1,681,315	1,679,783
	9,496,727	9,137,039	5,849,198	5,572,684

NAFA INCOME OPPORTUNITY FUND

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.

27.3 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.

-----As on 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	58,866	58,866	-	-
Payable to the Trustee	741	741	-	-
Accrued expenses and other liabilities	3,060,462	3,060,462	-	-
Net assets attributable to redeemable units	6,274,223	6,274,223	-	-
	<u>9,394,292</u>	<u>9,394,292</u>	<u>-</u>	<u>-</u>
-----As on June 30, 2015-----				
	Total	Upto three months	Over three months and upto one year	Over one year
-----Rupees in '000-----				
Financial liabilities				
Payable to the Management Company	32,572	32,572	-	-
Payable to the Trustee	562	562	-	-
Accrued expenses and other liabilities	516,287	516,287	-	-
Net assets attributable to redeemable units	5,242,537	5,242,537	-	-
	<u>5,791,958</u>	<u>5,791,958</u>	<u>-</u>	<u>-</u>

28 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)

NAFA INCOME OPPORTUNITY FUND

ASSETS	As at 30 June 2016			
	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 sukuku	-	441,049	-	441,049
Investments - available for sale				
Equity securities - listed	34,704	-	-	34,704

ASSETS	As at 30 June 2015			
	Level 1	Level 2	Level 3	Total
------(Rupees in '000)-----				
Investments - at fair value through profit or loss				
Government securities	-	267,963	-	267,963
Term finance certificates and sukuku	-	480,843	-	480,843
Investments - available for sale				
Equity securities - listed	31,109	-	-	31,109
Term finance certificates and sukuku	-	209,622	235,907	445,529

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

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

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

29. UNIT HOLDERS' FUND RISK MANAGEMENT

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

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

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

In accordance with the risk management policies stated in note 27, 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.

30. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on - (2015: July 14, 2015) approved a final cash distribution of Rs. Nil (2015: 237.655 million at Rs. 0.8675 per unit for the year ended June 30, 2015). The impact of such distribution has been taken subsequent to the year end.

31. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 23, 2016.

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:

NAFA INCOME OPPORTUNITY FUND

Statement	Rupees in '000	Reclassified	
		From	To
Statement of assets and liabilities	1,216,046	Receivable against conversion of units	Advances, deposits, prepayments and other receivables
Statement of assets and liabilities	50,534	Payable against redemption of units	Accrued expenses and other liabilities
Statement of assets and liabilities	3,211	Payable against conversion of units	Accrued expenses and other liabilities
Statement of assets and liabilities	1,166	Dividend payable	Accrued expenses and other liabilities
Income statement	161,865	Income from Pakistan investment bonds	Return / mark-up on government securities
Income statement	40,821	Income from Market treasury bills	Return / mark-up on government securities
Income statement	21,165	Income from commercial papers and term deposit receipts	Return / mark-up on bank balances and term deposits
Income statement	2,116	Income from commercial papers and term deposit receipts	Return / mark-up on letter of placement and commercial paper
Income statement	185	Income from money market placements	Return / mark-up on letter of placement and commercial paper

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME OPPORTUNITY FUND

Performance Table

Particulars	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	For the year ended June 30, 2011	For the year ended June 30, 2010
Net assets (Rs. '000')	6,274,223	5,242,537	4,352,570	1,869,352	1,545,532	2,505,164	3,914,906
Net Income / (loss) (Rs. '000')	226,587	301,448	474,424	154,541	(244,460)	176,072	285,007
Net Asset Value per units (Rs.)	10.7016	11.5590	10.4676	10.6595	9.6618	10.01	9.8692
Offer price per unit	10.8431	11.7132	10.6085	10.6595	9.6618	10.01	9.8692
Redemption price per unit	10.7016	11.5590	10.4676	10.6595	9.6618	10.01	9.8692
Highest offer price per unit (Rs.)	10.8431	10.8419	10.6085	10.6694	9.9179	10.5568	9.9065
Lowest offer price per unit (Rs.)	10.0903	9.5761	9.0910	9.6456	9.1192	9.3419	9.2502
Highest redemption price per unit (Rs.)	10.7016	10.6992	10.4676	10.6694	9.9179	10.5568	9.9065
Lowest redemption price per unit (Rs.)	9.9553	9.4500	8.9703	9.6456	9.1192	9.3419	9.2502
Fiscal Year Opening Nav	9.9539	9.4481	8.9772	9.66	9.7139	9.4894	9.3269
Total return of the fund	0.0751	13.21%	16.60%	10.33%	-0.54%	5.49%	5.81%
Capital growth	0.06%	0.96%	3.32%	3.73%	-0.54%	-1.79%	-0.55%
Income distribution as a % of ex nav	7.46%	12.25%	13.28%	6.60%	0.00%	7.28%	6.37%
Income distribution as a % of par value	7.97%	11.58%	11.93%	6.38%	0	6.91%	5.94%
Interim distribution per unit	0.7971	0.2900	1.1925			0.3948	0.5937
Final distribution per unit		0.8675		0.6377		0.2961	-
Distribution dates							
Interim	30-June-2016	29-June-2015; 13-Feb-2014, 30-Apr-	2014 & 26-Jun-2014		-	Apr-11	18-Feb-11 & 19- 28-Oct-09,
Final		14-July-2015		11-Jul-13	-	4-Jul-11	17-Feb- 16-Oct-08 & 17- 10 & 29-Apr-10
Average annual return (launch date 22-04-2006)							
(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)						7.56%	
(Since inception to June 30, 2010)							8.06%
Portfolio Composition (Please see Fund Manager Report)							
Weighted average portfolio duration		57 Days	241 Days	47 days	77 days	84 days	60 days








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



Be aware, Be alert, Be safe

Learn about investing at
www.jamapunji.pk

Key features:

-  Licensed Entities Verification
-  Scam meter*
-  Jamapunji games*
-  Tax credit calculator*
-  Company Verification
-  Insurance & Investment Checklist
-  FAQs Answered

-  Stock trading simulator
(based on live feed from KSE)
-  Knowledge center
-  Risk profiler*
-  Financial calculator
-  Subscription to Alerts (event notifications, corporate and regulatory actions)
-  Jamapunji application for mobile device
-  Online Quizzes



Jama Punji is an Investor Education Initiative of Securities and Exchange Commission of Pakistan

 jamapunji.pk

 [@jamapunji_pk](https://twitter.com/jamapunji_pk)

*Mobile apps are also available for download for android and ios devices



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

Head Office

7th Floor, Clifton Diamond Building, Block No.4,
Scheme No.5, Clifton, Karachi.

UAN: 021-111-111-632

Toll Free: 0800-20002

Sms: NAFA INVEST to 8080

Fax: 021-35825335

Email: info@nafafunds.com

Website: www.nafafunds.com

[f](https://www.facebook.com/nafafunds) /nafafunds