

**AM1**  
Rated by PACRA



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

# **NAFA ISLAMIC INCOME FUND**

*Formerly; NAFA Islamic Aggressive Income Fund*

## **ANNUAL REPORT 2017**



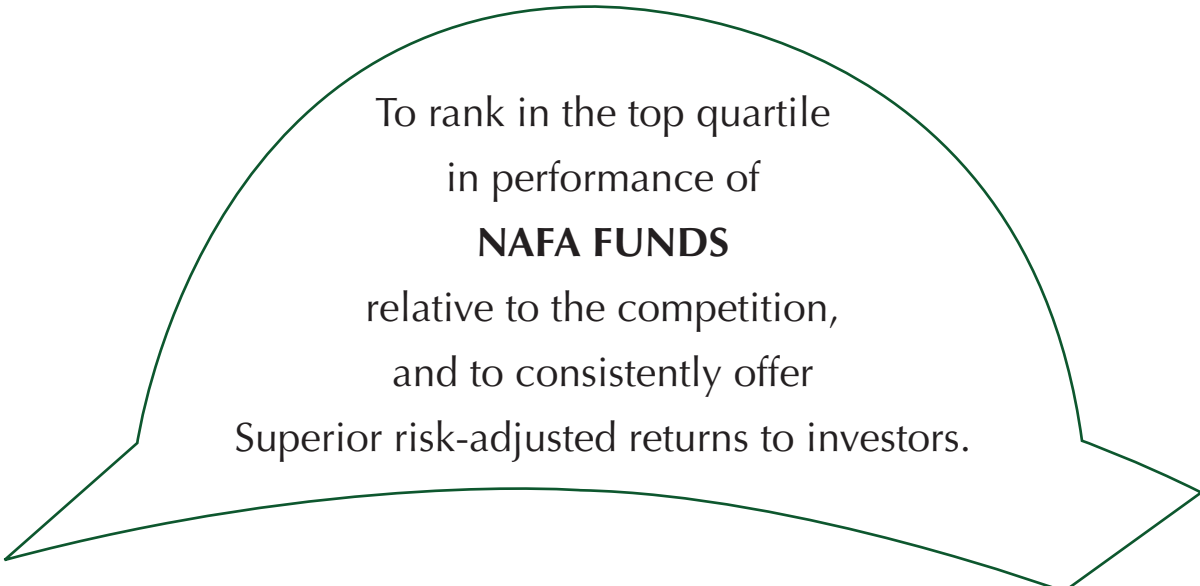
*Your investments & "NAFA" grow together*



**FULLERTON FUND  
MANAGEMENT**

*Joint - Venture Partners*

## **MISSION STATEMENT**



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

# NAFA ISLAMIC INCOME FUND

Formerly; NAFA Islamic Aggressive Income Fund

## FUND'S INFORMATION

### Management Company

NBP Fullerton Asset Management Limited – Management Company

### Board of Directors of the Management Company

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

### Company Secretary & COO

Mr. Muhammad Murtaza Ali

### Chief Financial Officer

Mr. Khalid Mehmood

### Audit & Risk Committee

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

### Human Resource and Remuneration Committee

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

### Trustee

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

### Bankers to the Fund

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

# NAFA ISLAMIC INCOME FUND

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## **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:**

7<sup>th</sup> Floor Clifton Diamond Building, Block No. 4,  
Scheme No. 5, Clifton Karachi.  
UAN: 111-111-NFA (111-111-632)  
Helpline (Toll Free): 0800-20001  
Fax: (021) 35825329

## **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 ISLAMIC INCOME FUND**  
*Formerly; NAFA Islamic Aggressive Income Fund*

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# Board of Directors



Dr. Amjad Waheed, CFA  
Chief Executive Officer



Mr. Mudassir Husain Khan  
Chairman



Mr. Kamal Amir Chinoy  
Director



Mr. Lui Mang Yin (Martin Lui)  
Director



Mr. Tariq Jamali  
Director



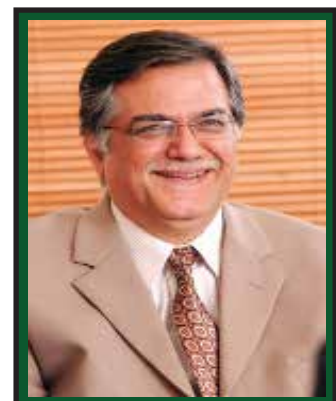
Mr. Shehryar Faruque  
Director



Dr. Foo Chiah Shiung (Kelvin Foo)  
Director



Mr. Abdul Hadi Palekar  
Director



Mr. Humayun Bashir  
Director

# Senior Management



**Dr. Amjad Waheed, CFA**  
**Chief Executive Officer**



**Mr. Sajjad Anwar, CFA**  
**Chief Investment Officer**



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



**Mr. Khalid Mehmood**  
**Chief Financial Officer**



**Mr. Samiuddin Ahmed**  
**Country Head Corporate**  
**Marketing**



**Mr. Ozair Khan**  
**Chief Technology Officer**



**Mr. Hassan Raza, CFA**  
**Head of Research**



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



**Mr. Taha Khan Javed, CFA**  
**Head of Equity**



**Syed Ali Azhar Hasani**  
**Head of Internal Audit**



**Mr. Salman Ahmed**  
**Head of Risk Management**



**Mr. Raheel Rehman, ACA**  
**Senior Manager Compliance**



**Mr. Shahbaz Umer**  
**Head of Human Resource &**  
**Administration**

# NAFA ISLAMIC INCOME FUND

Formerly; NAFA Islamic Aggressive Income Fund

## DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Tenth Annual Report of **NAFA Islamic Income Fund** (formerly: NAFA Islamic Aggressive Income Fund) for the year ended June 30, 2017. SECP has approved the change in category of NAFA Islamic Aggressive Income Fund from Shariah Compliant Aggressive Income Fund to Shariah Compliant Income Fund w.e.f. March 14, 2017. Consequently name of NAFA Islamic Aggressive Income Fund has been changed to NAFA Islamic Income Fund from March 14, 2017.

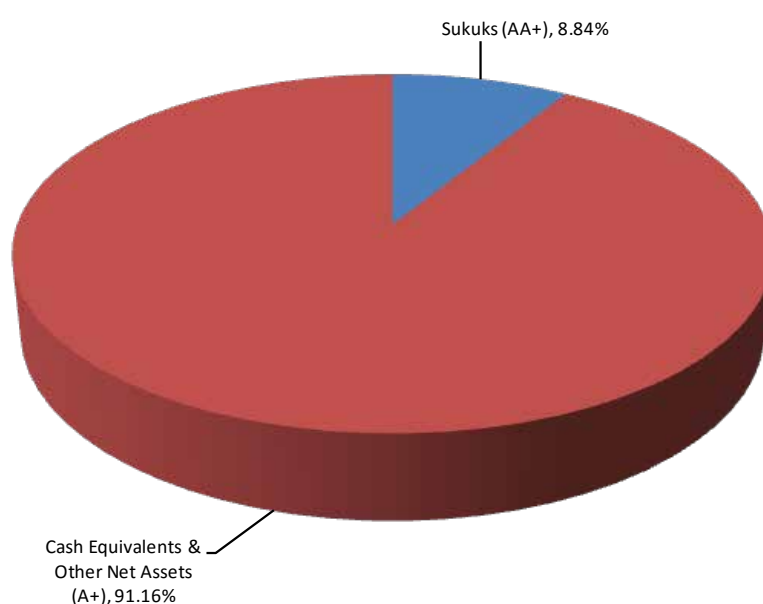
### Fund's Performance

The size of NAFA Islamic Income Fund has increased from Rs. 2,567 million to Rs. 4,876 million during the period, i.e. an increase of around 90%. During the said period, the unit price of the Fund has increased from Rs. 9.0237 (Ex-Div) on June 30, 2016 to Rs. 9.5103 on June 30, 2017, thus posting a return of 5.39% as compared to its Benchmark return of 3.88% for the same period. The return of the Fund is net of management fee and all other expenses.

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

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

The Fund has earned a total income of Rs.112.80 million during the year. After deducting total expenses of Rs.31.24 million, the net income is Rs.81.56 million. The asset allocation of NAFA Islamic Income Fund as on June 30, 2017 is as follows:





# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## Income Distribution

The Board of Directors of the Management Company has approved cash dividend of 5.12% of opening ex-NAV (4.86% of the par value) during the year. Further, The Board has also approved final cash dividend of 0.07% of the opening ex-NAV/ Par value, subsequent to the year end.

## Taxation

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

## Auditors

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

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

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held four meetings during the current financial year. The attendance of all directors is disclosed in the note 27 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 26 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 23 to these financial statements.

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## Acknowledgement

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

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

On behalf of the Board of  
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: September 15, 2017

Place: Karachi.

# NAFA ISLAMIC INCOME FUND

Formerly; Nafa Islamic Aggressive Income Fund

## ڈائریکٹرز رپورٹ

این بی پی فلٹرن ایسیٹ منجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز NAFa ISLAMIC INCOME FUND (سابقہ: NAFa ISLAMIC Aggressive Income Fund) کی دسویں سالانہ رپورٹ برائے سال ختمہ 30 جون 2017ء پیش کرتے ہوئے خوشی محسوس کر رہے ہیں۔ سکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان (SECP) نے NAFa ISLAMIC Aggressive Income Fund کو ایک قسم کو اسلامک ایگریسیو انکم فنڈ سے شریعہ کمپلائنسٹ ایگریسیو انکم فنڈ میں تبدیلی کی منظوری دی ہے، یہ تبدیلی 14 مارچ 2017ء سے لاگو ہوگی۔ جس کے نتیجے میں NAFa ISLAMIC Aggressive Income Fund کا نام 14 مارچ 2017ء سے NAFa ISLAMIC INCOME FUND ہو گیا ہے۔

## فنڈ کی کارکردگی

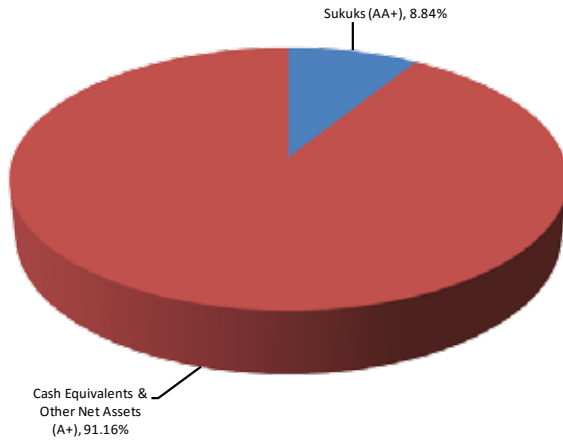
اس مدت کے دوران NAFa ISLAMIC INCOME FUND کا ساؤتھ 2,567.7 ملین روپے سے بڑھ کر 4,876.6 ملین روپے ہو گیا، یعنی تقریباً 90% کا اضافہ۔ زیر جائزہ مدت کے دوران فنڈ کے یونٹ کی قیمت 30 جون 2016 کو 9.0237 روپے (Ex-Div) سے بڑھ کر 30 جون 2017 کو 9.5103 روپے ہو چکی ہے، لہذا فنڈ نے اسی مدت میں 3.88% پیچ مارک منافع کے مقابلے میں 5.39% کا منافع دیا۔ یہ کارکردگی منجمنٹ فیس اور دیگر تمام اخراجات کے بعد خالص ہے۔

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

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

NAFa ISLAMIC INCOME FUND نے اس سال کے دوران 112.80 ملین روپے کی مجموعی آمدنی کمائی ہے۔ 31.24 ملین روپے کے اخراجات منہا کرنے کے بعد خالص آمدنی 81.56 ملین روپے رہی۔

فنڈ کی ایسیٹ ایلوکیشن 30 جون 2017 کو برطابق ذیل ہے:



## آمدنی کی تقسیم

منجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز نے اس سال کے دوران میں اوپننگ NAV کے 5.12% (بنیادی قدر کا 4.86%) نقد ڈیویڈنڈ کی منظوری دی ہے۔ مزید برآں سال کے اختتام کے بعد بورڈ آف ڈائریکٹرز نے 0.07% فیصد (Opening Ex NAV/Par Value) حتمی کیش ڈیویڈنڈ کی منظوری دی ہے۔

## ٹیکسیشن

درج بالا نقد منافع، سال کے دوران میں حاصل ہونے والی آمدنی میں سے سرمایہ کاری پر حاصل ہونے والے محصول شدہ اور غیر محصول شدہ کیپیٹل گین منہا کرنے کے بعد 90% ہے، اس لئے فنڈ پر انکم ٹیکس آرڈیننس 2001 کے سیکشن 112 کے تحت ٹیکس لاگو نہیں ہے۔

## آڈیٹرز

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

## 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۔ شماریاتی تخمینے مناسب اور معقول نظریات پر مبنی ہیں۔
- 4- ان مالیاتی گوشواروں کی تیاری میں مالیاتی رپورٹنگ کے بین الاقوامی معیاروں، جہاں تک وہ پاکستان میں قابل اطلاق ہیں، کی پیروی کی گئی ہے۔
- 5- انٹرنل کنٹرول کا نظام مستحکم اور موثر طریقے سے نافذ ہے اور اس کی مسلسل نگرانی کی جاتی ہے۔
- 6- فنڈ کی رواں دواں رہنے کی صلاحیت کے بارے میں کوئی شکوک و شبہات نہیں ہیں۔
- 7- لسٹنگ ریگولیشنز میں تفصیلاً درج کارپوریٹ گورننس کی اعلیٰ ترین روایات سے کوئی پہلو تہی نہیں کی گئی۔
- 8- پرفارمنس ٹیبل / اہم مالیاتی ڈیٹا اس سالانہ رپورٹ میں شامل ہے۔
- 9- ٹیکسوں، ڈیوٹیوں، محصولات اور چارجز کی مد میں واجب الادا سرکاری ادائیگیاں مالیاتی گوشواروں میں پوری طرح ظاہر کر دی گئی ہیں۔
- 10- اس مدت کے دوران منجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز کے چار اجلاس منعقد ہوئے۔ تمام ڈائریکٹرز کی حاضری ان مالیاتی گوشواروں کے نوٹ 23 میں ظاہر کی گئی ہے۔
- 11- یونٹ ہولڈنگ کا تفصیلی پیٹرن مالیاتی گوشواروں کے نوٹ 26 میں ظاہر کیا گیا ہے۔
- 12- ڈائریکٹرز، CFO، CEO، 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 23 میں ظاہر کی گئی ہے۔

## اعتراف

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

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

منجانب بورڈ آف ڈائریکٹرز

NBP فلرٹن ایسیٹ منجمنٹ لمیٹڈ

## ڈائریکٹر

## چیف ایگزیکٹو

بتاریخ

15 ستمبر 2017ء

مقام: کراچی

# **NAFA ISLAMIC INCOME FUND**

*Formerly; NAFA Islamic Aggressive Income Fund*

## **TRUSTEE REPORT TO THE UNIT HOLDERS**

### **NAFA ISLAMIC INCOME FUND**

*(FORMERLY NAFA ISLAMIC AGGRESSIVE INCOME 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 Islamic Income Fund [formerly NAFA Islamic Aggressive Income Fund] (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2017 in accordance with the provisions of the following:

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

**Aftab Ahmed Diwan**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi, September 26, 2017

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE NAFA Islamic Income Fund *(Formerly: NAFA Islamic Aggressive Income Fund)* FOR THE YEAR ENDED JUNE 30, 2017

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

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

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

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

Category	Names
Independent Directors	1. Mr. Kamal Amir Chinoy 2. Mr. Shehryar Faruque 3. Mr. Humayun Bashir
Executive Directors	Dr. Amjad Waheed (Chief Executive Officer)
Non - Executive Directors	1. Mr. Nausherwan Adil (Chairman) 2. Mr. Aamir Sattar 3. Mr. Abdul Hadi Palekar 4. Mr. Lui Mang Yin 5. Dr. Kelvin Foo

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

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

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive have been taken by the Board. There is no other executive-director of the Company besides Chief Executive Officer (CEO).
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors are conversant of the relevant laws applicable to the Company, its policies and provisions of memorandum and articles of association and are aware of their duties and responsibilities. As of 30 June 2017, four directors of the Company had acquired the director's training certificate as required under the CCG. The Company plans to arrange a Director's Training Program in future, for the remaining directors.
10. The Board has approved the appointment of Head of Internal Audit of the Company with remuneration and terms and conditions of employment. There has been no new appointment of the Company Secretary and Chief Financial Officer (CFO) during the year.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in note 23 to the financial statements "Transactions with Connected Persons".
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The committee has formed the terms of reference for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. All the members are non-executive directors and the chairman of the committee is an independent director.

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

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

For and behalf of the Board

September 15, 2017  
Karachi

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**Dr. Amjad Waheed**  
Chief Executive Officer



# NAFA ISLAMIC INCOME FUND

Formerly; NAFA Islamic Aggressive Income Fund

## FUND MANAGER REPORT

### NAFA Islamic Income Fund (formerly; NAFA Islamic Aggressive Income Fund)

NAFA Islamic Income Fund (NIIF) is an open-end Shariah Compliant Income Scheme.

#### Investment Objective of the Fund

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

#### Benchmark

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

#### Fund Performance Review

This is the tenth Annual report since the launch of the Fund on October 26, 2007. The Fund size increased by around 90% during FY17 and stands at Rs. 4,876 million as on June 30, 2017. The Fund's return since inception is 6.70% versus the benchmark return of 6.20%. During FY17, the Fund posted an annualized return of 5.39% as compared to the benchmark return of 3.88%. This outperformance is net of management fee and all other expenses. Thus the Fund has achieved its stated objectives.

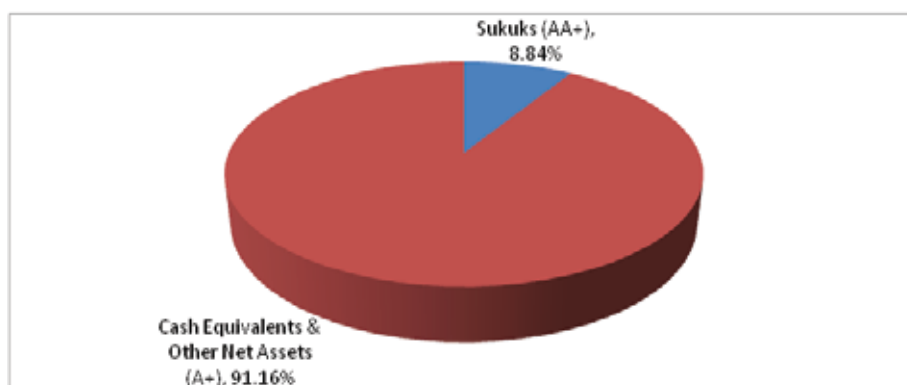
The weighted average Yield-to-Maturity (YTM) of the sukuk portfolio is around 4.90% p.a. This yield does not include potential recovery in fully provided Sukuks (Face Value of Rs 115 million), which is a potential upside for the Fund. Weighted average time to maturity of sukuk portfolio and the overall Fund is 2.6 and 0.2 year(s) respectively.

The trading activity in Corporate Sukuks remained skewed towards high quality debt issues with trade value of Rs 3.4 billion in FY17. Scarcity of primary issuance versus elevated demand kept the yields on the high credit quality corporate bonds depressed. Similarly the yield on GoP Ijara Sukuk further dropped amid demand outstripping the supply by a large margin. All Sukuks in the Fund are floating rate linked to KIBOR with three to six month coupon resetting period.

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

#### Asset Allocation of Fund (% of NAV)

Particulars	30-Jun-17	30-Jun-16
Sukuks	8.84	5.57
Cash (Cash Equivalents) & Other Assets	91.16	94.43
<b>Total</b>	<b>100</b>	<b>100</b>



# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## Distribution for the Financial Year 2017

Interim Period/Quarter	Dividend as % of Par Value (Rs.10)	Cumulative Div. Price/Unit(Rs.)	Ex- Div. Price(Rs.)
Interim Cash distribution	4.86	9.9711	9.4856
Final distribution	0.07	9.5996	9.5928

## Details of Non-Compliant Investments

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

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

Size of Unit Holding (Units)	# of Unit Holders
1-1000	139
1001-5000	162
5001-10000	81
10001-50000	314
50001-100000	200
100001-500000	258
500001-1000000	35
1000001-5000000	54
5000001-10000000	11
10000001-100000000	8
<b>Total</b>	<b>1,262</b>

## During the period under question

During the year, the provision for Workers' Welfare Fund held by the fund till June 30, 2015 has been reversed on January 12, 2017. Further, the provision in respect of Sindh Workers' Welfare Fund has been made on a prudent basis with effect from May 21, 2015. For further details, refer note 16 to the financial statements.

During the period SECP approved the change in category of NAFA Islamic Aggressive Income Fund from Shariah Compliant Aggressive Income Fund to Shariah Compliant Income Fund w.e.f. March 14, 2017. Consequently name of NAFA Islamic Aggressive Income Fund was changed to NAFA Islamic Income Fund from March 14, 2017. NAFA Islamic Income Fund does not have any soft commission arrangement with any broker in the industry.

## Sindh Workers' Welfare Fund (SWWF)

The scheme has maintained provisions against Sindh Workers' Welfare Fund's liability to the tune of Rs. 2.534 million. If the same were not made the NAV per unit/FY17 return of scheme would be higher by Rs. 0.0049/0.05% for details investors are advised to read note 16 of the Financial Statement of the Scheme for the year ended June 30, 2017.

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

**NAFA Islamic Income Fund** (*Formerly; NAFA Islamic Aggressive Income Fund*) (the Fund) has fully complied with the Shari'ah principles specified in the Trust Deed and in the guidelines issued by the Shari'ah Advisor for its operations, investments and placements made during the year ended June 30, 2017. This has been duly confirmed by the Shari'ah Supervisory Board of the Fund.

For and behalf of the board

Date: September 15, 2017  
Karachi

Dr. Amjad Waheed, CFA  
Chief Executive Officer

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## Report of the Shari'ah Advisor – NAFA Islamic Income Fund (NAFA Islamic Aggressive Income Fund)

August 21, 2017 /Dhu Al-Qi'dah 28, 1438

**Alhamdulillah**, the period from July 1, 2016 to June 30, 2017 was the tenth year of the operations of NAFA Islamic Aggressive Income Fund (NIAIF). This report is being issued in accordance with clause 3.8 of the Offering Document of the Fund. The scope of the report is to express an opinion on the Shari'ah Compliance of the Fund's activity.

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

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

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of NIAIF in light of Shari'ah guidelines.
- ii. All the provisions of the scheme and investments made on account of NIAIF by NAFA are Shari'ah Compliant and are in accordance with the criteria established.
- iii. On the basis of information provided by the management, nothing has come to our attention that cause us to believe that all the operations of NIAIF for the year ended June 30, 2017 are not in compliance with Shari'ah principles.

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

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

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**Mufti Muhammad Naveed Alam**  
*Member*  
*Shariah Supervisory Board*

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**Mufti Ehsan Waquar**  
*Shariah Advisor & Member*  
*Shariah Supervisory Board*

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**Dr. Imran Ashraf Usmani**  
*Chairman*  
*Shariah Supervisory Board*

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## Independent Assurance Report to the Unit holders' on the Statement of Compliance with the Shariah Principles

We have performed an independent assurance engagement of **NAFA Islamic Income Fund** (*Formerly; NAFA Islamic Aggressive Income Fund*) (the Fund), to express an opinion on the annexed Statement of Compliance with the Shariah Principles (the Statement) for the year ended June 30, 2017.

### Management Company's responsibility

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

### Responsibility of an independent assurance provider

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

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

The procedures performed included:

- Checking compliance of Specific Shariah Principles relating to maintaining bank accounts and for making investments of the Fund; and
- Checking that the Shariah Advisor has certified that the operations of the Fund and investments made by the Fund during the year ended June 30, 2017 are in compliance with the Shariah Principles.

### Conclusion

In our opinion, the Statement, in all material respects, presents fairly the status of the Fund's compliance with the Shariah principles for the year ended June 30, 2017.

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

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## Review Report to the Unit Holders on Statement of Compliance with Best Practices of 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 Islamic Income Fund (Formerly; NAFA Islamic Aggressive Income Fund)** (the Fund) for the year ended June 30, 2017, to comply with the requirement of the Pakistan Stock Exchange Limited, where the Fund is listed.

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

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

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

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

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

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

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

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

### *Report on the Financial Statements*

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

### *Management'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.

### *Opinion*

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

### *Report on Other Legal and Regulatory Requirements*

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

### *Other Matter*

The Financial statements of the Fund for the year ended June 30, 2016 were audited by another firm of Chartered Accountants who vide their report dated September 23, 2016 expressed an unmodified opinion thereon.

**Deloitte Yousuf Adil**  
Chartered Accountants

**Engagement Partner:**  
Naresh Kumar

**Date:** September 22, 2017  
**Place:** Karachi

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2017

	Note	2017	2016
		-----Rupees in '000-----	
<b>ASSETS</b>			
Balance with banks	4	4,210,904	2,345,246
Investments	5	430,906	142,925
Mark-up accrued	6	16,556	11,482
Receivable against transfer of units	7	262,484	296,770
Deposit, prepayment and other receivables	8	1,403	276
<b>Total assets</b>		4,922,253	2,796,699
<b>LIABILITIES</b>			
Payable to NBP Fullerton Asset Management Limited - Management Company	9	7,173	5,874
Payable to Central Depository Company of Pakistan Limited - Trustee	10	321	291
Payable to the Securities and Exchange Commission of Pakistan	11	2,104	1,382
Payable against redemption of units		4,081	-
Payable against conversion of units	12	7,995	202,495
Dividend payable		768	601
Accrued expenses and other liabilities	13	23,634	19,308
<b>Total liabilities</b>		46,076	229,951
<b>NET ASSETS</b>		4,876,177	2,566,748
<b>UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>		4,876,177	2,566,748
<b>Contingencies and commitments</b>	14	-----Number of units-----	
<b>Number of units in issue</b>	21	512,725,293	270,595,371
		-----Rupees-----	
<b>Net asset value per unit</b>	22	9.5103	9.4856

The annexed notes from 1 to 34 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director



# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017	2016
		-----Rupees in '000-----	
<b>INCOME</b>			
Return / mark-up on:			
- bank balances		163,654	116,570
- sukus		3,188	18,697
- government securities		5,496	3,149
Net gain on sale of investments		30	1,838
Net unrealised gain on re-measurement of investments at fair value through profit or loss - held for trading	5.3	2,951	736
Reversal of provision against non-performing sukus classified as 'available for sale'		-	12,500
<b>Total income</b>		175,319	153,490
<b>EXPENSES</b>			
Remuneration of NBP Fullerton Asset Management Limited - Management Company	9.1	16,362	14,487
Sindh Sales Tax on remuneration of the Management Company	9.2	2,127	2,353
Federal Excise Duty on remuneration of the Management Company	13	-	2,318
Reimbursement of operational expenses to the Management Company	9.3	2,806	1,324
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	3,235	2,414
Sindh Sales Tax on remuneration of the Trustee	10.2	421	338
Annual fee to the Securities and Exchange Commission of Pakistan	11	2,104	1,381
Securities transaction cost		-	7
Settlement and bank charges		258	436
Auditors' remuneration	15	520	510
Fund rating fee		298	281
Legal and professional charges		50	10
Annual listing fee		55	40
Printing charges		50	50
Shariah advisor fee		419	195
<b>Total expenses</b>		28,705	26,144
<b>Net income from operating activities</b>		146,614	127,346
Net element of loss and capital losses included in prices of units issued less those in units redeemed		(65,463)	(83,940)
Reversal of provision for Workers' Welfare Fund	16	2,944	-
Provision for Sindh Workers' Welfare Fund	16	(2,534)	-
<b>Net income for the year before taxation</b>		81,561	43,406
Taxation	17	-	-
<b>Net income for the year after taxation</b>		81,561	43,406
<b>Earnings per unit</b>	18		

The annexed notes from 1 to 34 form an integral part of these financial statements.

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

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC INCOME FUND

Formerly; *NAFA Islamic Aggressive Income Fund*

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

	2017	2016
	-----Rupees in '000-----	
Net income for the year after taxation	81,561	43,406
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<u>81,561</u>	<u>43,406</u>

The annexed notes from 1 to 34 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016
	-----Rupees in '000-----	
<b>Undistributed income brought forward comprising of :</b>		
- realised income	38,787	36,537
- unrealised income	760	24
	39,547	36,561
Net income for the year	81,561	43,406
Final distribution for the year ended June 30, 2017:		
- cash distribution of Nil (2016: Rs. 0.6556 per unit declared on June 29, 2016)	-	(40,420)
Interim distribution for the year ended June 30, 2017:		
- cash distribution of Rs. 0.4855 per unit declared on June 19, 2017 (2016: Nil)	(68,879)	-
<b>Undistributed income carried forward</b>	52,229	39,547
<b>Undistributed income carried forward comprising of :</b>		
- realised income	49,278	38,787
- unrealised income	2,951	760
	52,229	39,547

The annexed notes from 1 to 34 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

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

	2017	2016
	-----Rupees in '000-----	
Net assets at the beginning of the year	2,566,748	1,207,394
Issuance of 1,350,066,895 units (2016: 892,230,031 units)	13,020,320	8,706,189
Redemption of 1,107,936,973 units (2016: 749,070,437 units)	(10,789,036)	(7,433,761)
	2,231,284	1,272,428
Net element of loss and capital losses included in prices of units issued less those in units redeemed	65,463	83,940
Total comprehensive income for the year	81,561	43,406
<b>Distributions during the year:</b>		
Final distribution for the year ended June 30, 2017:		
- cash distribution of Nil (2016: Rs. 0.6556 per unit declared on June 29, 2016)	-	(40,420)
Interim distribution for the year ended June 30, 2017:		
- cash distribution of Rs. 0.4855 per unit declared on June 19, 2017 (2016: Nil)	(68,879)	-
Net assets as at the end of the year	4,876,177	2,566,748
	-----Rupees in '000-----	
Net asset value per unit at the beginning of year	9.4856	9.4745
Net asset value per unit at the end of year	9.5103	9.4856

The annexed notes from 1 to 34 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017	2016
		-----Rupees in '000-----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year before taxation		81,561	43,406
<b>Adjustments:</b>			
Return / mark-up on;			
- bank balances		(163,654)	(116,570)
- sukuks		(3,188)	(18,697)
- government securities		(5,496)	(3,149)
Net unrealised gain on re-measurement of investments at fair value through profit or loss - held for trading		(2,951)	(736)
Net element of loss and capital losses included in prices of units issued less those in units redeemed		65,463	83,940
Reversal of provision against non-performing sukuks classified as 'available for sale'		-	(12,500)
Reversal of provision of Workers' Welfare Fund		(2,944)	-
Provision for Sindh Workers' Welfare Fund		2,534	-
		<u>(110,236)</u>	<u>(67,712)</u>
		(28,675)	(24,306)
<b>(Increase) / decrease in assets</b>			
Investments - net		(285,030)	(93,605)
Deposit, prepayment and other receivables		(1,127)	(4)
		<u>(286,157)</u>	<u>(93,609)</u>
<b>Increase / (decrease) in liabilities</b>			
Payable to the Management Company		1,299	3,636
Payable to the Trustee		30	141
Payable to the Securities and Exchange Commission of Pakistan		722	810
Accrued expenses and other liabilities		4,736	10,564
		<u>6,787</u>	<u>15,151</u>
Return on bank balances received		158,585	108,577
Return on sukuks received		3,229	19,438
Return on government securities received		5,450	2,955
		<u>(140,781)</u>	<u>28,206</u>
<b>Net cash (used in) / generated from operating activities</b>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		-	-
Net cash generated from investing activities			
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Amounts received on issuance of units		13,054,606	8,643,492
Amounts paid on redemption of units		(10,979,455)	(7,315,277)
Distributions paid		(68,712)	(10,817)
<b>Net cash generated from financing activities</b>		<u>2,006,439</u>	<u>1,317,398</u>
<b>Net increase in cash and cash equivalents during the year</b>		1,865,658	1,345,604
Cash and cash equivalents at the beginning of the year		2,345,246	999,642
Cash and cash equivalents at the end of the year	4	<u><u>4,210,904</u></u>	<u><u>2,345,246</u></u>

The annexed notes from 1 to 34 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

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

### 1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

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

During the year, Management Company has obtained approval of SECP, pursuant to which the category of the Fund has been changed from shariah compliant aggressive fixed income scheme to 'shariah compliant income scheme' and the name of the Fund 'NAFA Islamic Income Fund' with effect from March 14, 2017. The trust deed has been amended through supplemental trust deed executed for the change of name and categorisation of the fund as income scheme.

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

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

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

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

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

#### 2.2 Basis of measurement

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

#### 2.3 Functional and presentation currency

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

# NAFA ISLAMIC INCOME FUND

## *Formerly; NAFA Islamic Aggressive Income Fund*

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

#### 2.4.1 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2017

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

	<b>Effective from accounting period beginning on or after:</b>
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	January 01, 2016
Amendments to IFRS 11 'Joint Arrangements' - Accounting for acquisitions of interests in joint operations	January 01, 2016
Amendments to IAS 1 'Presentation of Financial Statements' - Disclosure initiative	January 01, 2016
Amendments to IAS 16 'Property Plant and Equipment' and IAS 38 'Intangible Assets' - Clarification of acceptable methods of depreciation and amortization	January 01, 2016
Amendments to IAS 16 'Property Plant and Equipment' and IAS 41 'Agriculture' - Measurement of bearer plants	January 01, 2016
Amendments to IAS 27 'Separate Financial Statements' - Equity method in separate financial statements	January 01, 2016

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

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

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

	<b>Effective from accounting period beginning on or after:</b>
Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions	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 from accounting period beginning on or after a date to be determined. Earlier application is permitted.
Amendments to IAS 7 'Statement of Cash Flows' - Amendments as a result of the disclosure initiative	January 01, 2017
Amendments to IAS 12 'Income Taxes' - Recognition of deferred tax assets for unrealised losses	January 01, 2017
Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property	January 01, 2018. Earlier application is permitted.
IFRIC 22 'Foreign Currency Transactions and Advance Consideration': Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency.	January 01, 2018. Earlier application is permitted.
IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.	January 01, 2019

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

# NAFA ISLAMIC INCOME FUND

## Formerly; NAFA Islamic Aggressive Income Fund

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

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

### 2.5 Amendment in the NBFC Regulations subsequent to the year-end

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

### 2.6 Critical accounting estimates and judgments

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Cash and cash equivalents

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

### 3.2 Financial assets

#### 3.2.1 Classification

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

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

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

#### b) Loans and receivables

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

#### c) Available for sale

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



# NAFA ISLAMIC INCOME FUND

## *Formerly; NAFA Islamic Aggressive Income Fund*

### 3.2.2 Regular way contracts

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

### 3.2.3 Initial recognition and measurement

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

### 3.2.4 Subsequent measurement

#### a) Financial assets at 'fair value through profit or loss - held for trading' and 'available for sale'

##### 1) Debt securities (other than government securities)

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Fund Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the SECP for valuation of debt securities vide its circular no. 1 of 2009 dated January 6, 2009 and circular no. 33 of 2012 dated October 24, 2012. In the determination of valuation rates, the MUFAP takes into account the holding pattern of these securities and categorizes them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

##### 2) Government securities

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

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

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

#### b) Loans and receivables

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

### 3.2.5 Impairment of financial assets

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

#### a) Debt securities

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

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

#### b) Loans and receivables

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

# NAFA ISLAMIC INCOME FUND

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### 3.2.6 Derecognition

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

### 3.2.7 Offsetting of financial assets and financial liabilities

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

### 3.3 Financial liabilities

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

### 3.4 Issuance and redemption of units

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

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

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

An equalization 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.

### 3.6 Provisions

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

### 3.7 Revenue recognition

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

### 3.8 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 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.

### 3.9 Proposed distributions

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

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## 3.10 Earnings per unit

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

	Note	2017	2016
		----- (Rupee in '000) -----	
<b>4 BANK BALANCES</b>			
In current accounts		21,938	57,224
In savings accounts	4.1	4,188,966	2,288,022
		4,210,904	2,345,246

4.1 These savings accounts carry mark-up at rates ranging from 2.40% to 6.50% per annum (2016: 4.50% to 7.90% per annum).

4.2 This includes impact of cheques amounting to Rs. 139.599 million issued on account of redemption of units and cheques amounting to Rs. 64.235 million received on account of issuance of units as at year end.

	Note	2017	2016
		----- (Rupee in '000) -----	
<b>5 INVESTMENTS</b>			
<b>At fair value through profit or loss - held for trading</b>			
Sukuks	5.1	430,906	142,925
<b>Available for sale</b>			
Sukuks	5.2	-	-
		430,906	142,925

### 5.1 Sukuk bonds - available for sale Sukuks - at fair value through profit or loss - held for trading

Description	Number of bonds				Market value / carrying value as at 30 June 2017	Investment as a percentage of		
	As at July 1, 2016	Purchases during the year	Sales / Matured during the year	As at June 30, 2017		Net assets	Market value of total investments	Issue size

----- (Number of certificates) ----- (Rupees in '000)

All sukuk have a face value of Rs. 5,000 each except for GoP Ijara Sukuks which have face value of Rs. 100,000 each.

K-Electric Limited - AZM Sukuk 2	3,000	-	3,000	-	-	-	-	-
K-Electric Limited - AZM Sukuk 3	5,200	-	-	5,200	26,906	0.55%	6.24%	1.73%
GoP Ijara Sukuk - XVI	1,000	-	-	1,000	101,990	2.09%	23.67%	0.09%
GoP Ijara Sukuk - XIX	-	3,000	-	3,000	302,010	6.19%	70.09%	0.43%
<b>Total as at June 30, 2017</b>					<b>430,906</b>	<b>8.83%</b>	<b>100.00%</b>	

Carrying value as at June 30, 2017

427,955

#### 5.1.1 Other particulars of sukuk outstanding as at June 30, 2017 are as follows:

Description	Face value (unredeemed)	Mark-up rate per annum	Issue date	Maturity date
K-Electric Limited - AZM Sukuk 2	5,000	2.25% + 3 month KIBOR	19-Mar-14	19-Mar-17
K-Electric Limited - AZM Sukuk 3	5,000	2.75% + 3 month KIBOR	19-Mar-14	19-Mar-19
GoP Ijara Sukuk - XVI	100,000	5.51%	18-Dec-15	18-Dec-18
GoP Ijara Sukuk - XIX	100,000	5.24%	30-Jun-17	30-Jun-20

# NAFA ISLAMIC INCOME FUND

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### 5.2 Sukuks - available for sale

Description	Note	Number of bonds			Market value / carrying value as at 30 June 2017	Investment as a percentage of		
		As at July 1, 2016	Purchases during the year	Sales / Matured during the year		As at June 30, 2017	Net assets	Market value of total investments

----- (Number of certificates)----- (Rupees in '000)

All sukuks have a face value of Rs. 5,000 except New Allied Electronics Industries (Private) Limited - 1st, issue which have face value of Rs. 312.5.

New Allied Electronics Industries (Private) Limited - Sukuk 1	5.2.1	352,000	-	-	352,000	-	-	-	14.67%
New Allied Electronics Industries (Private) Limited - Sukuk 2	5.2.1	1,000	-	-	1,000	-	-	-	0.65%
					-				
Carrying value as at June 30, 2017					114,905				
Accumulated impairment					114,905				

5.2.1 These represent 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 circulars.

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

	Note	2017	2016
		(Rupees in '000)	
<b>5.3 Net unrealised gain on re-measurement of investments at fair value through profit or loss - held for trading</b>			
Market value of investments	5.1	430,906	142,925
Less: Carrying value of investments	5.1	(427,955)	(142,189)
		2,951	736
<b>5.4 Net unrealised gain on re-measurement of investments classified as available for sale</b>			
Market value of investments	5.2	-	-
Less: Carrying value of investments	5.2	(114,905)	(114,905)
Add: provision against non-performing sukuks	5.2	114,905	114,905
		-	-
<b>5.5 Movement in provision against non-performing sukuks</b>			
Opening balance		114,905	127,405
Add: Charge for the year		-	-
Less: Reversal of provision due to recovery		-	(12,500)
Closing balance		114,905	114,905
<b>6. MARK-UP ACCRUED</b>			
Mark-up accrued on bank balances		16,240	11,171
Mark-up accrued on sukuks		128,938	119,027
Mark-up accrued on government securities		240	194
Less: Income suspended over non-performing sukuks	6.1	(128,862)	(118,910)
		316	311
		16,556	11,482

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6.1 This represents total income suspended to date in relation to non-performing term finance certificates and sukuks as disclosed in note 5.

### 7. RECEIVABLE AGAINST TRANSFER OF UNITS

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

	Note	2017	2016
		(Rupees in '000)	
<b>8. DEPOSIT, PREPAYMENT AND OTHER RECEIVABLES</b>			
Security deposit with Central Depository Company of Pakistan Limited		100	100
Advance tax		1,148	33
Prepayment		155	143
		1,403	276
<b>9. PAYABLE TO NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY</b>			
Remuneration of the Management Company	9.1	1,624	1,389
Sindh Sales Tax on remuneration of the Management Company	9.2	209	223
Operational expenses	9.3	2,806	1,324
Sales load		1,549	1,912
Sindh Sales Tax and Federal Excise Duty on sales load		985	1,026
		7,173	5,874

9.1 Under the provisions of the NBFC Regulations, the Management Company of the Fund was entitled to a remuneration during the first five years of a Fund, of an amount not exceeding 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 the combination of both which shall not exceed the limit prescribed in the NBFC Regulations and such fee structure shall be disclosed in the offering document.

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

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

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

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

Management remuneration is paid on a monthly basis in arrears.

9.2 This represents amount payable in respect of Sindh Sales Tax at the rate of 13% (2016: 14%) on remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011.

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

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	Note	2017	2016
		(Rupees in '000)	
<b>10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE</b>			
Remuneration of the Trustee	10.1	284	255
Sindh Sales Tax on remuneration of the Trustee	10.2	<u>37</u>	<u>36</u>
		<u>321</u>	<u>291</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 tariff specified therein, based on the net assets of the Fund. The remuneration is payable to the Trustee monthly in arrears.

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

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

**10.2** This represents amount payable in respect of Sindh Sales Tax at the rate of 13% (2016: 14%) on remuneration of the Trustee through the Sindh Sales Tax on Services Act, 2011.

## **11. PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

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

## **12. PAYABLE AGAINST CONVERSION OF UNITS**

This 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.

	Note	2017	2016
		(Rupees in '000)	
<b>13. ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Auditors' remuneration		516	400
Provision for Workers' Welfare Fund	16	-	2,944
Provision for Sindh Workers' Welfare Fund	16	2,534	-
Federal Excise Duty on remuneration of the Management Company	13.1	3,955	3,955
Settlement charges		21	66
Withholding tax		8,230	5,080
Capital gain tax		6,586	6,148
Legal and professional charges		49	10
Bank charges		34	101
Brokerage charges		22	22
Printing charges		58	75
Shariah advisor fee		425	195
Others		1,204	312
		<u>23,634</u>	<u>19,308</u>

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

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

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

However, since the appeal is pending in Supreme Court of Pakistan, the Management Company, as a matter of abundant caution, is carrying provision for FED aggregating to Rs. 3.955 million as at June 30, 2017.

Had the provision not been made, the net asset value per unit as at June 30, 2017 would have been higher by Rs. 0.0077 per unit (2016: Rs. 0.0146 per unit)."

13.2 The amount of FED accrued on remuneration of the Management Company will be paid via Management Company to the Taxation authority, if required.

#### 14. CONTINGENCIES AND COMMITMENTS

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

	2016	2015
	----- Rupees in '000 -----	
<b>15 AUDITORS' REMUNERATION</b>		
Annual audit fee	330	340
Half yearly review fee	132	120
Out of pocket expenses	58	50
	520	510

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

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

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

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

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

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

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

Had the provision of SWWF not been made, the net asset value per unit as at June 30, 2017 would have been higher by Rs.0.0049 per unit.

#### 17 TAXATION

The Fund's income is exempt from income tax as per clause 99 of Part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 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 intends to distribute such accounting income for the year ended June 30, 2017 to its unit holders. Accordingly, no provision in respect of taxation has been made in these financial statements.

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

### 18. EARNINGS PER UNIT

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

### 19. TOTAL EXPENSE RATIO

Total expense ratio (all the expenses incurred during the period divided by average net assets for the period) is 1.11% per annum including 0.25% representing government levies on collective Investment scheme such as Sales tax and Securities and Exchange Commission of Pakistan fee.

### 20. DETAILS OF NON-COMPLIANT INVESTMENTS

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

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

Following is the detail of non-compliant investments :

Name of non-compliant investment	Non-compliance of clause	Type of investment	Value of investment before provision	Provision held, if any	Value of investment after provision	% of net assets	% of gross assets
*New Allied Electronics Industries (Private) Limited - Sukuk 1	Rating is below investment grade as prescribed in clause 9(v) of the Annexure of circular 7 of 2009	Sukuks (5.2)	110,000	(110,000)	-	-	-
New Allied Electronics Industries (Private) Limited - Sukuk 2	Rating is below investment grade as prescribed in clause 9(v) of the Annexure of circular 7 of 2009	Sukuks (5.2)	4,905	(4,905)	-	-	-
Total carrying value and accumulated impairment as at June 30, 2017			114,905	(114,905)			

\*The above exposure is in excess of the limit prescribed by the NBFC Regulations and disclosure for breach of exposure limit is made as required by the Circular No.16 of 2010 dated July 07, 2010 by SECP.

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

	2017	2016
	----- Rupees in '000 -----	
21 NUMBER OF UNITS IN ISSUE		
Total units in issue at the beginning of the year	270,595,371	127,435,777
Add: units issued during the year	1,350,066,895	892,230,031
Less: units redeemed during the year	(1,107,936,973)	(749,070,437)
<b>Total units in issue at the end of the year</b>	<b>512,725,293</b>	<b>270,595,371</b>

### 22. NET ASSET VALUE PER UNIT

The net asset value per unit as disclosed in the statement of assets and liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.

### 23. TRANSACTIONS WITH CONNECTED PERSONS AND RELATED PARTIES

23.1 Connected persons and related parties include NBP Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan being the Parent of the Management Company and Alexandra Fund Management Pte. Limited being the sponsor of the Management Company. It also includes associated companies of Management Company due to common directorship, post-employment benefit funds of the Management Company, its parent and sponsor. It also includes subsidiaries and associated companies of the Parent of the Management Company and other collective investment schemes (CIS) managed by the Management Company, directors and key management personnel of the Management Company and any person or company beneficially owning directly or indirectly 10% or more of the units in issue / net assets of the Fund.



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

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

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

23.5 Details of transactions with connected persons are as follows:

	2017	2016
	(Rupees in '000)	
<b>NBP Fullerton Asset Management Limited (Management Company)</b>		
Remuneration of the Management Company	16,362	14,487
Sindh Sales Tax on Management Company's remuneration	2,127	2,353
Operational expenses	2,806	1,324
Sales load paid to the Management Company	1,990	2,402
<b>Central Depository Company of Pakistan Limited (Trustee)</b>		
Remuneration of the Trustee	3,235	2,414
Sindh Sales Tax on Remuneration of the Trustee	421	338
Security deposit	100	100
<b>National Bank of Pakistan (Parent of the Management Company)</b>		
Units issued / transferred in Nil (2016 : 75,887,249 units)	-	740,000
Unit redeemed / transferred out Nil (2016 : 75,887,249 units)	-	747,316
<b>Alexandra Fund Management Pte. Limited (Sponsor of the Management Company)</b>		
Dividend re-invest 234,724 units (2016: 316,210 units)	2,227	2,999
<b>Employees of the Management Company</b>		
Units issued / transferred in 13,392,147 units (2016: 7,970,989 units)	129,844	77,331
Unit redeemed / transferred out 12,325,711 units (2016: 4,102,692 units)	119,667	80,056
Dividend re-invest 157,922 units (2016: Nil)	1,499	-
<b>Chief Financial Officer of the Management Company</b>		
Units issued / transferred in 31,502 units (2016: 15,827 units)	300	159
Unit redeemed / transferred out 47,329 units (2016: Nil)	454	-
<b>Pakistan Mobile Communication Limited Provident Fund (Portfolio managed by the Management Company)</b>		
Unit redeemed / transferred out 3,446,682 units (2016: Nil)	33,514	-
<b>Sadia Kamran (Unit holder of 10% or more of units of the CIS)</b>		
Units issued / transferred in 1,914,393 units (2016: Nil)	19,059	-
Unit redeemed / transferred out 1,914,393 units (2016: Nil)	19,064	-
<b>BankIslami Pakistan Limited (Common Directorship with the Management Company)</b>		
Mark-up on bank balances	22,725	-
<b>NBP Fullerton Asset Management Limited Employees Provident Fund (Provident Fund of the parent of the Management Company)</b>		
Units issued / transferred in 243,726 units (2016: Nil)	2,313	-
Unit redeemed / transferred out 243,726 units (2016: Nil)	2,314	-

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	2017	2016
	(Rupees in '000)	
<b>Akhuwat (Portfolio managed by the Management Company)</b>		
Units issued / transferred in 3,296,716 units (2016: Nil)	32,000	-
Unit redeemed / transferred out 202,770 units (2016: Nil)	1,973	-
Dividend re-invest 158,300 units (2016: Nil)	1,502	-
<b>Telenor Pakistan (Private) Limited Employees Provident Fund (Portfolio managed by the Management Company)</b>		
Units issued / transferred in 5,377,280 units (2016: Nil)	52,500	-
Unit redeemed / transferred out 5,377,280 units (2016: Nil)	52,995	-
<b>23.6 Balances outstanding as at are as follows:</b>		
<b>NBP Fullerton Asset Management Limited (Management Company)</b>		
Remuneration of the Management Company	1,624	1,389
Sindh Sales Tax payable on remuneration of the Management Company	209	223
Operational expenses	2,806	1,324
Sales load	1,549	1,912
Sindh Sales Tax and Federal Excise Duty on sales load	985	1,026
<b>Central Depository Company of Pakistan Limited (Trustee)</b>		
Remuneration payable	284	255
Sindh Sales tax Remuneration payable	37	36
Security deposit	100	100
<b>National Bank of Pakistan (Parent of the Management Company)</b>		
Bank balances in current account	3,311	1,780
<b>Employees of the Management Company</b>		
Investment held in the Fund: 3,813,893 units (2016: 2,503,769 units)	36,271	23,750
<b>Alexandra Fund Management Pte. Limited (Sponsor of the Management Company)</b>		
Investment held in the Fund: 5,969,262 units (2016: 5,734,538 units)	56,770	54,396
<b>Akhuwat (Portfolio managed by the Management Company)</b>		
Investment held in the Fund: 3,252,247 units (2016: 69,144 units)	30,930	-
<b>Sadia Kamran (Unit holder of 10% or more of units of the CIS)</b>		
Investment held in the Fund: 51,923,866 units (2016: Nil)	493,812	-
<b>BankIslami Pakistan Limited (Common Directorship with the Management Company)</b>		
Balance in savings accounts	61,832	-
<b>Summit Bank (Common Directorship with the Management Company)</b>		
Balance in current accounts	5,931	5,383
<b>Amount receivable against issue of units from:</b>		
NAFA Islamic Asset Allocation Fund	215	-
NAFA Islamic Energy Fund	248,834	-
NAFA Government Securities Liquid Fund	-	90,906
NAFA Islamic Asset Allocation Fund	-	22,710
NAFA Income Opportunity Fund	-	51,671
NAFA Riba Free Savings Fund	10,800	32,866
NAFA Islamic Stock Fund	2,439	71,918
NAFA Islamic Principal Preservation Fund	-	2,138
NAFA Stock Fund	196	24,561
<b>Amount payable against issue of units to:</b>		
NAFA Islamic Stock Fund	7,995	-
NAFA Islamic Energy Fund	-	202,495

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## 24 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

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

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

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

## 25 TRANSACTIONS WITH BROKERS / DEALERS

There has been no transaction with brokers during the year, accordingly there has been no brokerage expenses for the year ended June 30, 2017.

	2017	2016
Elixir Securities Pakistan (Private) Limited	-	100%

## 26 PATTERN OF UNIT HOLDING

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

Category	Number of unit holders	Net asset value of the amount invested	Percentage of total investment
<b>Rupees in '000</b>			
Individuals	1,165	2,457,042	50.39%
Associated companies	1	56,770	1.16%
Insurance companies	10	184,327	3.78%
Listed companies	2	138,233	2.83%
Retirement funds	37	307,833	6.31%
Others	47	1,731,972	35.52%
	<u>1262</u>	<u>4,876,177</u>	<u>100%</u>

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

Category	Number of unit holders	Net asset value of the amount invested	Percentage of total investment
<b>Rupees in '000</b>			
Individuals	1,100	1,411,120	54.98%
Associated companies	1	54,396	2.12%
Insurance companies	13	343,572	13.39%
Listed companies	2	42,768	1.67%
Retirement funds	30	421,417	16.42%
Others	26	293,475	11.43%
	<u>1,172</u>	<u>2,566,748</u>	<u>100%</u>

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## 27 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

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

Category	Note	Number of meetings			Meeting not attended
		Held	Attended	Leave granted	
Mr. Nausherwan Adil		4	4	-	-
Mr. Aamir Sattar		4	4	-	-
Mr. Abdul Hadi Palekar		4	3	1	61st
Mr. Koh Boon San	27.1	2*	2	-	-
Mr. Lui Mang Yin (Martin Lui)		4	4	-	-
Dr. Foo Chiah Shiung (Kelvin Foo)	27.2	2*	1	1	63rd
Mr. Kamal Amir Chinoy		4	4	-	-
Mr. Shehryar Faruque		4	3	1	62nd
Mr. Saiyed Hashim Ishaque	27.3	3*	3	-	-
Mr. Humayun Bashir	27.4	1*	1	-	-
Dr. Amjad Waheed		4	4	-	-

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

27.2 Dr. Foo Chiah Shiung (Kelvin Foo) was appointed as director on the Board with effect from November 21, 2016.

27.3 Mr. Saiyed Hashim Ishaque was appointed as director on Board with effect from August 05, 2016 and resigned in Extra Ordinary General Meeting held on March 17, 2017.

27.4 Mr. Humayun Bashir was appointed as director on the Board with effect from March 17, 2017.

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

## 28 FINANCIAL INSTRUMENTS BY CATEGORY

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

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

### Financial assets

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

Balances with banks	4,210,904	-	4,210,904
Investments	-	430,906	430,906
Mark-up accrued	16,556	-	16,556
Receivable against transfer of units	262,484	-	262,484
Deposits	100	-	100
	<u>4,490,044</u>	<u>430,906</u>	<u>4,920,950</u>

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

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

### Financial liabilities

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

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

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

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

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

## Financial assets

Balances with banks	2,345,246	-	2,345,246
Investments	-	142,925	142,925
Mark-up accrued	11,482	-	11,482
Receivable against conversion of units	296,770	-	296,770
Deposits	100	-	100
	<u>2,653,598</u>	<u>142,925</u>	<u>2,796,523</u>

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

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

## Financial liabilities

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

Payable to the Management Company	-	5,874	5,874
Payable to the Trustee	-	291	291
Payable against conversion of units	-	202,495	202,495
Dividend payable	-	601	601
Accrued expenses and other liabilities	-	5,136	5,136
Net assets attributable to redeemable units	-	2,566,748	2,566,748
	<u>-</u>	<u>2,781,145</u>	<u>2,781,145</u>

## 29. FINANCIAL RISK MANAGEMENT

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

### 29.1 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.

#### 29.1.1 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.

#### 29.1.2 Interest rate risk

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

#### - Sensitivity analysis for variable rate instruments

As at June 30, 2017, the Fund holds KIBOR based interest bearing sukuks and balance in savings accounts exposing the Fund to interest rate risk. In case of 100 basis points increase / decrease in KIBOR and bank profit rates with all other variables held constant, the net assets of the Fund would have been higher / lower by approximately Rs. 1.307 million (2016: Rs. 1.415 million).

# NAFA ISLAMIC INCOME FUND

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- Sensitivity analysis for fixed rate instruments

Presently, the fund does not hold any fixed rate instrument that has been designated at fair value through profit and loss. Therefore, a change in interest rate as at June 30, 2017, would not have any affect on the income statement.

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association of Pakistan is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2017 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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

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

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

As at June 30, 2016

Particulars	Yield / profit rate	Total	Exposed to Yield/Interest rate risk			Not exposed to yield/Interest rate risk
			Upto three months	More than three months and upto one year	More than one year	
		------(Rupees in '000)-----				
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Balances with banks	4.50 - 7.90	2,345,246	2,288,022	-	-	57,224
Investments	5.45 - 9.81	142,925	-	-	142,925	-
Profit receivable		11,482	-	-	-	11,482
Receivable against conversion units		296,770	-	-	-	296,770
Deposits		100	-	-	-	100
		2,796,523	2,288,022	-	142,925	365,576
<b>Financial liabilities</b>						
Payable to the Management Company		5,874	-	-	-	5,874
Payable to the Trustee		291	-	-	-	291
Payable against redemption of units		-	-	-	-	-
Payable against conversion of units		202,495	-	-	-	202,495
Dividend payable		601	-	-	-	601
Accrued expenses and other liabilities		5,136	-	-	-	5,136
Net assets attributable to redeemable units		2,566,748	-	-	-	2,566,748
		2,781,145	-	-	-	2,781,145
<b>On-balance sheet gap</b>		15,378	2,288,022	-	142,925	(2,415,569)
<b>Off-balance sheet financial instruments</b>		-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-

### 29.1.3 Price risk

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

### 29.2 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, mark-up accrued, 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

AAA	49.65%
AA+	0.03%
AA	0.14%
AA-	14.07%
A+	1.83%
A-	34.27%
A	0.01%

#### Term finance certificates and sukuks by rating category

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

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

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

	June 30, 2017		June 30, 2016	
	Amount of financial assets	Maximum Exposure	Amount of financial assets	Maximum Exposure
Balances with banks	4,210,904	4,210,904	2,345,246	2,345,246
Investments	430,906	26,906	142,925	42,135
Mark-up accrued	16,556	16,556	11,482	11,482
Receivable against transfer of units	262,484	262,484	296,770	296,770
Deposits	100	100	100	100
	<b>4,920,950</b>	<b>4,516,950</b>	<b>2,796,523</b>	<b>2,695,733</b>

### 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.

### 29.3 Liquidity risk

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

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

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

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

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

----- June 30, 2017 -----				
	Total	Upto three months	Over three months and upto one year	Over one year
----- (Rupees in '000) -----				
<b>Financial liabilities</b>				
Payable to the Management Company	7,173	7,173	-	-
Payable to the Trustee	321	321	-	-
Payable against redemption of units	4,081	4,081	-	-
Payable against conversion of units	7,995	7,995	-	-
Dividend payable	768	768	-	-
Accrued expenses and other liabilities	12,870	12,870	-	-
Net assets attributable to redeemable units	4,876,177	4,876,177	-	-
	<u>4,909,385</u>	<u>4,909,385</u>	<u>-</u>	<u>-</u>
----- June 30, 2016 -----				
	Total	Upto three months	Over three months and upto one year	Over one year
----- (Rupees in '000) -----				
<b>Financial liabilities</b>				
Payable to the Management Company	5,874	5,874	-	-
Payable to the Trustee	291	291	-	-
Payable against conversion of units	202,495	202,495	-	-
Dividend payable	601	601	-	-
Accrued expenses and other liabilities	5,136	5,136	-	-
Net assets attributable to redeemable units	2,566,748	2,566,748	-	-
	<u>2,781,145</u>	<u>2,781,145</u>	<u>-</u>	<u>-</u>



# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## 30. UNIT HOLDERS' FUND RISK MANAGEMENT

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

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

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

In accordance with the risk management policies stated in note 29, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests which would be augmented by short-term borrowings or disposal of investments where necessary.

## 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

### Fair value hierarchy

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

	As at June 30, 2017			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<b>Assets</b>				
<b>At fair value through profit or loss - held for trading</b>				
Government securities	-	<b>404,000</b>	-	<b>404,000</b>
Sukuks	-	<b>26,906</b>	-	<b>26,906</b>
As at June 30, 2016				
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<b>Assets</b>				
<b>At fair value through profit or loss - held for trading</b>				
Government securities	-	100,790	-	100,790
Sukuks	-	42,135	-	42,135

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 Fund has not disclosed the fair values for other financial assets and financial liabilities, as these are either short term in nature or repriced frequently. Therefore, their carrying amounts are reasonable approximation of fair value.

## 32. NON-ADJUSTING EVENT AFTER YEAR END

The Board of Directors of the Management Company in their meeting held on 15 September 2017 (2016: Nil), approved a final distribution of Rs. 3.00 million (0.0068 per unit) (2016: Nil) for the year ended June 30, 2017. The financial statements of the Fund for the year ended June 30, 2017 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2018.

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

33. DATE OF AUTHORISATION FOR ISSUE

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

34. GENERAL

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

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

Statement	Rupees in '000	Reclassified	
		From	To
Statement of assets and liabilities	3,955	Payable to NBP Fullerton Asset Management Limited - Management Company	Accrued expenses and other liabilities
Income statement	3,149	Return / mark- up on sukuks	Return / mark- up on government securities

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC INCOME FUND

*Formerly; NAFA Islamic Aggressive Income Fund*

## PERFORMANCE TABLE

Particulars	For the year ended June 30, 2017	For the year ended June 30, 2016	For the year ended June 30, 2015	For the year ended June 30, 2014	For the year ended June 30, 2013	For the year ended June 30, 2012
Net assets at the year / period ended (Rs '000)	4,876,177	2,566,748	1,207,394	431,004	165,611	178,615
Net income for the year / period ended (Rs '000)	81,561	43,406	45,573	30,932	7,923	(5,329)
Net Asset Value per unit at the year / period ended (Rs)	9.5103	9.4856	9.4745	9.3285	9.1803	8.5954
Offer Price per unit	9.6178	9.6110	9.6009	9.4540	9.2721	8.6814
Redemption Price per unit	9.5103	9.4856	9.4745	9.3285	9.1803	8.5954
Ex - Highest offer price per unit (Rs.)	10.0780	9.6110	9.6009	9.4540	9.2721	8.6814
Ex - Lowest offer price per unit (Rs.)	9.5962	8.9506	8.7930	8.3199	8.6849	6.3854
Ex - Highest redemption price per unit (Rs.)	9.5103	9.4856	9.4745	9.3285	9.1803	8.5954
Ex - Lowest redemption price per unit (Rs.)	9.0187	8.8314	8.6772	8.2094	8.5989	6.3222
Fiscal Year Opening Ex NAV	9.0237	8.8298	8.6754	8.2082	8.5954	7.2189
Total return of the fund	5.39%	7.43%	9.21%	13.65%	6.80%	19.07%
Capital growth	0.01%	0.13%	1.03%	5.62%	2.25%	19.07%
Income distribution as % of Ex-NAV	5.38%	7.30%	8.18%	8.03%	4.55%	0.00%
Income distribution as % of Par Value	4.86%	6.92%	7.10%	6.59%	3.91%	0.00%
<b>Distribution</b>						
Interim distribution per unit	0.4855		0.7099	-	-	-
Final distribution per unit	0.0068	0.6918	-	0.6592	0.3911	-
<b>Distribution Dates</b>						
Interim	19-Jun-17	29-Jun-16	29-Jun-15	-	-	-
Final	15-Sep-17		-	26-Jun-14	11-Jul-13	-
<b>Average annual return of the fund (launch date October 26, 2007)</b>						
(Since inception to June 30, 2017)	6.68%					
(Since inception to June 30, 2016)		6.83%				
(Since inception to June 30, 2015)			6.80%			
(Since inception to June 30, 2014)				6.39%		
(Since inception to June 30, 2013)					5.16%	
(Since inception to June 30, 2012)						4.82%
(Since inception to June 30, 2011)						
(Since inception to June 30, 2010)						
Portfolio Composition ( Please see Fund Manager Report)						
Weighted average portfolio duration	66 Days	49 Days	2 Days	9 Days	65 Days	80 Days








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



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