



NBP Fullerton  
Asset Management Ltd.

A Subsidiary of  
National Bank of Pakistan

## NAFA INCOME OPPORTUNITY FUND

# QUARTERLY REPORT SEPTEMBER 30

# 2014



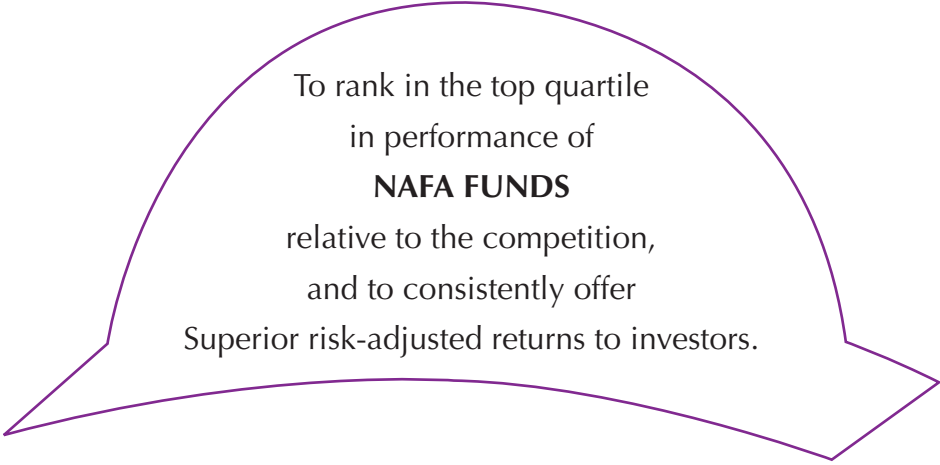
*Your investments & "NAFA" grow together*



**FULLERTON FUND  
MANAGEMENT**

*Joint - Venture Partners*

## MISSION STATEMENT



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

# NAFA INCOME OPPORTUNITY FUND

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# NAFA INCOME OPPORTUNITY FUND

## FUND'S INFORMATION

### Management Company

NBP Fullerton Asset Management Limited – Management Company

### Board of Directors of the Management Company

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

### Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

### Audit & Risk Committee

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

### Human Resource Committee

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

### Trustee

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

### Bankers to the Fund

Allied Bank Limited  
Askari Bank Limited  
Bank Alfalah Limited  
Bank Al-Habib Limited  
Faysal Bank Limited  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
JS Bank Limited  
KASB Bank Limited  
MCB Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
SILK Bank Limited  
Soneri Bank Limited  
Standard Chartered Bank (PAK) Limited  
The Bank of Khyber  
The Bank of Punjab  
Summit Bank Limited  
United Bank Limited  
Samba Bank Limited  
UBL Ameen  
Sindh Bank Limited  
Al Baraka Bank Limited  
Bujr Bank Limited  
Barclays Bank Limited

# NAFA INCOME OPPORTUNITY FUND

## **Auditors**

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

## **Legal Advisor**

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

## **Head Office:**

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

## **Lahore Office:**

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

## **Islamabad Office:**

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

## **Peshawar Office:**

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

## **Multan Office:**

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

# NAFA INCOME OPPORTUNITY FUND

## DIRECTORS' REPORT

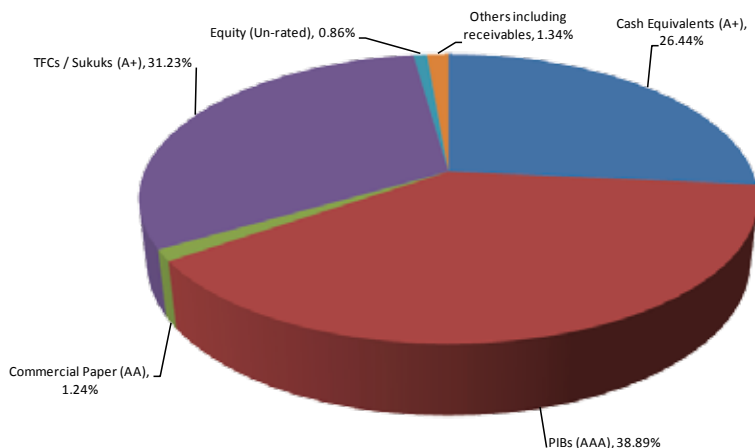
The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the unaudited financial statements of **NAFA Income Opportunity Fund** for the quarter ended September 30, 2014.

### Fund's Performance

The size of NAFA Income Opportunity Fund has reduced from Rs. 4,353 million to Rs. 3,885 million during the period, i.e. a decline of 10.75%. During the said period, the unit price of the Fund has increased from Rs. 10.4676 on June 30, 2014 to Rs. 10.7131 on September 30, 2014, thus showing an annualized return of 9.30% as compared to its Benchmark (6-Month KIBOR) annualized return of 10.18% for the same period.

On the corporate debt sphere, trading activity in TFCs remained skewed towards high quality issues, especially those belonging to the financial sector. During the quarter under review, The State Bank of Pakistan kept the Policy Rate unchanged at 10% despite abatement in inflationary pressures. All TFCs/Sukuks in the Fund are floating rate linked to KIBOR with three to six month coupon resetting period. Therefore, they carry a relatively low interest rate risk as any increase in interest rates will increase the coupon income of the TFC/Sukuk portfolio. The Government continued its stance of borrowing through long-term PIBs as corroborated by surge in outstanding stock of PIBs from 3,223.5 billion on June 30, 2014 to Rs. 3,457.6 billion on 30th September 2014.

The Fund has earned total income of Rs.133.18 million during the period. After deducting expenses of Rs.60.03 million, the net income is Rs.73.15 million. The chart below presents the asset allocation and the weighted average credit rating of each of the sub-asset classes of NIOF.



# NAFA INCOME OPPORTUNITY FUND

## Acknowledgement

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

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

On behalf of the Board of  
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: October 30, 2014  
Place: Karachi.

# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2014

	Note	(Un-audited) September 30, 2014	(Audited) 30 June 2014
(Rupees in '000)			
<b>Assets</b>			
Balances with banks		1,027,328	1,407,789
Investments	4	2,805,361	2,828,529
Profit receivable	5	112,804	163,639
Advances, deposits, prepayments and other receivables		464,912	464,990
Receiveable against issuance of units		514	-
<b>Total assets</b>		4,410,919	4,864,947
<b>Liabilities</b>			
Payable to Management Company		14,243	6,690
Payable to Central Depository Company of Pakistan Limited - Trustee		350	358
Payable to Securities and Exchange Commission of Pakistan		811	1,817
Payable on redemption of units		458,212	453,578
Accrued expenses and other liabilities	6	52,524	49,934
<b>Total liabilities</b>		526,140	512,377
<b>Net Assets</b>		3,884,779	4,352,570
<b>Unit Holders' Funds (As per statement attached)</b>		3,884,779	4,352,570
<b>Contingencies and Commitments</b>	7	<b>Number of Units</b>	
<b>Number of units in issue</b>		362,618,597	415,812,394
		<b>Rupees</b>	
<b>Net asset value per unit</b>		10.7131	10.4676

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director



# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM INCOME STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (Un-audited)

	Note	Quarter Ended September 30, 2014	Quarter Ended September 30, 2013
(Rupees in '000)			
<b>INCOME</b>			
Gain on sale of investments - net		1,791	65
Income from term finance certificates		43,056	32,365
Income from commercial paper		1,390	-
Income from Pakistan Investment Bonds		46,960	-
Income from certificate of investments		-	1,113
Income from Treasury Bills		-	1,783
Profit on bank deposits and term deposits		33,436	14,676
Unrealised gain on investments at fair value through profit or loss - net		6,550	1,774
<b>Total income</b>		<b>133,183</b>	<b>51,776</b>
<b>EXPENSES</b>			
Remuneration of Management Company		16,228	6,592
Sind sales tax on management fee		3,012	1,055
FED on management fee		2,596	1,055
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,134	588
Annual fee - Securities and Exchange Commission of Pakistan		811	330
Securities transaction cost		159	13
Settlement and bank charges		222	57
Annual listing fee		10	10
Auditors' remuneration		194	136
Fund rating fee		107	61
Provision against non-performing term finance certificates		34,063	1,714
<b>Total expenses</b>		<b>58,536</b>	<b>11,611</b>
<b>Net income from operating activities</b>		<b>74,647</b>	<b>40,165</b>
Provision for Workers' Welfare Fund	8	(1,493)	(803)
<b>Net income for the period before taxation</b>		<b>73,154</b>	<b>39,362</b>
Taxation	9	-	-
<b>Net income for the period after taxation</b>		<b>73,154</b>	<b>39,362</b>
Earnings per unit	10		

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (Un-audited)

	Quarter Ended September 30, 2014	Quarter Ended September 30, 2013
	(Rupees in '000)	
Net income for the period after taxation	73,154	39,362
Other comprehensive income		
Net unrealised appreciation on re-measurement of investments classified as 'available for sale'	26,537	4,769
Total comprehensive income for the period	<u>99,691</u>	<u>44,131</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM DISTRIBUTION STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (Un-audited)

	Quarter Ended September 30, 2014	Quarter Ended September 30, 2013
	(Rupees in '000)	
Undistributed income brought forward	329,325	187,621
Final distribution for the year ended June 30, 2014: Nil (2013: 6.377%)		
- Cash Distribution	-	(51,458)
- Bonus units	-	(57,480)
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' funds	(10,699)	(3,245)
Net income for the period	73,154	39,362
Undistributed income carried forward	<u>391,780</u>	<u>114,800</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (Un-audited)

	Quarter Ended September 30, 2014 (Rupees in '000)	Quarter Ended September 30, 2013
Net assets at the beginning of the period	4,352,570	1,869,352
Issue of 55,257,319 units (2013: 5,256,630 units)	585,099	53,296
Redemption of 108,451,116 units (2013: 17,775,957 units)	(1,152,581) (567,482)	(182,038) (128,742)
Final distribution		
Issue of Nil bonus units for the year ended June 30, 2014: Nil (2013: 6.377%)	-	57,480
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		
- amount representing income that form part of the unit holders' funds - transferred to Distribution Statement	10,699 10,699	3,245 3,245
Net unrealised (diminution) / appreciation in the market value of investments classified as 'available for sale'	26,537	4,769
Unrealised (loss) / gain on investments at fair value through profit or loss - net	6,550	1,774
Gain on sale of investments - net	1,791	65
Other income (net of expenses)	64,813	37,523
Final distribution		
Issue of Nil bonus units for the year ended June 30, 2014: Nil		
- Cash Distribution	-	(51,458)
- Bonus units	-	(57,480)
	73,154	(69,576)
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' funds	(10,699)	(3,245)
<b>Net assets at the end of the period</b>	<u><u>3,884,779</u></u>	<u><u>1,733,283</u></u>

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## CONDENSED INTERIM CASH FLOW STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (Un-audited)

	Quarter Ended September 30, 2014 (Rupees in '000)	Quarter Ended September 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	73,154	39,362
<b>Adjustments</b>		
Unrealised loss / (gain) on investments at fair value through profit or loss - net	(6,550)	(1,774)
Gain on sale of investments	(1,791)	(65)
Impairment loss on investment classified as "Available for Sale" and "Held for trading"	34,063	1,714
	<u>98,876</u>	<u>39,237</u>
<b>(Increase) / decrease in assets</b>		
Investments	23,983	214,602
Dividend and profit receivable	50,835	13,106
Advances, deposits, prepayments and other receivables	78	31
	<u>74,896</u>	<u>227,739</u>
<b>Increase / (decrease) in liabilities</b>		
Payable to NBP Fullerton Asset Management Limited - Management Company	7,553	321
Payable to Central Depository Company of Pakistan Limited - Trustee	(8)	(8)
Payable to Securities and Exchange Commission of Pakistan	(1,006)	(914)
Accrued expenses and other liabilities	2,590	955
	<u>9,129</u>	<u>354</u>
<b>Net cash inflow / (outflow) from operating activities</b>	<b>182,901</b>	<b>267,330</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Receipts from issue of units	584,585	53,296
Payments on redemption of units	(1,147,947)	(182,038)
Distributions paid	-	(51,458)
<b>Net cash (outflow on) / inflow from financing activities</b>	<b>(563,362)</b>	<b>(180,200)</b>
<b>Net (decrease) / increase in cash and cash equivalents during the period</b>	<b>(380,461)</b>	<b>87,130</b>
Cash and cash equivalents at the beginning of the period	1,407,789	716,381
<b>Cash and cash equivalents at the end of the period</b>	<b><u>1,027,328</u></b>	<b><u>803,511</u></b>

The annexed notes 1 to 14 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA INCOME OPPORTUNITY FUND

## NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (Un-audited)

### 1 LEGAL STATUS AND NATURE OF BUSINESS

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

The management company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 9th Floor Adamjee House, I.I.Chundrigar Road, Karachi. From 4 February 2013, the principal office of the Management Company is shifted to 7th floor, Clifton Diamond Building, Block No.4, Scheme No.5, Clifton, Karachi. The Management Company is also the member of MUFAP.

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

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

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

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

### 2 STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulation or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by SECP prevail. The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'.

The directors of the asset management company declare that condensed interim financial statements give a true and fair view of the Fund.

### 3 ACCOUNTING POLICIES

The accounting policies adopted for the preparation of the financial statements for the quarter ended September 30, 2014 are same as those applied in the preparation of annual audited financial statements for the year ended June 30, 2014.

# NAFA INCOME OPPORTUNITY FUND

Note (Un-Audited) (Audited)  
September June  
30, 2014 30, 2014  
(Rupees in '000)

## 4 INVESTMENTS

### At fair value through profit or loss - held for trading

Equity Securities - Listed	4.1	-	-
Pakistan Investment Bonds	4.2	1,510,608	1,523,760
Term finance certificates - listed	4.3	626,994	587,132
		2,137,602	2,110,892

### Available for sale

Equity Securities - Listed	4.4	33,371	41,573
Term finance certificates - listed	4.5	65,413	65,426
Term finance certificates - unlisted	4.5	280,222	307,245
Sukuk bonds	4.5	240,478	256,509
		619,484	670,753

### Loans and receivable

Commercial paper - Pair Investment		48,275	46,884
		<u>2,805,361</u>	<u>2,828,529</u>

### 4.1 Equity securities - listed - At fair value through profit or loss - held for trading

Name of the investee company	Number of shares				Market value /Carrying value as at 30 September 2014	Investment as a percentage of		
	As at July 1, 2014	Purchases during the period	Sales during the period	As at 30 September 2014		Net assets	Market value of net assets	Paid-up capital of investee company

(Rupees in '000)

Fully paid ordinary shares of Rs 10 each.

Textile composite

Azgard Nine Limited (Non-voting)	308	-	-	208	-	-	-	-
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Cost of investments as at September 30, 2014

13

Impairment losses

13

### 4.2 Pakistan Investment Bonds

Issue date	Tenor	Face Value				Market value / as at 30 September 2014	Investment as a percentage of		
		As at July 01, 2014	Purchases during the period	Sales / matured during the period	As at 30 September 2014		Net assets	Market value of total investments	
		-----Rupees in '000-----				-----%-----			
18-JUL-13	18-JUL-16	3 Years	1,544,500	204,200	1,193,200	555,500	553,090	14.24	19.72
17-JUL-14	17-JUL-17	3 Years	-	1,175,000	191,700	983,300	957,518	24.65	34.13
							<u>1,510,608</u>		
							<u>1,502,684</u>		

Carrying cost of investments as at September 30, 2014

# NAFA INCOME OPPORTUNITY FUND

## 4.3 Term finance certificates - listed - At fair value through profit or loss - held for trading

Name of the investee company	Number of certificates				Market value / Carrying value as at 30, September 2014	Investment as a percentage of			
	As at July 1, 2014	Purchases during the period	Sales / matured during the period	As at 30 September 2014		Net assets	Market value of total investments	Issue size	
(Rupees in '000)									
Bank Alfalah Limited - V	20,000	-	-	20,000	100,252	2.58	3.57	0.40	
Bank Al-Habib Limited	500	-	-	500	1,250	0.03	0.04	0.20	
Engro Fertilizers Limited	25,762	-	-	25,762	127,586	3.28	4.55	0.65	
Escort Investment Bank Limited	10,000	-	10,000	-	-	-	-	-	
Jahangir Siddiqui and Company Limited III	15,000	-	-	15,000	74,010	1.91	2.64	10.00	
Jahangir Siddiqui and Company Limited II	18,400	-	-	18,400	57,199	1.47	2.04	9.20	
Pace (Pakistan) Limited (note 4.5.4)	30,000	-	-	30,000	-	-	-	10.00	
Saudi Pak Leasing Company Limited (note 4.5.14)	15,000	-	-	15,000	-	-	-	10.00	
Hascol Petroleum Ltd.	-	9,000	-	9,000	45,000	1.16	1.60	10.00	
<b>Islamic sukuk bond</b>									
K-Electric Limited - AZM Sukuk	43,120	-	-	43,120	221,697	5.71	7.90	3.59	
					<b>176,782</b>	<b>626,994</b>	<b>16.14</b>	<b>22.35</b>	

Carrying value of investments as at September 30, 2014

820,165

Impairment losses

191,141

4.3.1 Fair value of listed term finance certificates classified as investments at fair value through profit or loss is determined using rates notified by the Mutual Funds Association of Pakistan.

4.3.2 All term finance certificates have a face value of Rs 5,000 each.

## 4.4 Equity Securities - available for sale

Name of the investee company	Number of shares				Market value /Carrying value as at 30 September 2014	Investment as a percentage of		
	As at July 1, 2014	Purchases during the period	Sales during the period	As at 30 September 2014		Net assets	Market value of net assets	Paid-up capital of investee company
(Rupees in '000)								
Fully paid ordinary shares of Rs 10 each								
<b>Chemicals</b>								
Agritech Limited (note 4.5.6)	4,040,090	-	-	4,040,090	33,371	0.86%	1.19%	1.03%
					<b>33,371</b>			
Carrying value as at 30 September 2014					<b>41,573</b>			

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



# NAFA INCOME OPPORTUNITY FUND

## 4.5 Term finance certificates and sukuk bonds - available for sale

Name of the investee company	Number of certificates				Market value / Carrying value as at 30, September 2014	Investment as a percentage of		
	As at July 1, 2014	Purchases during the period	Sales / matured during the period	As at 30 September 2014		Net assets	Market value of total investments	Issue size
(Rupees in '000)								
<b>Term finance certificate - listed</b>								
World Telecom Limited	45,000	-	-	45,000	-	-	-	5.63
Allied Bank Limited	13,400	-	-	13,400	65,413	1.68	2.33	2.23
				<b>58,400</b>	<b>65,413</b>	<b>1.68</b>	<b>2.33</b>	
Avari Hotels International	35,040	-	-	35,040	48,952	1.26	1.74	5.57
Azgard Nine Limited III (note 4.5.6)	50,000	-	-	50,000	-	-	-	10.00
Azgard Nine Limited V (note 4.5.7)	16,436	-	-	16,436	-	-	-	-
Dewan Cement Limited (note 4.5.8)	30,000	-	-	30,000	-	-	-	-
Engro Fertilizer Limited-PRP-I	52,970	-	6,600	46,370	231,270	5.95	8.24	7.50
New Allied Electronics Industries (Private) Limited (note 4.5.9)	15,000	-	-	15,000	-	-	-	8.33
Agritech Ltd. I (note 4.5.10)	30,000	-	-	30,000	-	-	-	10.00
Agritech Ltd. V (note 4.5.11)	6,464	-	-	6,464	-	-	-	10.00
				<b>229,310</b>	<b>280,222</b>	<b>7.21</b>	<b>9.99</b>	
<b>Sukuk bonds</b>								
BRR Guardian Modaraba	10,000	-	-	10,000	-	-	-	6.25
Eden Housing Limited (note 4.5.12)	9,200	-	-	9,200	-	-	-	-
Kohat Cement Company Limited	50,000	-	50,000	-	-	-	-	-
Maple Leaf Cement Factory Limited - I	80,000	-	-	80,000	240,478	6.19	8.57	5.00
New Allied Electronics Industries (Private) Limited (note 4.5.14)	9,000	-	-	9,000	-	-	-	6.00
Pak Elektron Limited (note 4.5.13)	24,000	-	-	24,000	-	-	-	10.00
				<b>132,200</b>	<b>240,478</b>	<b>6.19</b>	<b>8.57</b>	
				<b>419,910</b>	<b>586,113</b>	<b>15.09</b>	<b>20.89</b>	

Carrying value of investments as at September 30, 2014

1,349,920

Impairment losses

789,511

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

4.5.2 Term finance certificates are valued as per the requirements of SECP circular No. 01/2009 dated January 06, 2009.

4.5.3 During the period from July 01, 2008 to September 30, 2014, the Fund did not receive redemption of principal and / or profit amounts on some of its investments, the details of which are as follows:

4.5.4 This represents investment in listed term finance certificates with a term of five years. On 15 August 2011, the scheduled profit payment date, principal redemption of Rs.30 thousand and profit redemption of Rs.11.806 million were not received by the Fund. The investment has been fully provided.

4.5.5 This represents investment in listed term finance certificates of Worldcall Telecom Ltd. On April 07, 2012, the investee company defaulted on its obligation on account of principal and profit payment. The amount of provision required as per SECP circular no. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circular.

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

# NAFA INCOME OPPORTUNITY FUND

- 4.5.7 These zero coupon privately placed term finance certificates (PPTFCs) were issued against the interest receivable on TFCs of Azgard Nine Limited under an agreement dated 28 June 2012 between the Management Company of the Company and Azgard Nine Limited. These PPTFCs are issued against the non performing securities, therefore the management, as a matter of prudence has recognised the above PPTFCs at nil value. The principal outstanding against these PPTFCs is to be redeemed in seven equal semi-annual instalments starting from 31 March 2014 and will mature on 31 March 2017. These PPTFCs have been classified as Non Performing Asset by MUFAP on 07 December 2012.
- 4.5.8 The Fund had advanced an amount of Rs 150 million in respect of Pre-IPO placement of Dewan Cement Limited (DCL) under an agreement, which required public offering to be completed within 270 days of the date of agreement (which was 9 January 2008). DCL failed to complete the public offering within the said time period and has also defaulted in payment of principal and profit. These investments have been fully provided.
- 4.5.9 These represent investments in privately placed Term Finance Certificates and Sukuk bonds of the investee company. These investments have been fully provided.
- 4.5.10 Agritech Limited defaulted in payment of principal and mark-up due on 30 May 2010. The investment has been fully provided
- 4.5.11 This represents investment in privately placed term finance certificates of Agritech V received against due markup of Agritech I. The MUFAP has classified these PPTFC's as non-performing. The amount of provision required as per SECP circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circular. The investment has been fully provided.
- 4.5.12 This represents investment in privately placed sukuk with a term of five years. The issuer defaulted on payment of principal and profit to certain sukuk holders due to which it was rated as 'Defaulter' by the MUFAP. The management of the Fund as a matter of abundant caution has classified the investment as "Non-Performing". The amount of provision required as per SECP circular no. 01 of 2009 and circular 33 of 2012 has been maintained by valuing the investment in terms of the said circular.
- 4.5.13 This represents investment in privately placed sukuk bonds. On 27 December 2011 i.e. the scheduled redemption date, profit redemption of Rs. 1.93 million was not received by the Fund. The investment has been fully provided.
- 4.5.14 This represents investment in listed term finance certificates with original term of five years. On October 13, 2011 the investee company defaulted on its obligation on account of principal and profit payment. The investee company rescheduled its terms on December 26, 2011 with new maturity in March 2017. During the year, the investee company again defaulted on its obligation on account of principal and profit payment. The amount of provision as per circular no.1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circular.

## 5 PROFIT RECEIVABLE

Profit on savings and term deposits  
 Profit on Pakistan Investment Bonds  
 Income accrued on term finance certificates and sukuk bonds - net

	September 30, 2014	June 30, 2014
-----Rupees in '000-----		
	38,076	34,797
	35,875	78,072
	38,853	50,770
	<u>112,804</u>	<u>163,639</u>

## 6 ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration  
 Settlement charges payable  
 Payable to brokers  
 Printing charges  
 Workers' Welfare Fund  
 Contingent load  
 Withholding tax  
 Capital gain tax  
 Legal Fee  
 Others

	595	401
	112	12
	35	-
	125	125
	26,472	25,066
	23,161	23,161
	-	364
	-	509
	50	50
	1,974	246
	<u>52,524</u>	<u>49,934</u>

# NAFA INCOME OPPORTUNITY FUND

## 7 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2014 and as at September 30, 2014.

## 8 PROVISION FOR WORKERS' WELFARE FUND

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

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

During the year ended June 30, 2012, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008, had declared the said amendments as unlawful and unconstitutional. In March 2013, a larger bench of the Honourable Sindh High Court (SHC) passed an order declaring that the amendments introduced in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 do not suffer from any constitutional or legal infirmity. However, the Honourable High Court of Sindh has not addressed the other amendments made in the WWF Ordinance 1971 about applicability of WWF to the CISs which is still pending before the Court. In a recent judgement, the Peshawar High Court (PHC) has also held these amendments to be ultra vires as they lacked the essential mandate to be introduced and passed through the Money Bill under the Constitution. Without prejudice to the above, the Management Company, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs 26.472 million (including Rs 1.493 million for the current period) in these financial statements. Had the provision not been made the net asset value per unit of the Fund as at September 30, 2014 would have been higher by Re 0.0730 per unit.

## 9 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a tax liability in respect of income relating to the current period as the management company has decided to distribute at least 90 percent of the Fund's accounting income for the period as reduced by capital gains (whether realised or unrealised) to its unit holders.

## 10 EARNINGS PER UNIT

Earnings per unit (EPU) for the Quarter ended September 30, 2014 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

## 11 DETAILS OF NON-COMPLIANT INVESTMENT WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

In accordance with clause 9 (iii) of the investment criteria laid down for 'Income Schemes', the Fund is required to invest atleast 25% of the net assets in cash and near cash instruments which include cash in bank accounts(excluding TDRs), treasury bills not exceeding 90 days maturity . Clause (v) of the categorization criteria requires that the ratings of any security in the portfolio of the Fund shall not be lower than investment grade. However, as at September 30, 2013, the Fund is in non-compliance with the above-mentioned requirement in respect of the following:

# NAFA INCOME OPPORTUNITY FUND

Type of Investment	Name of Non-Compliant Investment	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets	
Investment in Debt securities and Sukuks**	Agritech Limited	149,860	149,860	-	-	-	
	Agritech Limited V	32,320	32,320	-	-	-	
	Azgard Nine Limited III	108,377	108,377	-	-	-	
	Azgard Nine Limited V	82,180	82,180	-	-	-	
	BRR Guardian Modaraba - Sukuk	34,063	34,063	-	-	-	
	Dewan Cement Limited	150,000	150,000	-	-	-	
	Eden Housing Limited - Sukuk II	9,056	9,056	-	-	-	
	New Allied Electronics Industries (Private) Limited - PPTFC	31,707	31,707	-	-	-	
	New Allied Electronics Industries (Private) Limited - Sukuk II	44,149	44,149	-	-	-	
	PACE Pakistan Limited	149,820	149,820	-	-	-	
	Pak Elektron Limited (Sukuk)	51,429	51,429	-	-	-	
	Saudi Pak Leasing Company Limited	41,321	41,321	-	-	-	
	World Call Telecom Limited	96,370	96,370	-	-	-	
	Investment in Equity Securities	Azgard Nine Limited (Non-Voting)	13	13	-	-	-
		Agritech Limited *	41,573	-	33,371	0.86%	0.76%

\* These shares are received in partial settlement against TFCs of Azgard Nine Limited as fully explained in note 4.4.1.

\*\* At the time of purchase, the TFCs and Sukuks were in compliance with the aforementioned circular. However, they subsequently defaulted or were downgraded to non investment grade.

\*\*\* Performing but below investment grade

## 12 TRANSACTIONS WITH CONNECTED PERSONS

- 12.1 Connected persons include NBP Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan and Alexandra Fund Management Pte. Limited being the sponsors, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.
- 12.2 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 12.3 Remuneration to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.
- 12.4 Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.

# NAFA INCOME OPPORTUNITY FUND

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

	Quarter Ended September 30, 2014	Quarter Ended September 30, 2014
	----- Rupees in '000 -----	
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Management fee expense for the quarter	16,228	6,592
Sindh Sales Tax on Management Company's remuneration	3,012	-
FED on Management Company's remuneration	2,596	-
Front-end load	318	-
<b>National Bank of Pakistan - Sponsor</b>		
Cash dividend	-	2,297
Sale of T-Bill	-	542,672
Purchased PIB	73,502	542,672
<b>Central Depository Company of Pakistan Ltd. - Trustee</b>		
Remuneration	1,134	588
CDS charges	2	5
<b>NBP Employees Pension Fund</b>		
Bonus units issued Nil units (2013: 3,561,172l units)	-	-
<b>NBP Endowment Fund Student Loan Scheme</b>		
Bonus units issued Nil units (2013 : Nil units)	-	-
<b>Employees of NAFA</b>		
Units Issued / transferred in 761,856 units (2013:Nil units)	8,085	-
Units redeemed / transferred out 596,395 units (2013:Nil units)	6,338	-
Bonus units issued Nil units (2013 : 2 units)	-	-
<b>NBP Employees Benevolent Fund Trust</b>		
Bonus units issued Nil units (2013:123 units)	-	-
<b>CDC Trustee NAFA Asset Allocation Fund</b>		
Purchased T-Bill	-	39,851
<b>Thal Limited Employees Provident Fund</b>		
Sale of T-Bill	-	28,929
<b>Pak Arab Refinery Ltd Supervisory Staff Gratuity Fund</b>		
Sale of T-Bill	-	26,934
<b>International Steel Limited Employees Gratuity Fund</b>		
Purchased PIB	1,619	-
<b>International Steel Limited Employees Provident Fund</b>		
Purchased PIB	2,573	-
<b>CDC Trustee NAFA Financial Sector Income Fund</b>		
Purchased PIB	207,600	-
<b>International Industries Limited Employees Provident Fund</b>		
Sale of PIB	3,969	-
<b>International Industries Limited Employees Gratuity Fund</b>		
Sale of PIB	3,969	-
<b>Summit Bank Limited</b>		
Bank Profit	-	40

# NAFA INCOME OPPORTUNITY FUND

## 12.6 Amounts outstanding as at year end

	As at September 30, 2014	As at June 30, 2014
	----- Rupees in '000 -----	
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Management remuneration payable	4,951	884
Sindh Sales Tax payable	984	164
Federal Excise Duty payable	8,050	5,454
Sale load payable	85	69
Sindh Sales tax on sale load	16	13
Federal Excise Duty on tax sale load	157	106
<b>National Bank of Pakistan - Sponsor</b>		
Investment held by the sponsor in the Fund 4,020,905 units (June 2014: 4,020,905 units)	43,076	42,089
Balances in current account	3,200	1,683
<b>Central Depository Company of Pakistan Ltd. - Trustee</b>		
Remuneration payable	350	358
Security deposit	100	100
<b>NBP Employees Pension Fund</b>		
Investment held in the Fund 66,489,763 units (2013: 55,996,457 units)	712,311	695,988
<b>Mr. Shahid Anwar Khan - Director</b>		
Investment held in the Fund Nil units (June 2014: Nil units)	-	-
<b>NBP Employees Benevolent Fund Trust</b>		
Investment held in the Fund 2,291 units (June 2014: 2,291 units)	25	24
<b>Employees of Management Company --NAFA</b>		
Investment held in the Fund 1,071,082 units (June 2014: 906,321)	11,482	9,487
<b>Summit Bank Limited</b>		
Balance in account	2,375	3,089
<b>Allied Bank Limited</b>		
Investment held in the Fund Nil units (June 2014: 49,464,433)	-	517,774

## 13 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on October 30, 2014.

## 14 GENERAL

Figures have been rounded off to the nearest thousand rupees.

The bifurcation of undistributed income into realised and unrealised income at the beginning and end of the year as required by the NBFC Regulations has not been disclosed as such bifurcation is not practicable.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director



NBP Fullerton  
Asset Management Ltd.

A Subsidiary of

National Bank of Pakistan

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