



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

# NAFA FINANCIAL SECTOR INCOME FUND

## ANNUAL REPORT 2014



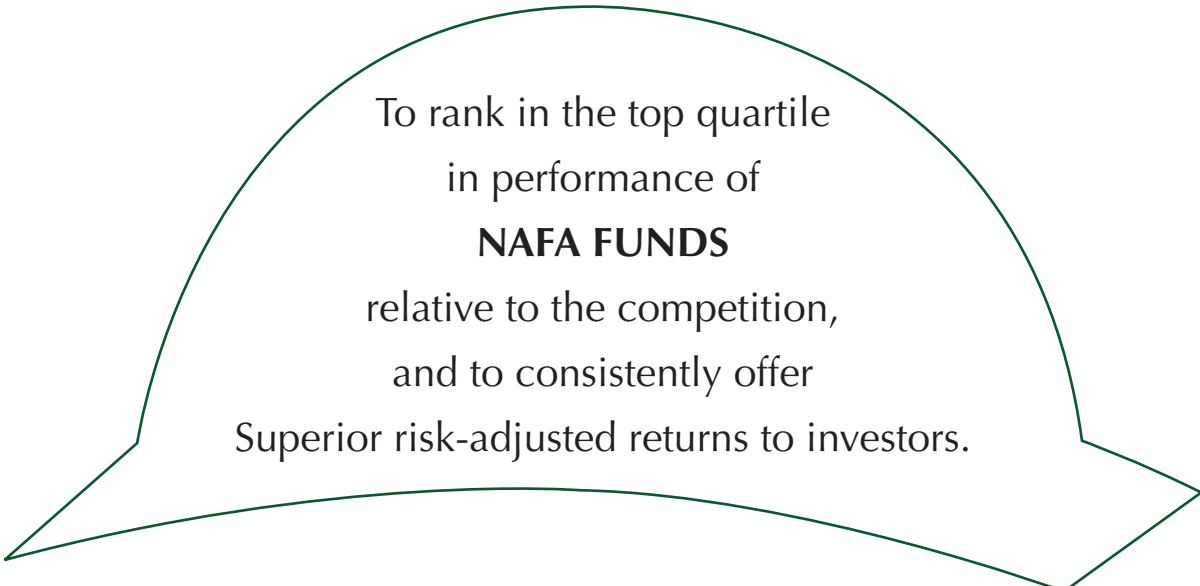
*Your investments & "NAFA" grow together*



**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 FINANCIAL SECTOR INCOME 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 Shakra-e-Faisal, Karachi.

### Bankers to the Fund

Askari Bank Limited  
Bank Alfalah Limited  
NIB Bank Limited  
National Bank of Pakistan  
Allied Bank Limited  
Faysal Bank Limited  
MCB Bank Limited  
Bank Al Habib Limited  
Habib Bank Limited  
Al Baraka Islamic Bank Limited  
The Bank of Punjab Limited  
Burj Bank Limited  
Summit Bank Limited  
Sindh Bank Limited  
United Bank Limited  
JS Bank Limited  
Standard Chartered Bank (Pakistan) Limited

# NAFA FINANCIAL SECTOR INCOME FUND

## **Auditors**

A.F. Ferguson & Co. Chartered Accountants  
State Life Building No. 1-C  
I.I. Chundrigar Road,  
P.O.Box 4716  
Karachi.

## **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

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# Board of Directors



Mr. Nausherwan Adil  
Chairman



Dr. Amjad Waheed, CFA  
Chief Executive Officer



Mr. Kamal Amir Chinoy  
Director



Mr. Koh Boon San  
Director



Mr. Aamir Sattar  
Director



Mr. Shehryar Faruque  
Director



Mr. Wah Geok Sum  
Director



Mr. Abdul Hadi Palekar  
Director

# Senior Management



Dr. Amjad Waheed, CFA  
Chief Executive Officer



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



Mr. Sajjad Anwar, CFA  
Chief Investment Officer



Mr. Zeeshan  
Chief – Strategy &  
Business Development



Mr. Samiuddin Ahmed  
Country Head Corporate  
Marketing & Sales



Mr. Ozair Khan  
Chief Technology Officer



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



Mr. Ahmad Nouman CFA, PRM  
Head of Risk Management



Syed Suleman Akhtar CFA  
Head of Research



Mr. Tahir Lateef  
Head of Internal Audit

# NAFA FINANCIAL SECTOR INCOME FUND

## DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Third Annual Report of NAFA Financial Sector Income Fund for the year ended June 30, 2014.

### Fund's Performance

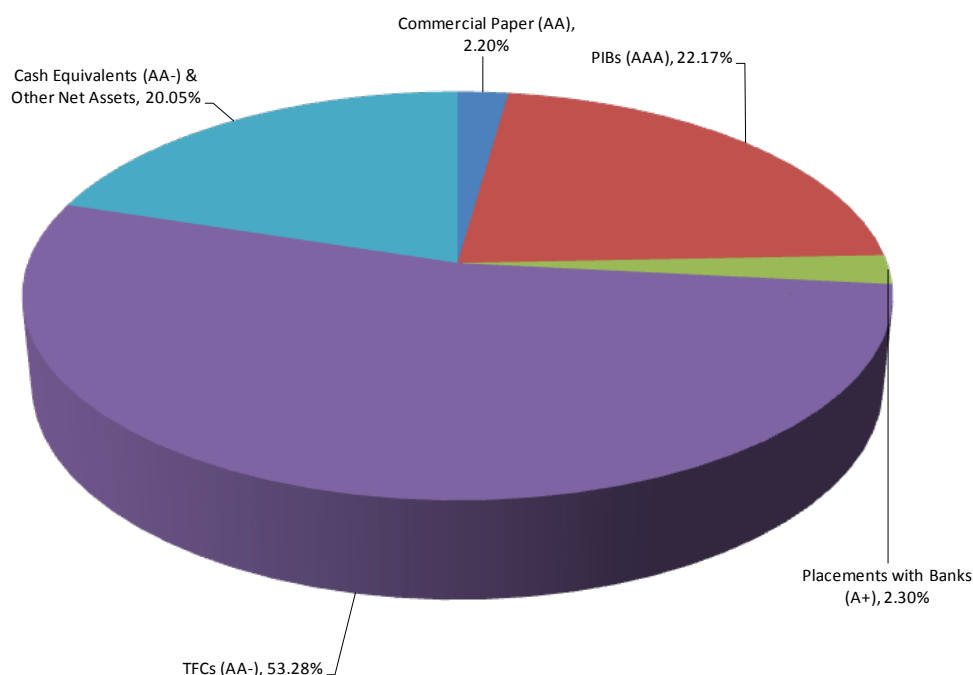
The size of NAFA Financial Sector Income Fund has decreased from Rs. 4,962 million to Rs. 2,177 million during the period, i.e. a decline of 56.13%. During the period, the unit price of the Fund has increased from Rs. 9.3941 (Ex - Div) on June 30, 2013 to Rs. 10.1404 on June 30, 2014 thus posting a return of 7.94% as compared to its Benchmark (70% 6 month KIBOR & 30% average 3 month deposit rates of A & above rated banks) return of 8.95% for the same period. The return of the Fund is net of management fee and all other expenses.

The Fund is unique as it invests a minimum of 70% of its assets in financial sector (mainly banks) debt securities, instruments or deposits. Minimum entity / instrument rating of debt securities are AA-. This minimizes credit risk and at the same time enhances the liquidity of the Fund. Duration of the Fund cannot be more than one year. This minimizes interest rate or pricing risk. The Fund invests 25% of its assets in less than 90 days T-Bills or saving accounts with banks, which further enhances the liquidity profile of the Fund

On the corporate debt sphere, we have witnessed some increase in primary issuance of corporate debt amid a pick-up in economic activity. Trading activity in TFCs remained skewed towards high quality issues, notably belonging to the Chemicals and Banking sectors. Majority of the TFCs in the Fund are floating rate linked to KIBOR. Therefore, any increase in the interest rates will improve the coupon income of the Fund.

The State Bank of Pakistan increased the policy rate by 100bps to 10% during first half of FY14, citing downside risks to the external account, depleting FX reserves, and rising inflation expectations. However, since then positive developments were witnessed in the form of (i) a sharp recovery of Pak rupee against the US dollar, due to significant improvement in forex reserves bolstered by aid from Saudi Arabia, extremely successful Eurobond issue, auction of 3G and 4G licenses, two large SPOs and higher loan receipts; and (ii) Inflation as measured by CPI clocked in at 8.6%, significantly below initial projections of 11-12%, due to subdued commodity prices, lower money supply growth and strong rupee performance in the second half of the fiscal year.

The Fund has earned a total income of Rs.384.43 million during the year. After deducting total expenses of Rs.92.88 million, the net income is Rs.291.55 million. The asset allocation of NAFA Financial Sector Income Fund as on June 30, 2014 is as follows:





# NAFA FINANCIAL SECTOR INCOME FUND

## Income Distribution

The Board of Directors of the Management Company has approved distribution of 9.00% of opening ex-NAV (9.24% of the par value) during the year.

## Taxation

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

## Auditors

The present auditors, Messrs A.F.Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2015.

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

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held six meetings during the period. The attendance of all directors is disclosed in the note 23 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 22 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 19 to these financial statements.

# NAFA FINANCIAL SECTOR 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 and the Trustee.

On behalf of the Board of  
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: September 16, 2014  
Place: Karachi.

# NAFA FINANCIAL SECTOR INCOME FUND

## TRUSTEE REPORT TO THE UNIT HOLDERS NAFA FINANCIAL SECTOR 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 Financial Sector 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, 2014 in accordance with the provisions of the following:

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

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

Karachi: October 10, 2014

# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2014

This statement is being presented by the Board of Directors of NBP Fullerton Asset Management Limited (Company), the Management Company of **NAFA Financial Sector Income Fund** (the Fund) to comply with the Best Practices of Code of Corporate Governance (CCG) contained in Regulation No. 35, Chapter XI of Listing Regulations of Lahore Stock Exchange 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, though an un-listed Public Limited Company complies with the CCG as the Fund under its management is listed on Lahore Stock Exchange.

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 of Directors. The Company, being an un-listed company, does not have any minority interest. As at June 30, 2014, the Board included:

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

The independent directors meet the criteria of independence under clause i (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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. One casual vacancy was occurred on the board on October 10, 2013 which was filled up on the same date.
5. The Management 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 FINANCIAL SECTOR 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 CEO have been taken by the Board. There is no other executive-director of the Company besides 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. In order to apprise the directors on their duties and responsibilities the Code requires every listed company to conduct formal orientation for directors. As per the Code, by June 30, 2014 a minimum of two directors should have attended director training program. As at year end, one of the directors has attended the director's training program offered by Pakistan Institute of Corporate Governance. The Company has started the process for training of other directors and it is expected that some of other directors may also obtain certification of the director's training program in the next year. However, the directors are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities.
10. There was no new appointment of the Chief Financial Officer (CFO) and Company Secretary during the year. However, the Head of Internal Audit left the Company on March 07, 2014 and in his place a new appointment was made on April 08, 2014 with the approval of audit and risk committee including remuneration and terms and conditions. The appointment of the Head of Internal Audit has been ratified by the Board in its meeting held on September 16, 2014, subsequent to the year end.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in note 19 to the financial statements "Transactions with Connected Persons".
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The committee has formed the terms of reference for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. All the members are non-executive directors and the chairman of the committee is a non-independent director.

# NAFA FINANCIAL SECTOR INCOME FUND

18. The Board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. Since there is no practical implication of closed period on the announcement of interim and final results of open end Fund. Therefore, there was no 'closed period' prior to the announcement of interim/final results.
22. Material / price sensitive information has been disseminated amongst all market participants at once through stock exchange.
23. We confirm that all other material principles contained in the CCG have been complied with. While the Code of Corporate Governance requires that a mechanism shall be put in place for the annual evaluation of the Board's own performance by April 2014, the Management Company is in the process of preparing a framework for this purpose and eventual approval by the Board of Directors of the Management Company.

For and behalf of the board

Karachi  
September 16, 2014

Dr. Amjad Waheed  
Chief Executive Officer

# NAFA FINANCIAL SECTOR INCOME FUND

## FUND MANAGER REPORT

### NAFA Financial Sector Income Fund

NAFA Financial Sector Income Fund (NFSIF) is an open-end Income Scheme.

### Investment Objective of the Fund

The objective of NAFA Financial Sector Income Fund is to provide income enhancement and preservation of capital by investing in prime quality Financial Sector TFCs/Sukuks, Bank deposits and short-term money market instruments.

### Benchmark

70% 6-Month KIBOR & 30% average 3-Month deposit rates (A & above rated banks)

### Fund Performance Review

This is the third Annual report since the launch of the Fund on October 28, 2011. The Fund size reduced by 56.13% during FY14 and stands at Rs 2,177 million as on June 30, 2014. The Fund's return during FY 2013-14 is 7.94% versus the benchmark return of 8.95%. The Fund's annualized return since inception is 9.62%. During the same period the benchmark return has been 9.43%. This translates into an out-performance of 0.19% p.a. This out-performance is net of management fee and all other expenses. Thus the Fund has achieved its investment objectives.

The Fund is unique as it invests a minimum of 70% of its assets in financial sector (mainly banks) debt securities, instruments or deposits. Minimum entity / instrument rating of debt securities are AA-. This minimizes credit risk and at the same time enhances the liquidity of the Fund. Duration of the Fund cannot be more than one year. This minimizes interest rate or pricing risk. The Fund invests 25% of its assets in less than 90 days T-Bills or saving accounts with banks, which further enhances the liquidity profile of the Fund

Regarding the corporate bond market, despite pick-up in the private sector credit off-take we have witnessed few fresh issuance during FY14. This dearth of fresh issuance and hunt for yields in the secondary market depressed the yields on high credit quality TFCs. Trading activity in TFCs remained skewed towards high quality issues, notably belonging to the Chemicals and Banking sectors. Majority of the TFCs in the Fund are floating rate linked to KIBOR. Therefore, any increase in the interest rates will improve the coupon income of the Fund.

State Bank of Pakistan increased the policy rate to 10% from 9% during FY14 premised on rising inflation expectation, pressure on external account and reduction in FX reserves. However, in the second half of FY 14, significant improvement was observed in the external account mainly due to aid from Saudi Arabia, issuances of Eurobond, successful SPOs of UBL & PPL and auction of 3G & 4G licenses. This resulted in unexpected recovery of Pak rupee against the US dollar. Inflation also remained below initial projections due to lower money supply growth and depressed commodity prices. However, State Bank of Pakistan restrained from easing policy rate highlighting law and order situation and power shortages as the prime factors affecting investment in economy.

During the period under review Government has shifted its borrowing from short-term T-Bills to long-term PIBs thus reducing rollover or refinancing risk. However this shift in borrowing from short-term to long-term has come at a significant cost as PIBs are an expensive source of borrowing. This shift in borrowing is evident from below mentioned table

Source of Borrowing	Jun-13		Jun-14	
	Rs. In Bn	%	Rs. In Bn	%
PIBs	1,321.9	26.8%	3,223.5	59.4%
T-Bills	3,151.0	63.9%	1,878.9	34.6%
GOP Ijara Sukuk	459.2	9.3%	326.4	6.0%
<b>Total</b>	<b>4,932.1</b>	<b>100.0%</b>	<b>5,428.8</b>	<b>100.0%</b>

# NAFA FINANCIAL SECTOR INCOME FUND

## Asset Allocation of Fund (% of NAV)

Particulars	30-Jun-14	30-Jun-13
PIBs	22.17%	-
TFCs	53.28%	40.60%
Placements with DFIs	-	6.05%
Placements with Banks	2.30%	-
Money Market Placements	2.20%	6.45%
Cash Equivalents & Other Assets	20.05%	46.90%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

## Distribution for the Financial Year 2014

Interim Period / Quarter	Dividend as a % of Par Value (Rs.10)	Cumulative Div. Price /	Ex- Div. Price
Sep Qtr 2013	1.5400%	10.5308	10.3768
Dec Qtr 2013	2.5670%	10.6087	10.3520
Mar Qtr 2014	2.5670%	10.5917	10.3350
Jun Qtr 2014	2.5670%	10.3841	10.1274

## Unit Holding Pattern of NAFA Financial Sector Income Fund as on 30th June 2014

Size of Unit Holding (Units)		No. of Unit Holders
1	1,000	111
1,001	5,000	114
5,001	10,000	83
10,001	50,000	363
50,001	100,000	180
100,001	500,000	189
500,001	1,000,000	21
1,000,001	5,000,000	12
5,000,001	10,000,000	2
10,000,001	100,000,000	2
<b>Total:</b>		<b>1,077</b>

## During the period under question:

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

## Workers' Welfare Fund (WWF)

The scheme has maintained provisions against Workers' Welfare Fund's liability to the tune of Rs.15,287,203, If the same were not made the NAV per unit/ FY 2014 return of scheme would be higher by Rs. 0.0712/0.76% For details investors are advised to read note 15 of the Financial Statement of the Scheme for the year ended June 30, 2014.



# NAFA FINANCIAL SECTOR INCOME FUND

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of NBP Fullerton Asset Management Limited, the Management Company of **NAFA Financial Sector Income Fund** (the Fund) for the year ended June 30, 2014 to comply with the Listing Regulation No.35 (Chapter XI) of the Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company (**NBP Fullerton Asset Management Limited**) of the Fund. 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 Directors' 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 the Fund's related party transactions 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 Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code as applicable to the Fund for the year ended June 30, 2014.

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

Paragraph reference	Description
9	Upto June 30, 2014, only one director has obtained the director's training program as against the requirement of at least two directors till June 30, 2014.
21	No closed period was determined prior to the announcement of interim / final results.
23	The Management Company has not set up a mechanism for the annual evaluation of the Board's own performance.

A.F. Ferguson & Co. Chartered Accountants  
Dated: September 16, 2014  
Karachit

# NAFA FINANCIAL SECTOR INCOME FUND

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **NAFA Financial Sector Income Fund** (hereinafter referred to as the 'Fund'), which comprise the statement of assets and liabilities as at June 30, 2014, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Management Company's responsibility for the financial statements

The Management Company (**NBP Fullerton Asset Management Limited**) of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as management 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 the International Standards on Auditing as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, 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 state of the financial position of the Fund as at June 30, 2014 and of its financial performance, cash flows and transactions for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

A.F. Ferguson & Co. Chartered Accountants  
Engagement Partner: **Rashid A. Jafer**  
Dated: September 18, 2014  
Karachi

# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2014

	Note	2014 (Rupees in '000)	2013 (Rupees in '000)
<b>ASSETS</b>			
Cash and bank balances	4	1,411,420	1,321,210
Investments	5	1,690,433	2,634,567
Profit receivable	6	59,488	62,690
Preliminary expenses and floatation costs	7	507	726
Security deposit		100	100
Receivable against issue of units		-	964,360
Prepayments and other receivables		173	129
<b>Total assets</b>		<b>3,162,121</b>	<b>4,983,782</b>
<b>LIABILITIES</b>			
Payable to the Management Company	8	10,813	7,819
Fee payable to the Central Depository Company of Pakistan Limited - Trustee	9	260	352
Payable to the Securities and Exchange Commission of Pakistan	10	2,891	2,776
Payable against redemption of units		954,532	-
Accrued expenses and other liabilities	11	16,589	10,501
<b>Total liabilities</b>		<b>985,085</b>	<b>21,448</b>
<b>NET ASSETS</b>		<b>2,177,036</b>	<b>4,962,334</b>
<b>UNIT HOLDERS' FUNDS (AS PER STATEMENT ATTACHED)</b>		<b>2,177,036</b>	<b>4,962,334</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	12		
		<b>Number of units</b>	
<b>NUMBER OF UNITS IN ISSUE</b>		<b>214,688,472</b>	<b>482,880,329</b>
		<b>Rupees</b>	
<b>NET ASSET VALUE PER UNIT</b>	3.11	<b>10.1404</b>	<b>10.2765</b>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 (Rupees in '000)	2013 (Rupees in '000)
<b>INCOME</b>			
Capital gain on sale of investments - net		698	1,380
Income from term finance certificates and commercial papers		153,428	252,002
Income from government securities		30,122	39,600
Income from letters of placement		863	26,220
Income from Certificate of investment		6,680	-
Profit on bank deposits and term deposit receipts	13	206,105	82,739
Unrealised (diminution) / appreciation on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net	5.7	(13,458)	2,382
<b>Total Income</b>		<b>384,438</b>	<b>404,323</b>
<b>EXPENSES</b>			
Remuneration of the Management Company	8.1	57,822	55,510
Sindh Sales Tax on Management Company's remuneration		10,809	8,882
Federal excise duties on remuneration of the Management Company	8.2	9,251	481
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	9.1	4,126	3,996
Annual fee to the Securities and Exchange Commission of Pakistan	10.1	2,891	2,776
Amortisation of preliminary expenses and floatation costs	7	219	219
Auditors' remuneration	14	502	452
Listing fee		40	40
Rating fee		210	100
Printing charges		166	6
Legal fee		101	40
Securities transaction cost		95	144
Settlement and bank charges		702	855
<b>Total Expenses</b>		<b>86,934</b>	<b>73,501</b>
<b>Net Income from operating activities</b>		<b>297,504</b>	<b>330,822</b>
Provision for Workers' Welfare Fund	15	(5,950)	(6,616)
<b>Net income for the year before taxation</b>		<b>291,554</b>	<b>324,206</b>
Taxation	16	-	-
<b>Net income for the year after taxation</b>		<b>291,554</b>	<b>324,206</b>
<b>Earnings per unit</b>	3.12		

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
	(Rupees in '000)	
Net income for the year after taxation	291,554	324,206
Other comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	<u>291,554</u>	<u>324,206</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
	(Rupees in '000)	
Undistributed income brought forward	106,774	112,343
Net income for the year after taxation	291,554	324,206
Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed	(48,026)	37,072
<b>Final distribution for the year ended June 30, 2013</b>		
- Re 0.0101 per unit declared on July 11, 2013 (2013: Re 0.3 per unit as on July 9, 2012)		
- Cash distribution	(2,438)	(44,925)
- Issue of bonus units	(2,463)	(35,968)
	(4,901)	(80,893)
<b>Interim distributions during the year</b>		
- Re 0.1540 per unit declared on October 30, 2013 (2013: Re 0.2784 per unit as on October 23, 2012)		
- Cash distribution	(37,174)	(41,691)
- Issue of bonus units	(35,578)	(51,664)
- Re 0.2567 per unit declared on February 13, 2014 (2013: Re 0.2278 per unit as on February 26, 2013)		
- Cash distribution	-	-
- Issue of bonus units	(69,644)	(91,476)
- Re 0.2567 per unit declared on April 30, 2014 (2013: 0.2531 per unit as on April 26, 2013)		
- Cash distribution	-	(37,360)
- Issue of bonus units	(65,877)	(63,763)
- Re 0.2567 per unit declared on June 26, 2014 (2013 : Nil)		
- Cash distribution	-	-
- Issue of bonus units	(62,253)	-
	(270,526)	(285,954)
Undistributed income carried forward	<u>74,875</u>	<u>106,774</u>
<b>Undistributed income comprising:</b>		
- Realised income	88,333	104,392
- Unrealised (loss) / income	(13,458)	2,382
	<u>74,875</u>	<u>106,774</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
	(Rupees in '000)	
<b>Net assets at the beginning of the year</b>	4,962,334	2,767,667
Issue of 212,870,837 units(2013: 444,514,151 units) including 22,916,928 bonus units	1,961,441	4,327,598
Redemption of 481,062,694 units (2013: 227,166,480 units)	(4,998,681)	(2,333,161)
	(3,037,240)	1,994,437
Element of loss / (income) and capital losses / (gains) included in the prices of units issued less those in units redeemed - amount transferred to distribution statement	48,026	(37,072)
Unrealised (diminution) / appreciation on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net	(13,458)	2,382
Capital gain on sale of investments - net	698	1,380
Other income (net of expenses) for the year	304,314	320,444
	291,554	324,206
<b>Distributions of bonus units during the year</b>		
Interim distributions	233,352	206,903
Final distributions	2,463	35,968
<b>Final distribution for the year ended June 30, 2013</b>		
- Re 0.0101 per unit declared on July 11, 2013 (2013: Re 0.3 per unit as on July 9, 2012)		
- Cash distribution	(2,438)	(44,925)
- Issue of bonus units	(2,463)	(35,968)
	(4,901)	(80,893)
<b>Interim distributions made during the year</b>		
- Re 0.1540 per unit declared on October 30, 2013 (2013: Re 0.2784 per unit as on October 23, 2012)		
- Cash distribution	(37,174)	(41,691)
- Issue of bonus units	(35,578)	(51,664)
- Re 0.2567 per unit declared on February 13, 2014 (2013: Re 0.2278 per unit as on February 26, 2013)		
- Cash distribution	-	-
- Issue of bonus units	(69,644)	(91,476)
- Re 0.2567 per unit declared on April 30, 2014 (2013: 0.2531 per unit as on April 26, 2013)		
- Cash distribution	-	(37,360)
- Issue of bonus units	(65,877)	(63,763)
- Re 0.2567 per unit declared on June 26, 2014 (2013 : Nil)		
- Cash distribution	-	-
- Issue of bonus units	(62,253)	-
	(270,526)	(285,954)
Net element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed - amount transferred to distribution statement	(48,026)	37,072
<b>Net assets at the end of the year</b>	<u>2,177,036</u>	<u>4,962,334</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014	2013
(Rupees in '000)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year		291,554	324,206
<b>Adjustments for:</b>			
Unrealised diminution / (appreciation) on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net		13,458	(2,382)
Amortisation of preliminary expenses and floatation costs		219	219
		<u>305,231</u>	<u>322,043</u>
<b>Decrease / (increase) in assets</b>			
Investments - net		930,676	(36,861)
Profit receivable		3,202	(3,133)
Receivable against issue of units		964,360	(964,360)
Prepayments and other receivables		(44)	(21)
		<u>1,898,194</u>	<u>(1,004,375)</u>
<b>Increase / (decrease) in liabilities</b>			
Payable to the Management Company		2,994	2,741
Fee payable to the Central Depository Company of Pakistan Limited - Trustee		(92)	95
Payable to the Securities and Exchange Commission of Pakistan		115	1,938
Accrued expenses and other liabilities		6,088	6,916
		<u>9,105</u>	<u>11,690</u>
<b>Net cash generated from / (used in) operating activities</b>		<u>2,212,530</u>	<u>(670,642)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipts from issue of units		1,961,441	4,327,598
Payments on redemption of units		(4,044,149)	(2,337,626)
Distributions paid		(39,612)	(123,976)
<b>Net cash (used in) / generated from financing activities</b>		<u>(2,122,320)</u>	<u>1,865,996</u>
<b>Net increase in cash and cash equivalents during the year</b>		<u>90,210</u>	<u>1,195,354</u>
Cash and cash equivalents at the beginning of the year		1,321,210	125,856
<b>Cash and cash equivalents at the end of the year</b>	4	<u><u>1,411,420</u></u>	<u><u>1,321,210</u></u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director



# NAFA FINANCIAL SECTOR INCOME FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Financial Sector 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 Trustee. The Trust Deed was executed on July 28, 2011 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on August 16, 2011 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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 4, Scheme no. 5, Clifton, Karachi. The Management Company is a member of the Mutual Funds Association of Pakistan (MUFAP).

The Fund is an open-ended mutual fund and is listed on the Lahore Stock Exchange. Units are offered for public subscription on a continuous basis. The units of the Fund are transferable and can be redeemed by surrendering these to the Fund. The Fund is categorized as an Open-End "Income Scheme" as per the criteria laid down by SECP for categorisation of Collective Investment Schemes (CIS).

The objective of the Fund is to provide income enhancement and preservation of capital by investing in prime quality Financial sector term finance certificates, sukuks, bank deposits and short-term money market instruments.

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

Title of the assets of the Fund is held in the name of CDC as 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 (IFRSs) 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 Regulations) Rules, 2003 (the NBFC Rules), the Non-Banking Finance and Notified Entities Regulations, 2008 (the NBFC Regulations) and the directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP differ with the requirements of the IFRSs, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

#### 2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

There are certain new and amended standards and interpretations that are mandatory for accounting periods beginning July 1, 2013 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

#### 2.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

There are certain new and amended standards and interpretations that are mandatory for the accounting periods beginning on or after July 1, 2014 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

#### 2.4 Critical accounting estimates and judgments

The preparation of the 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 judgment in application of its accounting policies. The estimates, judgments and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the year in which the estimates are revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

#### 2.5 Accounting Convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been carried at fair value.

# NAFA FINANCIAL SECTOR INCOME FUND

## 2.6 Functional and Presentation Currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Fund operates. These financial statements are presented in Pakistani Rupees which is the Fund's functional and presentation currency.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

### 3.1 Cash and cash equivalents

Cash and cash equivalents comprise balances with banks and short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried in the statement of assets and liabilities at cost.

### 3.2 Financial assets

#### 3.2.1 Classification

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

Investments are classified as follows:

#### a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profits from short-term fluctuations in prices are classified as financial assets at fair value through profit or loss category.

#### b) Loans and receivables

These are non-derivatives 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 (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

#### 3.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

#### 3.2.3 Initial recognition and measurement

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

#### 3.2.4 Subsequent measurement

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

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

##### Basis of valuation of debt securities

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Fund Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its circular no. 1 of 2009 dated January 6, 2009, circular no.33 of 2012 dated October 24, 2012 and circular no. 35 of 2012 dated November 26, 2012. In the determination of the rates MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

# NAFA FINANCIAL SECTOR INCOME FUND

## Basis of valuation of government securities

The investment of the Fund in government securities is subsequently stated at fair value which is determined on the basis of rates announced by the Financial Market Association of Pakistan in accordance with the requirements of the NBFC Regulations, 2008.

Net gains and losses arising from changes in 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 recognised as 'other comprehensive income' in the statement of comprehensive income until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised as 'Unit holder fund' is transferred to the income statement as capital gain / (loss).

## b) Loans and receivables

Subsequent to initial recognition financial assets classified as loans and receivables are carried at amortised cost using the effective interest method.

Gain or loss is also recognised in the income statement when financial assets carried at amortised cost are derecognised or impaired, and through the amortisation process.

## 3.2.5 Impairment

The carrying amounts of the Fund's assets are revalued at each reporting date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. If any impairment evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income is reclassified from other comprehensive income and recognised in the income statement.

## a) Debt securities

Provision for non-performing debt securities is made on the basis of time based criteria as prescribed under circular no. 1 of 2009 dated January 6, 2009, circular no.33 of 2012 dated October 24, 2012 and circular no. 35 of 2012 dated November 26, 2012, issued by the SECP. Impairment losses recognised on debt securities can be reversed through the 'Income Statement'.

As allowed under circular no. 33 of 2012 dated October 24, 2012, 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 a provisioning policy approved by the Board of Directors.

## b) Loans and receivables

For financial assets classified as loans and receivables, a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The amount of the provision is determined based on the provisioning criteria specified by the SECP.

## 3.2.6 Derecognition

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

## 3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to management company, payable to trustee and other liabilities.

## 3.4 Offsetting of financial instruments

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

## 3.5 Preliminary expenses and floatation costs

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

# NAFA FINANCIAL SECTOR INCOME FUND

## 3.6 Provisions

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

## 3.7 Taxation

### Current

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.

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.

### Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax on unutilised tax losses to the extent that it is probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to avail the tax exemption under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

## 3.8 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company of the Fund 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. The sales load is payable to the Management Company as processing fee. Issue of units is recorded on the date on which the investment application is received.

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

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

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created.

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 during the year and on unrealised appreciation / (diminution) arising during the year on available for sale securities. The amount so determined is taken directly to the Distribution Statement.

## 3.10 Proposed distributions

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

## 3.11 Net asset value per unit

The Net Asset Value (NAV) 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 circulation at the year end.

## 3.12 Earnings per unit

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

# NAFA FINANCIAL SECTOR INCOME FUND

## 3.13 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 appreciation / (diminution) in the value of investments classified as financial assets 'at fair value through profit or loss' are included in the income statement in the year in which they arise.
- Discount income on purchase of Market Treasury Bills and Pakistan Investment Bond (PIB's) are amortised to income statement using the straight line method.
- Income from investments in term finance certificates is recognised on an accrual basis, except where recovery is doubtful in which case it is credited to suspense account.
- Profit on bank deposits, certificate of investment and letters of placement is recognised on an accrual basis.

4 CASH AND BANK BALANCES	Note	2014	2013
(Rupees in '000)			
In savings accounts	4.1	904,082	1,320,049
In current accounts	4.2	4,025	1,161
Pay order in hand		503,313	-
		<u>1,411,420</u>	<u>1,321,210</u>

4.1 These accounts carry a rate of return ranging from 6.50% to 11.00% per annum (2013: 6.00% to 11.00% per annum).

4.2 Deposits in current accounts include Rs 1.241 million (2013: Rs 1.161 million) and Rs 1.624 million (2013: Nil) maintained with National Bank of Pakistan and Summit Bank Limited respectively - related parties.

5 INVESTMENTS	Note	2014	2013
(Rupees in '000)			
<b>Financial assets 'at fair value through profit or loss'</b>			
Investment in term finance certificates - listed	5.1	568,230	1,500,406
Investment in term finance certificates - unlisted	5.2	591,677	514,161
Investment in government securities - Pakistan Investment Bonds	5.4	482,685	-
		<u>1,642,592</u>	<u>2,014,567</u>
<b>Loans and receivables</b>			
Investment in commercial papers	5.5	47,841	-
Certificate of Investment		-	300,000
Sukuk Certificates		-	320,000
		<u>47,841</u>	<u>620,000</u>
		<u>1,690,433</u>	<u>2,634,567</u>

# NAFA FINANCIAL SECTOR INCOME FUND

## 5.1 Term finance certificates - listed

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

Name of the investee company	Number of certificates / bonds				Market Value as at June 30, 2014	Investment as a percentage of		
	As at July 01, 2013	Purchases during the period	Sale during the period	As at June 30, 2014		Net assets	Market value of total investments	Issue size
					Rupees in '000	----- % -----		
<b>Term finance certificates - listed</b>								
Allied Bank Limited - I	4,400	-	-	4,400	5,497	0.25	0.33	0.88
Allied Bank Limited II	13,000	-	-	13,000	63,473	2.92	3.75	2.17
Askari Bank Limited - II	3,000	-	3,000	-	-	-	-	-
Askari Bank Limited - III	30,336	-	-	30,336	149,958	6.89	8.87	5.06
Bank Al-Habib Limited -II	1,077	-	-	1,077	5,388	0.25	0.32	0.36
Faysal Bank Limited - III	59,000	-	-	59,000	307,344	14.12	18.18	9.83
NIB Bank Limited	54,600	-	54,600	-	-	-	-	-
Pak Libya Holding Company (Pvt) Limited	10,000	-	-	10,000	33,323	1.53	1.97	5.00
Pakistan Mobile Communication Limited	22,677	1,930	24,607	-	-	-	-	-
United Bank Limited -III	3,900	-	-	3,900	3,247	0.15	0.19	0.98
United Bank Limited -IV	88,100	-	88,100	-	-	-	-	-
				<u>121,713</u>	<u>568,230</u>	<u>26.10</u>	<u>33.61</u>	
<b>Carrying Value as at June 30, 2014</b>					574,319			
Net unrealised diminution on re-measurement of investments					<u><u>(6,089)</u></u>			

## 5.2 Term finance certificates - unlisted

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

Name of the investee company	Number of certificates / bonds				Market Value as at June 30, 2014	Investment as a percentage of		
	As at July 01, 2013	Purchases during the period	Sale during the period	As at June 30, 2014		Net assets	Market value of total investments	Issue size
					Rupees in '000	----- % -----		
<b>Term finance certificates - unlisted</b>								
Bank Alfalah Limited - IV	70,200	-	-	70,200	361,338	16.60	21.38	7.02
Askari Bank Limited - IV	44	-	-	44	46,228	2.12	2.73	0.02
Bank Alfalah Limited - IV FX	11,500	-	-	11,500	61,911	2.84	3.66	1.15
Jahangir Siddiqui & Company Limited	13,500	-	13,500	-	-	-	-	-
Standard Chartered Bank	10,000	-	-	10,000	50,100	2.30	2.96	2.50
Pakistan Mobile Communication Limited	-	14,420	-	14,420	72,100	3.31	4.27	2.88
				<u>106,164</u>	<u>591,677</u>	<u>27.18</u>	<u>35.00</u>	
<b>Carrying Value as at June 30, 2014</b>					600,241			
Net unrealised diminution on re-measurement of investments					<u><u>(8,564)</u></u>			

# NAFA FINANCIAL SECTOR INCOME FUND

## 5.3 Significant terms and conditions of term finance certificates outstanding at the year end are as follows:

### Term finance certificates - listed

Name of the investee company	Number of certificates	Face value (Rupees)	Mark up rate (per annum)	Maturity	Secured/ Unsecured	Rating
Allied Bank Limited - I	4,400	5,000	6 month KIBOR+1.90%	6-Dec-14	Unsecured	AA
Allied Bank Limited II	13,000	5,000	6 month KIBOR+0.85%	28-Aug-19	Unsecured	AA
Askari Bank Limited - III	30,336	5,000	6 month KIBOR+2.50%	18-Nov-19	Unsecured	AA-
Bank Al-Habib Limited -II	1,077	5,000	6 month KIBOR+1.95%	7-Feb-15	Unsecured	AA
Faysal Bank Limited - III	59,000	5,000	6 month KIBOR+2.25%	24-Dec-17	Unsecured	AA-
Pak Libya Holding Company (Pvt) Limited	10,000	5,000	6 month KIBOR+1.60%	6-Feb-16	Unsecured	AA
United Bank Limited -III	3,900	5,000	6 month KIBOR+1.7%	8-Sep-14	Unsecured	AA

### Term finance certificates - unlisted

Name of the investee company	Number of certificates	Face value (Rupees)	Mark up rate (per annum)	Maturity	Secured/ Unsecured	Rating
Bank Alfalah Limited - IV	70,200	5,000	6 month KIBOR+2.5%	2-Dec-17	Unsecured	AA-
Bank Alfalah Limited - IV FX	11,500	5,000	Fixed at 15%	2-Dec-17	Unsecured	AA-
Standard Chartered Bank	10,000	5,000	6 month KIBOR+0.75%	29-Jun-22	Unsecured	AAA
Pakistan Mobile Communication Limited	14,420	5,000	6 month KIBOR+2%	17-Sep-18	secured	AA-
Askari Bank Limited - IV	44	5,000	6 month KIBOR+1.75%	23-Dec-21	Unsecured	AA-

## 5.4 Government securities

### Market Treasury Bills

Issue date	Tenor	-----Face value-----				Market value as at June 30, 2014	Investment as a percentage of	
		As at July 01,2013	Purchases during the period	Sales / matured during the period	As at June 30, 2014		Net assets	Market value of total investments
						Rupees in '000	----- % -----	
2-May-13	3 Months	-	969,500	969,500	-	-	-	-
26-Jul-12	12 Months	-	240,000	240,000	-	-	-	-
24-Jan-13	6 Months	-	150,000	150,000	-	-	-	-
19-Sep-13	3 Months	-	250,000	250,000	-	-	-	-
28-Nov-13	3 Months	-	70,000	70,000	-	-	-	-
26-Dec-13	3 Months	-	135,000	135,000	-	-	-	-
23-Jan-14	3 Months	-	765,000	765,000	-	-	-	-
6-Mar-14	3 Months	-	200,000	200,000	-	-	-	-
20-Mar-14	3 Months	-	192,200	192,200	-	-	-	-
15-May-14	3 Months	-	150,000	150,000	-	-	-	-
						=====		
						=====		
Carrying Value as at June 30, 2014						-		
Net unrealised appreciation/ (diminution) on re-measurement of investments						=====		
						=====		

### Pakistan Investment Bonds

Issue date	Tenor	-----Face value-----				Market value as at June 30, 2014	Investment as a percentage of	
		As at July 01,2013	Purchases during the period	Sales / matured during the period	As at June 30, 2014		Net assets	Market value of total investments
						Rupees in '000	----- % -----	
27-Feb-14	3 years	-	415,000	415,000	-	-	-	-
27-Mar-14	3 years	-	275,000	100,000	175,000	172,650	0.08	0.10
27-Mar-14	5 years	-	250,000	210,000	40,000	38,728	0.02	0.02
24-Apr-14	3 years	-	125,000	-	125,000	123,321	0.06	0.07
22-May-14	3 years	-	150,000	-	150,000	147,986	0.07	0.09
						=====		
						=====		
Carrying Value as at June 30, 2014						481,490		
Net unrealised appreciation on re-measurement of investments						=====		
						=====		
						=====		

# NAFA FINANCIAL SECTOR INCOME FUND

## 5.5 Investment in Commercial Paper

Name of issuer	Maturity date	Purchase Price	As at June 30, 2013
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(Rupees in '000)

PAIR Investment Company Limited	18-Nov-14	47,224	47,841
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This Commercial paper having a face value of Rs 50 million has been issued at discount and is being amortised over a period of 180 days.

	Note	2014 (Rupees in '000)	2013 (Rupees in '000)
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## 5.6 Unrealised (diminution) / appreciation in fair value of investments classified as 'at fair value through profit or loss' - net

Market value of investments	5.1 & 5.2	1,642,592	2,014,567
Less : carrying value of investments	5.1 & 5.2	(1,656,050)	(2,012,799)
		<u>(13,458)</u>	<u>1,768</u>
Reversal of unrealised diminution on term finance certificates matured during the year		-	614
		<u>(13,458)</u>	<u>2,382</u>

## 6 PROFIT RECEIVABLE

Profit receivable on bank deposits		2,517	6,027
Profit receivable on term finance certificates		32,158	56,197
Profit receivable on government securities		24,813	-
Profit receivable on certificate of investment		-	466
		<u>59,488</u>	<u>62,690</u>

## 7 PRELIMINARY EXPENSES AND FLOATATION COSTS

Opening balance		726	945
Preliminary expenses and floatation costs incurred	7.1		
Less: amortisation for the year		(219)	(219)
Closing balance		<u>507</u>	<u>726</u>

7.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from October 29, 2011 as per the requirements set out in the Trust Deed.

	Note	2014 (Rupees in '000)	2013 (Rupees in '000)
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## 8 PAYABLE TO THE MANAGEMENT COMPANY

Remuneration of the Management Company	8.1	594	4,977
Sindh Sales Tax on Management Company's remuneration		200	797
Federal Excise Duty on Management Company's remuneration	8.2	8,384	481
Sales load and transfer load payable to the Management Company		391	320
Preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund		1,092	1,092
Expenses paid by the Management Company on behalf of the Fund		152	152
		<u>10,813</u>	<u>7,819</u>



# NAFA FINANCIAL SECTOR INCOME FUND

8.1 Under the provisions of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non Banking Finance Companies and Notified Entities Regulation, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent per annum of the average annual net assets of the Fund and thereafter of an amount equal to two percent per annum of such assets of the Fund. Management remuneration has been charged at the rate of 1.5% of the average annual net assets of the Fund during the year ended June 30, 2014.

8.2 As per the requirements 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 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.

The matter has been collectively taken up by the Management Company jointly with other Asset Management Companies together with their respective Collective Investment Schemes, through a Constitutional Petition filed in the Honourable Sindh High Court (SHC) during September 2013 challenging the levy of FED. In this respect, the SHC has issued a stay order against the recovery of FED and the hearing of the petition is still pending.

Pending decision of the SHC, the Fund is not making payments for FED from August 1, 2013. However, the Fund, as a matter of abundant caution, has made full provision in respect of FED from August 1, 2013, amounting to Rs 4.449 million. Had the charge for the period from June 13, 2013 to June 30, 2014, amounting to Rs. 9.732 million, not been made the net asset value per unit of the Fund as at June 30, 2014 would have been higher by Re 0.0454 per unit.

	Note	2014	2013
9.1 FEE PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	9.1	<u>260</u>	<u>352</u>

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2014 is as follows:

Amount of funds under management (average NAV)	Tariff per annum
Upto Rs. 1,000 million	Rs 0.6 million or 0.17% per annum of NAV whichever is higher
On amount exceeding Rs. 1,000 million to Rs. 5,000 million	Rs 1.7 million plus 0.085% per annum of NAV exceeding Rs 1,000 million
On amount exceeding Rs. 5,000 million	Rs 5.1 million plus 0.07% per annum of NAV exceeding Rs 5,000 million

	Note	2014	2013
10 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN			
Annual fee	10.1	<u>2,891</u>	<u>2,776</u>

10.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, a collective investment scheme categorised as Income Scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the scheme. The Fund has been classified as an Income Scheme by the Management Company.

	Note	2014	2013
11 ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		357	328
Provision for Workers' Welfare Fund	15	15,287	9,337
Brokerage		20	28
Printing charges		150	75
Legal fee		50	40
Settlement and bank charges		66	46
Withholding tax payable		659	647
		<u>16,589</u>	<u>10,501</u>

## 12 CONTINGENCIES AND COMMITMENTS

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

# NAFA FINANCIAL SECTOR INCOME FUND

	Note	2014	2013
(Rupees in '000)			
<b>13</b>	<b>PROFIT ON BANK DEPOSITS AND TERM DEPOSIT RECEIPTS</b>		
	Profit on savings deposits	197,423	78,322
	Profit on term deposits receipts	8,682	4,417
		<u>206,105</u>	<u>82,739</u>
<b>14</b>	<b>AUDITORS' REMUNERATION</b>		
	Annual audit fee and other certification	309	280
	Half yearly review fee	128	133
	Out of pocket expenses	65	39
		<u>502</u>	<u>452</u>

## 15 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 judgment, 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 of the Fund, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs 15.287 million (including Rs 5.950 million for the current year) in these financial statements. Had the provision not been made the net asset value per unit / return of the Fund would have been higher by Re. 0.0712 per unit.

## 16 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 provision for taxation in respect of income relating to the current year as the Management Company has already distributed the required minimum percentage of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders.

	Note	2014	2013
Number of units			
<b>17</b>	<b>NUMBER OF UNITS IN ISSUE</b>		
	Total units in issue at the beginning of the year	482,880,329	265,532,658
	Add: units issued during the year	189,953,909	420,660,368
	Add: bonus units issued during the year	22,916,928	23,853,783
	Less: units redeemed during the year	17.1 81,062,694	227,166,480
	Total units in issue at the end of the year	<u>214,688,472</u>	<u>482,880,329</u>

# NAFA FINANCIAL SECTOR INCOME FUND

- 17.1 This includes 93,858,593 units redeemed by the National Bank of Pakistan (NBP), on June 30, 2014, based on their request for redemption. Amount of Rs 951,763,676 in respect of this transaction is included in payable against redemption of units as on June 30, 2014.

## 18 FINANCIAL INSTRUMENTS BY CATEGORY

	-----As at June 30, 2014-----		
	Loans and receivables	Financial assets' at fair value through profit or loss'	Total
	(Rupees in '000)		
<b>Financial assets</b>			
Cash and bank balances	1,411,420	-	1,411,420
Investments	47,841	1,642,592	1,690,433
Profit receivable	59,488	-	59,488
Receivable against issue of units	-	-	-
Security deposit	100	-	100
	<u>1,518,849</u>	<u>1,642,592</u>	<u>3,161,441</u>
	-----As at June 30, 2014-----		
	Loans and receivables	Assets at fair value through profit or loss	Total
	(Rupees in '000)		
<b>Financial liabilities</b>			
Payable to the Management Company			
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	10,813	10,813
Payable against redemption of units	-	260	260
Accrued expenses and other liabilities	-	954,532	954,532
	-	643	643
	<u>-</u>	<u>966,248</u>	<u>966,248</u>
	-----As at June 30, 2013-----		
	Loans and receivables	Financial assets' at fair value through profit or loss'	Total
	(Rupees in '000)		
<b>Financial assets</b>			
Cash and bank balances	1,321,210	-	1,321,210
Investments	620,000	2,014,567	2,634,567
Profit receivable	62,690	-	62,690
Receivable against issue of units	964,360	-	964,360
Security deposit	100	-	100
	<u>2,968,360</u>	<u>2,014,567</u>	<u>4,982,927</u>
	-----As at June 30, 2013-----		
	Loans and receivables	Assets at fair value through profit or loss	Total
	(Rupees in '000)		
<b>Financial liabilities</b>			
Payable to the Management Company			
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	7,819	7,819
Payable against redemption of units	-	352	352
Accrued expenses and other liabilities	-	-	-
	-	517	517
	<u>-</u>	<u>8,688</u>	<u>8,688</u>

# NAFA FINANCIAL SECTOR INCOME FUND

## 19 TRANSACTIONS WITH CONNECTED PERSONS

19.1 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.

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

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

2014                      2013  
(Rupees in '000)

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

### NBP Fullerton Asset Management Limited - Management Company

Remuneration	57,822	55,510
Sindh Sales Tax on Management Company's remuneration	10,809	8,882
Federal Excise Duty on Management Company's remuneration	9,251	481

### Alexandra Fund Management Pte. Limited - Sponsor

Bonus of 182,969 units (2013 : 1,129,006 units)	-	-
Redemption of 11,735,970 units (2013 : Nil units)	122,137	-

### National Bank of Pakistan

Bonus of 7,559,151 units (2013 : 3,280,954 units)	-	-
Issue of 56,847,658 units (2013 : 241,410,829 units)	576,043	2,488,266
Redemption of 236,914,652 units (2013 : 153,032,518 units)	2,451,764	1,580,275
Distributions paid	39,612	-
Market treasury bills purchased during the year	1,358,125	3,105,825
Market treasury bills sold during the year	-	299,319
Placement of Term Deposit Receipts	500,000	-
Profit on Term Deposit Receipt	7,474	-
PIBs purchased during the year	153,348	206,769

### Habib Metropolitan Bank Limited

Bonus of 2,234,776 units (2013 : 2,319,402 units)	-	-
Issue of 18,712,740 units (2013 : 27,134,875 units)	194,000	280,024
Redemption of 26,394,007 units (2013 : 17,693,368 units)	275,169	181,708

### CDC Trustee NAFA Government Securities Liquid Fund

Market treasury bills sold during the year	425,292	49,414
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### CDC Trustee NAFA Money Market Fund

Market treasury bills sold during the year	48,949	-
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### CDC Trustee NAFA Savings Plus Fund

Market treasury bills sold during the year	63,637	-
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### CDC Trustee NAFA Asset Allocation Fund

Term finance certificates purchased during the year	-	38,430
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### Central Depository Company of Pakistan Limited - Trustee

Remuneration for the year	4,126	3,996
Security deposit	-	-

### Employees of the Management Company

Bonus of 32,439 units (2013 :43,012 units)	-	-
Issue of 1,303,948 units (2013 : 1,408,431 units)	13,579	14,532
Redemption of 1,383,412 units (2013 : 1,606,243 units)	14,428	16,562

### Muhammad Murtaza Ali - Company Secretary / CFO

Bonus of 9,885 units (2013 : 1,829 units)	-	-
Issue of 181,291 units (2013 : 125,036 units)	1,887	1,283
Redemption of 129,958 units (2013: 107,771 units)	1,369	1,112

# NAFA FINANCIAL SECTOR INCOME FUND

	2014	2013
	(Rupees in '000)	
<b>Gul Ahmed Textile Mills Ltd. Employee Provident Fund</b>		
Bonus of Nil units (2013 :14,598 units)	-	-
Redemption of Nil units (2013 : 267,393 units)	-	2,734
<b>Greaves Pakistan (Pvt) Limited- Staff Gratuity Fund</b>		
Bonus of Nil units (2013 :23,330 units)	-	-
Issue of Nil units (2013 : 488,071 units)	-	5,047
Redemption of Nil units (2013: 511,401 units)	-	5,204
<b>Greaves Pakistan (Pvt) Limited - Provident Fund Trust</b>		
Bonus of Nil units (2013 :23,324 units)	-	-
Issue of Nil units (2013 : 487,948 units)	-	5,000
Redemption of Nil units (2013: 511,272 units)	-	5,202
<b>Summit Bank Limited</b>		
Bank Profit	135	-
<b>19.5 Amounts / balances outstanding as at year end</b>		
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Preliminary expenses and floatation costs paid by Management Company on behalf of the Fund	1,092	1,092
Rating fee paid by the Management Company on behalf of the Fund	52	52
Sales load and transfer load payable to the Management Company	391	320
Security deposit with Central Depository Company of Pakistan Limited given by the Management Company on behalf of the Fund	100	100
Management remuneration payable	594	4,977
Sindh Sales Tax payable on Management Company's remuneration	200	797
Federal Excise Duty on Management Company's remuneration	8,384	481
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	260	352
Security deposit	100	100
<b>Alexandra Fund Management Pte. Limited - Sponsor</b>		
Units held : Nil units (2013 : 11,553,000 units)	-	118,724
<b>National Bank of Pakistan - Sponsor</b>		
Units held : 68,882,766 units (2013 :241,390,610 units)	698,499	2,480,651
Payable against 93,858,593 units redeemed as at June 30, 2014	951,764	-
Bank balance	1,241	1,161
<b>Habib Metropolitan Bank Limited</b>		
Units held : 23,561,078 units (2013: 29,007,569 units)	238,919	298,096
<b>Summit Bank Limited</b>		
Bank balance	1,624	8,702
<b>Employees of the Management Company</b>		
Units held : 371,147 units (2013 : 250,012 units)	3,764	2,569
<b>Muhammad Murtaza Ali - Company Secretary / CFO</b>		
Units held : 80,311 units (2013 : 19,094units)	814	196

# NAFA FINANCIAL SECTOR INCOME FUND

## 20 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

S. No.	Name	Qualification	Experience in years
1	Dr. Amjad Waheed	MBA / Doctorate in Business Administration / CFA	26
2	Sajjad Anwar	MBA / CFA	14
3	Syed Suleman Akhtar	CFA	19
4	Salman Ahmed*	EMBA / CFA	14
5	Asim Wahab Khan	MBA / CFA	8.5

\* Mr. Salman Ahmed is the manager of the Fund.

## 21 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID / PAYABLE

2014

1	KASB Securities Limited	31.54%
2	Invest & Finance Securities (Private) Limited	15.14%
3	J.S. Global Capital Limited	14.60%
5	Invest One Markets Limited	7.21%
4	BMA Capital Management Limited	6.56%
6	Optimus Capital Management Limited	6.16%
7	Next Capital Limited	6.16%
8	Icon Securities (Private) Limited	5.69%
9	Invest Capital Markets Limited	4.69%
10	Magenta Capital (Private) Limited	1.01%

2013

1	Invest & Finance Securities (Private) Limited	48.64%
2	J.S. Global Capital Limited	14.69%
3	Summit Capital Private Limited	10.31%
5	C & M Management (Private) Limited	8.33%
4	KASB Securities Limited	8.17%
6	Invest Capital Markets Limited	4.13%
7	BMA Capital Management Limited	2.43%
8	Elixir Securities Pakistan (Private) Limited	1.97%
9	Vector Capital Private Limited	0.87%
10	Optimus Capital Management Limited	0.26%

## 22 PATTERN OF UNIT HOLDING

----- As on June 30, 2014 -----

Category	Number of unit holders	Invested amount	Percentage of investment
Rupees in '000			
Associated companies and directors	1	698,499	32.08%
Insurance companies	1	50,045	2.30%
Individuals	1,022	861,873	39.59%
Banks / DFIs	1	238,919	10.97%
Retirement funds	15	91,031	4.18%
Public limited companies	21	116,117	5.33%
Others	16	120,552	5.55%
	1,077	2,177,036	100.00%

----- As on June 30, 2013 -----

Category	Number of unit holders	Invested amount	Percentage of investment
Rupees in '000			
Associated companies and directors	3	2,602,040	52.44%
Insurance companies	1	25,575	0.52%
Individuals	1,131	1,184,829	23.88%
Banks / DFIs	1	298,096	6.01%
Retirement funds	26	213,141	4.30%
Public limited companies	1	52,504	1.06%
Others	34	586,149	11.81%
	1,197	4,962,334	100.00%

# NAFA FINANCIAL SECTOR INCOME FUND

## 23 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 42nd, 43rd, 44th, 45th, 46th and 47th Board meetings were held on July 11, 2013, August 27, 2013, October 30, 2013, February 13, 2014, April 30, 2014 and June 26, 2014 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Wah Geok Sum	6	2	4	43rd, 44th, 46th & 47th
Mr. Koh Boon San	6	6	-	
Mr. Kamal Amir Chinoy	6	5	1	42nd
Mr. Shehryar Faruque	6	3	3	42nd, 44th & 45th
Dr Amjad Waheed	6	6	-	
Mr. Asif Hassan*	1	-	1	42nd
Mr. Amir Shehzad**	1	-	1	42nd
Mr. Aamir Sattar***	5	5	-	
Mr. Nausherwan Adil****	4	2	2	44th & 46th
Mr. Abdul Hadi Palekar*****	5	4	1	45th
Mr. Khalid Mahmood*****	2	2	-	

\* Mr. Asif Hassan retired in EOGM held on August 07, 2013

\*\* Mr. Aamir Shehzad retired in EOGM held on August 07, 2013

\*\*\* Mr. Aamir Sattar elected in EOGM held on August 07, 2013

\*\*\*\* Mr. Nausherwan Adil was co-opted on the Board with effect from October 10, 2013

\*\*\*\*\* Mr. Abdul Hadi Palekar elected in EOGM held on August 07, 2013

\*\*\*\*\* Mr. Khalid Mahmood retired from Board with effect from October 10, 2013

## 24 FINANCIAL RISK MANAGEMENT

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up to be performed based on limits established by the Management Company, the Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that the Fund is willing to accept. The Board of Directors of the Management Company supervises the overall risk management approach within the Fund. The Fund is exposed to various risks including market risk, credit risk and liquidity risk arising from the financial instruments it holds.

### 24.1 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 in marketable securities by following internal risk management policies and investment guidelines approved by the investment committee and regulations laid down by Securities and Exchange Commission of Pakistan.

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

#### 24.1.1 Currency risk

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

#### 24.1.2 Yield / Interest rate risk

Yield / Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Investment Committee of the Fund reviews the portfolio of the Fund on a regular basis to ensure that the risk is managed within acceptable limits.

##### a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing term finance certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on the last repricing date of these term finance certificates with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 1.3977 million (2013: Rs3.792 million) and Rs 1.3977 million (2013: Rs 3.921 million) respectively.

##### b) Sensitivity analysis for fixed rate instruments

As at June 30, 2014, the Fund holds Pakistan Investment Bonds (PIB's) which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Markets Association of Pakistan on June 30, 2014, with all other variables held constant, the net income for the year and net assets would have been lower by Rs. 9.022 million (2013: Nil). In case of 100 basis points decrease in rates announced by Financial Markets Association on June 30, 2014, with all other variables held constant, the net income for the year and net assets would have been higher by Rs. 9.221 million (2013: Nil).

# NAFA FINANCIAL SECTOR INCOME FUND

The composition of the Fund's investment portfolio and rates announced by the Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2014 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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

-----As at June 30, 2014-----

Effective Yield/ interest rate %	Total	Exposed to yield/interest rate risk			Not exposed to Yield/ Interest rate risk
		Upto three months	More than three months and upto one year	More than one year	

(Rupees in '000)

## On-balance sheet financial instruments

### Financial assets

Cash and bank balances	6.50 - 11.00	1,411,420	904,082	-	-	507,338
Investments	10.92 - 15.00	1,690,433	3,247	86,552	1,600,634	-
Profit receivable		59,488	-	-	-	59,488
Security deposit		100	-	-	-	100
		3,161,441	907,329	86,552	1,600,634	566,926

### Financial liabilities

Payable to the Management Company		10,813	-	-	-	10,813
Payable to the Central Depository Company of Pakistan Limited - Trustee		260	-	-	-	260
Payable against redemption of units		954,532	-	-	-	954,532
Accrued expenses and other liabilities		643	-	-	-	643
		966,248	-	-	-	966,248

## On-balance sheet gap

	2,195,193	907,329	86,552	1,600,634	(399,322)
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## Off-balance sheet financial instruments

	-	-	-	-	-
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## Off-balance sheet gap

	-	-	-	-	-
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-----As at June 30, 2013-----

Effective Yield/ interest rate %	Total	Exposed to yield/interest rate risk			Not exposed to Yield/ Interest rate risk
		Upto three months	More than three months and upto one year	More than one year	

(Rupees in '000)

## On-balance sheet financial instruments

### Financial assets

Cash and bank balances	6.00 - 11.00	1,321,210	1,320,049	-	-	1,161
Investments	9.84 - 15.00	2,634,567	653,692	176,301	1,804,574	-
Profit receivable		62,690	-	-	-	62,690
Receivable against issue of units		964,360	-	-	-	964,360
Security deposit		100	-	-	-	100
		4,982,927	1,973,741	176,301	1,804,574	1,028,311

### Financial liabilities

Payable to the Management Company		7,819	-	-	-	7,819
Payable to the Central Depository Company of Pakistan Limited - Trustee		352	-	-	-	352
Accrued expenses and other liabilities		517	-	-	-	517
		8,688	-	-	-	8,688

## On-balance sheet gap

	4,974,239	1,973,741	176,301	1,804,574	1,019,623
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## Off-balance sheet financial instruments

	-	-	-	-	-
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## Off-balance sheet gap

	-	-	-	-	-
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# NAFA FINANCIAL SECTOR INCOME FUND

## 24.1.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because 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 similar financial instruments traded in the market. Presently, the Fund does not hold any security which exposes the Fund to price risk.

## Credit risk

### 24.2

Credit risk arising from the inability of the counterparties to fulfil their obligations in respect of financial instrument contracts, is generally limited to the principal amount and accrued income thereon. The Fund's credit risk is primarily attributable to balances with banks, its investment in term finance certificates, receivable against sale of investments, dividend receivable and profit receivable on balances with banks. The credit risk on liquid funds is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by the investment Committee) require the Fund to invest in debt securities that have been rated as investment grade by a well known rating agency. Credit risk on dividends receivable is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using the central clearing company. The risk of default is considered minimal due to inherent systematic measures taken therein. The Fund's policy is to enter into financial instrument contracts by 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 :

	June 30, 2014	June 30, 2013
	Percentage	
<b>Bank Balances by rating category</b>		
A1+	60.77%	43.44%
A1	39.11%	55.90%
A3	0.12%	0.66%
	<u>100%</u>	<u>100%</u>
<b>Term Finance Certificates by rating category</b>		
AA	13.94%	49.05%
A+	0.00%	13.49%
AA-	79.85%	35.00%
AAA	6.21%	2.46%
	<u>100%</u>	<u>100%</u>

The maximum exposure to credit risk before any credit enhancement as at June 30, 2014 is the carrying amount of the financial assets.

### 24.2.1 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 statements is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentration of credit risk.

### 24.2.2 Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

### 24.3 Liquidity risk

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

The Fund is exposed to the daily cash redemptions at the option of the 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 damage 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 of. The Fund's investment in government securities is considered readily realisable.

The Fund has the ability to borrow in the short term to ensure settlement. 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. However, no borrowing was obtained by the Fund during the current year.

# NAFA FINANCIAL SECTOR INCOME FUND

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 redemption requests during the year.

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

-----As at June 30, 2014-----				
	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	10,813	10,813	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	260	260	-	-
Accrued expenses and other liabilities	643	643	-	-
	<u>11,716</u>	<u>11,716</u>	<u>-</u>	<u>-</u>
-----As at June 30, 2013-----				
	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	7,819	7,819	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	352	352	-	-
Accrued expenses and other liabilities	517	517	-	-
	<u>8,688</u>	<u>8,688</u>	<u>-</u>	<u>-</u>

## 25 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 on the 'Statement of Movement in Unit holders' Fund'.

The Fund has no restrictions on the subscription and redemption of units. As required under the NBFC Regulations, every open end scheme shall maintain fund size (i.e. net assets of the Fund) of Rs 100 million at all times during the life of the scheme. The Fund has maintained and complied with the requirement of minimum fund size during the current year.

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 24, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, which would be augmented by short-term borrowings or disposal of investments where necessary.

## 26 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

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.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the reporting date. The estimated fair value of all other financial assets and liabilities is not considered to be significantly different from carrying values as the items are either short term in nature or are periodically repriced.

# NAFA FINANCIAL SECTOR INCOME FUND

According to the amendments to International Financial Reporting Standard 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

----- As on June 30, 2014 -----				
	Level 1	Level 2	Level 3	Total
----- Rupees in '000 -----				
<b>ASSETS</b>				
<b>Financial assets classified as 'fair value through profit or loss'</b>				
Investment in term finance certificates - listed	-	568,230	-	568,230
Investment in term finance certificates - unlisted	-	519,577	-	519,577
Investment in government securities - Pakistan Investment Bonds	-	482,685	-	482,685

----- As on June 30, 2013 -----				
	Level 1	Level 2	Level 3	Total
----- Rupees in '000 -----				
<b>ASSETS</b>				
<b>Financial assets classified as 'fair value through profit or loss'</b>				
Investment in term finance certificates - listed	-	1,500,406	-	1,500,406
Investment in term finance certificates - unlisted	-	514,161	-	514,161

## 27 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 16, 2014 .

## 28 GENERAL

Figures have been rounded off to the nearest thousand rupees.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## PERFORMANCE TABLE

Particulars	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013	For the period from October 18, to June 30, 2012
Net assets (Rs. '000')	2,177,036	4,962,334	2,767,667
Net Income (Rs. '000')	291,554	324,206	133,321
Net Asset Value per units (Rs.)	10.1404	10.2765	10.4231
Offer price per unit	10.2768	10.3793	10.4231
Redemption price per unit	10.1404	10.2765	10.4231
Highest offer price per unit (Rs.)	10.2978	9.4880	9.4071
Lowest offer price per unit (Rs.)	9.7627	9.5012	8.6781
Highest redemption price per unit (Rs.)	10.1611	9.3941	9.4071
Lowest redemption price per unit (Rs.)	9.6331	9.4071	8.6781
Fiscal Year Opening Ex Nav	9.3941	9.4045	9.618
Total return of the fund (Annualized)	7.94%	9.27%	8.37%
Capital growth	-1.89%	1.09%	1.09%
Income distribution as a % of ex nav	9.84%	8.18%	7.28%
Income distribution as a % of par value	9.24%	7.69%	7.00%
Distribution dates			
Interim			
30-Oct-13	0.1540		
13-Feb-14	0.2567		
30-Apr-14	0.2567		
26-Jun-14	0.2567		
23-Oct-12		0.2784	
26-Feb-13		0.2278	
26-Apr-13		0.2531	
17-Feb-12			0.2000
17-Apr-12			0.2000
Final			
11-Jul-13		0.0101	
9-Jul-12			0.3000
Average annual return (launch date October 18, 2011)			
(Since inception to June 30, 2014)	9.62%		
(Since inception to June 30, 2013)		10.63%	
(Since inception to June 30, 2012)			12.42%
Portfolio Composition (Please see Fund Manager Report)			
Weighted average portfolio duration	250 Days	68 Days	102 Days

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



NBP Fullerton  
Asset Management Ltd.

A Subsidiary of

National Bank of Pakistan

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