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

# NAFA FINANCIAL SECTOR INCOME FUND

## ANNUAL REPORT 2015



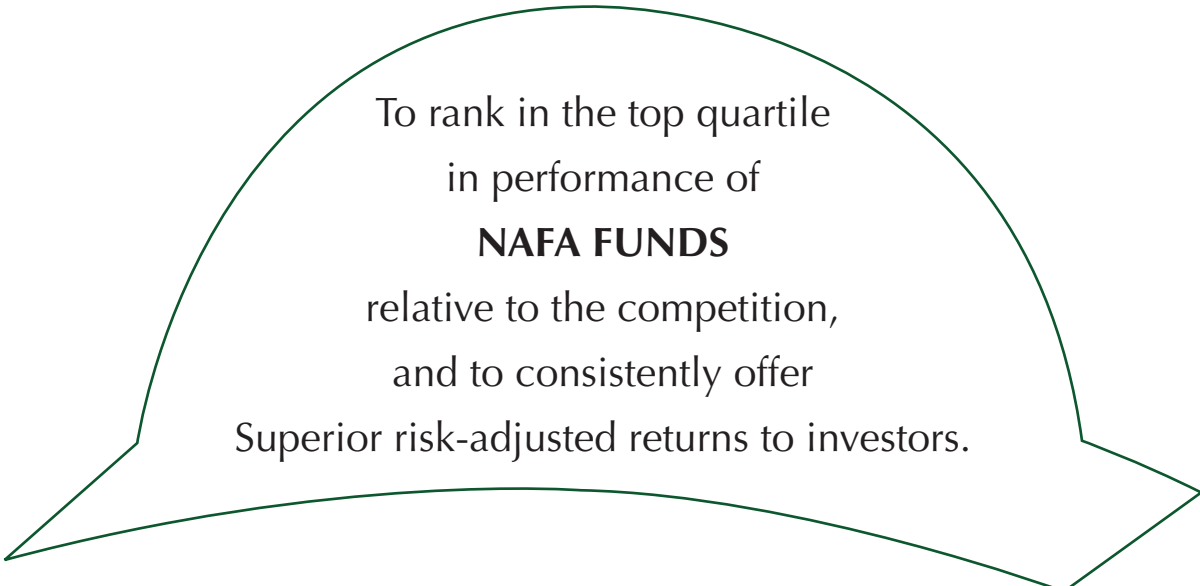
*Your investments & "NAFA" grow together*



**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. Nigel Poh Cheng	Director
Mr. Koh Boon San	Director
Mr. Kamal Amir Chinoy	Director
Mr. Shehryar Faruque	Director
Mr. Aamir Sattar	Director
Mr. Abdul Hadi Palekar	Director

### Company Secretary & 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 and Remuneration Committee

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

### Trustee

Central Depository Company of Pakistan Limited (CDC)  
CDC House, 99-B, Block "B" S.M.C.H.S.,  
Main 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  
Khushhali Bank 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

## Contents

DIRECTORS' REPORT	05
TRUSTEE REPORT TO THE UNIT HOLDERS	08
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE	09
FUND MANAGER REPORT	12
REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF THE COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE	14
INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS	15
STATEMENT OF ASSETS AND LIABILITIES	16
INCOME STATEMENT	17
STATEMENT OF COMPREHENSIVE INCOME	18
DISTRIBUTION STATEMENT	19
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND	20
CASH FLOW STATEMENT	21
NOTES TO THE FINANCIAL STATEMENTS	22
PERFORMANCE TABLE	42

# Board of Directors



Mr. Nausherwan Adil  
Chairman



Dr. Amjad Waheed, CFA  
Chief Executive Officer



Mr. Kamal Amir Chinoy  
Director



Mr. Koh Boon San  
Director



Mr. Aamir Sattar  
Director



Mr. Shehryar Faruque  
Director



Mr. Nigel Poh Cheng  
Director



Mr. Abdul Hadi Palekar  
Director



# Senior Management\*



Dr. Amjad Waheed, CFA  
Chief Executive Officer



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



Mr. Sajjad Anwar, CFA  
Chief Investment Officer



Mr. Zeeshan  
Chief - Strategy &  
Business Development



Mr. Khalid Mehmood  
Chief Financial Officer



Mr. Samiuddin Ahmed  
Country Head Corporate  
Marketing



Mr. Ozair Khan  
Chief Technology Officer



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



Syed Suleman Akhtar CFA  
Head of Research



Mr. Tahir Lateef  
Head of Internal Audit



Mr. Ahmad Nouman CFA, PRM  
Head of Risk Management



Mr. Asim Wahab Khan, CFA  
Head of Equity

# NAFA FINANCIAL SECTOR INCOME FUND

## DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Fourth Annual Report of NAFA Financial Sector Income Fund for the year ended June 30, 2015.

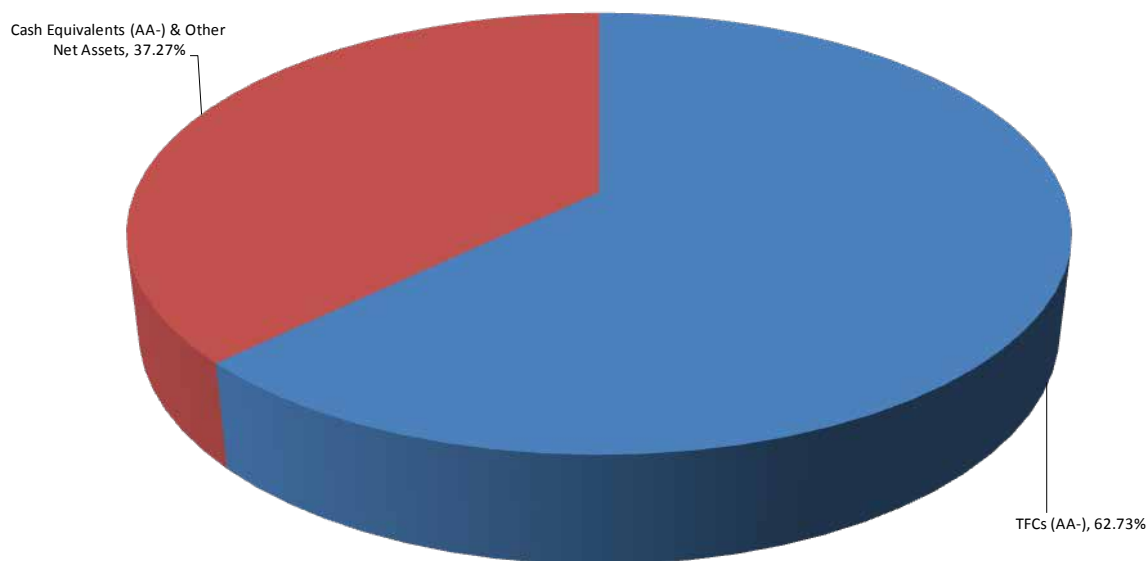
### Fund's Performance

The size of NAFA Financial Sector Income Fund has decreased from Rs. 2,177 million to Rs. 777 million during the period, i.e. a decline of 64.31%. During the period, the unit price of the Fund has increased from Rs. 9.4392 (Ex - Div) on June 30, 2014 to Rs. 10.4679 on June 30, 2015 thus posting a return of 10.90% as compared to its Benchmark (70% 6 month KIBOR & 30% average 3 month deposit rates of A & above rated banks) return of 8.31% 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, trading activity in TFCs remains skewed towards the high quality issues. Dearth of primary issuance versus elevated demand further depressed the yield on the high credit quality corporate bonds. During the period under review, the State Bank of Pakistan reduced the discount rate by 300 bps bringing it to a 42 year low of 7.0%. SBP highlighted i) improving external account position; ii) benign inflation reading and anchored inflation outlook; and iii) continued increase in foreign exchange reserves as the key drivers for the expansionary monetary policy decision during the year. Sovereign securities responded to the loose monetary policy period with yields on the PIBs and T-bills declining sharply. All TFCs/Sukuks in the Fund are floating rate linked to KIBOR with three to six month coupon resetting period.

The Fund has earned a total income of Rs. 179.77 million during the year. After deducting total expenses of Rs.48.04 million, the net income is Rs.131.73 million. The asset allocation of NAFA Financial Sector Income Fund as on June 30, 2015 is as follows:





# NAFA FINANCIAL SECTOR INCOME FUND

## Income Distribution

The Board of Directors of the Management Company has approved cash dividend of 7.66% of opening ex-NAV (7.77% of the par value) during the year.

## Taxation

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

## Auditors

The present auditors, Messrs A.F.Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2016.

## 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 30, 2015  
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, 2015 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 13, 2015

# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2015

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, 2015, the Board included:

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

The independent directors 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. One casual vacancy occurred on the board on February 17, 2015 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, 2015 a minimum of three directors should have attended director training program. As at year end, three of the directors have attended the director's training program offered by Pakistan Institute of Corporate Governance. Other directors are also 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), Company Secretary, or Head of Internal Audit during the year.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in note 19 to the financial statements "Transactions with Connected Persons".
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The committee has formed the terms of reference for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. All the members are non-executive directors including an independent director and the chairman of the committee is 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 has prepared a framework for this purpose and eventual approval by the Board of Directors of the Management Company will be obtained in forthcoming Board of Directors meeting, subsequent to year end.

For and behalf of the board

Karachi  
September 30, 2015

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 fourth Annual report since the launch of the Fund on October 28, 2011. The Fund size reduced by 64.35% during FY15 and stands at Rs 776 million as on June 30, 2015. During FY 2014-15, the Fund posted annualized return of 10.90% versus the benchmark return of 8.31%. The Fund's return since inception is 9.96%. During the same period, the benchmark return has been 9.13%. This translates into an out-performance of 0.83% p.a. This outperformance 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.

On the corporate debt sphere, trading activity in TFCs remained skewed towards the high quality issues. Dearth of primary issuance amid muted private sector credit off-take versus elevated demand further depressed the yield on the high credit quality corporate bonds. All TFCs/Sukuks in the Fund are floating rate linked to KIBOR.

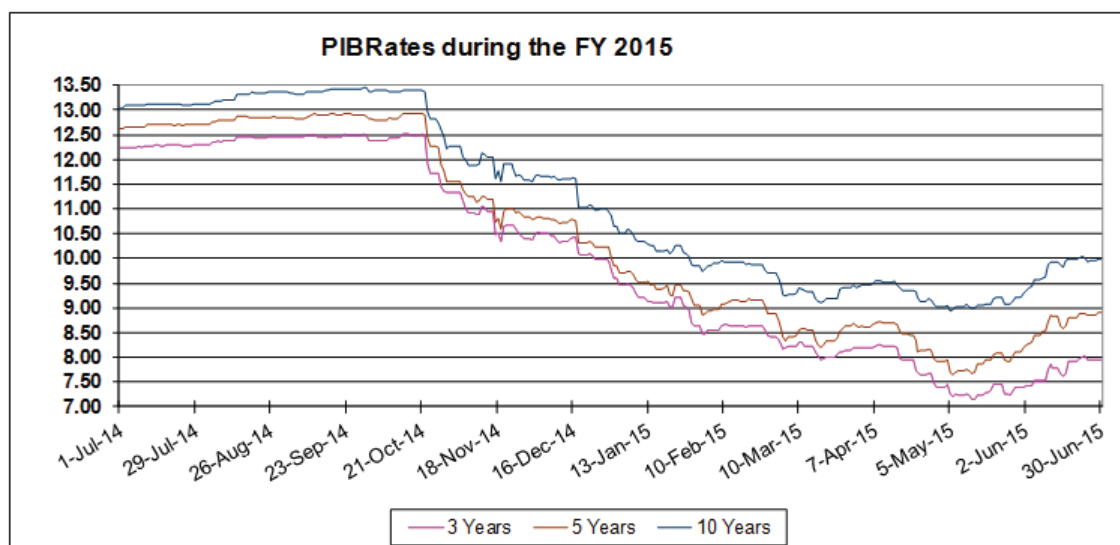
During the period under review, the State Bank of Pakistan reduced the discount rate by 300 bps bringing it to a 42 year low of 7.0%. SBP highlighted i) improving external account position; ii) benign inflation reading and anchored near-term inflation expectation; and iii) continued increase in FX reserves as the key drivers for the expansionary monetary policy decision during the year. Sovereign securities responded to the loose monetary policy stance with yields on the PIBs and T-bills declining sharply.

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

Particulars	30-Jun-15	30-Jun-14
PIBs	-	22.17%
TFCs	62.73%	53.28%
Placements with DFIs	-	-
Placements with Banks	-	2.30%
Money Market Placements	-	2.20%
Cash Equivalents & Other Assets	37.27%	20.05%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

# NAFA FINANCIAL SECTOR INCOME FUND

PIB yields during the year are shown in below graph:



Distribution for the Financial Year 2015

Interim	Dividend as a % of Par Value (Rs.10)	Cumulative Div. Price / Unit	Ex- Div. Price
Interim	7.768%	11.2333	10.4565

Unit Holding Pattern of NAFA Financial Sector Income Fund as on 30th June 2015

Size of Unit Holding (Units)		No. of Unit Holders
1	1000	147
1001	5000	91
5001	10000	64
10001	50000	224
50001	100000	95
100001	500000	109
500001	1000000	11
1000001	5000000	9
5000001	10000000	1
		<b>751</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.17.975 million. If the same were not made the NAV per unit/ FY 2015 return of scheme would be higher by Rs. 0.2422/2.57%. For details investors are advised to read note 17.1 of the Financial Statement of the Scheme for the year ended June 30, 2015.

# 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, 2015 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 of Corporate Governance 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's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of 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 prices 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 of Corporate Governance as applicable to the Fund for the year ended June 30, 2015.

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

Paragraph reference	Description
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 30, 2015  
Karachi

# NAFA FINANCIAL SECTOR INCOME FUND

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

### REPORT ON THE FINANCIAL STATEMENTS

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, 2015, and the related income statement, statement of comprehensive income, 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 about 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, 2015 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 30, 2015

Karachi

# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2015

	Note	2015 -----Rupees in '000-----	2014
<b>ASSETS</b>			
Cash and bank balances	4	1,546,969	1,411,420
Investments	5	487,343	1,690,433
Profit receivable	6	7,143	59,488
Preliminary expenses and floatation costs	7	288	507
Security deposit		100	100
Prepayments and other receivables		969	173
<b>Total assets</b>		<b>2,042,812</b>	<b>3,162,121</b>
<b>LIABILITIES</b>			
Payable to NBP Fullerton Asset Management Limited - Management Company	8	16,682	10,813
Payable to the Central Depository Company of Pakistan Limited - Trustee	9	201	260
Payable to the Securities and Exchange Commission of Pakistan	10	1,472	2,891
Dividend payable		53,508	-
Payable against redemption of units	11	1,168,295	954,532
Accrued expenses and other liabilities	12	25,721	16,589
<b>Total liabilities</b>		<b>1,265,879</b>	<b>985,085</b>
<b>NET ASSETS</b>		<b>776,933</b>	<b>2,177,036</b>
<b>UNIT HOLDERS' FUNDS (AS PER STATEMENT ATTACHED)</b>		<b>776,933</b>	<b>2,177,036</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	13		
		-----Number of units-----	
<b>NUMBER OF UNITS IN ISSUE</b>	14	<b>74,220,469</b>	<b>214,688,472</b>
		-----Rupees-----	
<b>NET ASSET VALUE PER UNIT</b>	3.11	<b>10.4679</b>	<b>10.1404</b>

The annexed notes 1 to 29 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, 2015

	Note	2015 -----Rupees in '000-----	2014
<b>INCOME</b>			
Capital gain on sale of investments - net		43,691	698
Income from term finance certificates and commercial papers		116,109	153,428
Income from government securities		35,753	30,122
Income from letters of placement		33	863
Income from certificate of investment		-	6,680
Profit on bank deposits and term deposit receipts	15	59,020	206,105
Unrealised diminution on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net	5.5	(4,038)	(13,458)
<b>Total Income</b>		<b>250,568</b>	<b>384,438</b>
<b>EXPENSES</b>			
Remuneration of NBP Fullerton Asset Management Limited - Management Company	8.1	29,442	57,822
Sindh sales tax on the Management Company's remuneration	8.2	5,123	10,809
Federal excise duties on the Management Company's remuneration	8.3	4,711	9,251
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	9.1	2,518	4,126
Annual fee to the Securities and Exchange Commission of Pakistan	10.1	1,472	2,891
Amortisation of preliminary expenses and floatation costs	7	219	219
Auditors' remuneration	16	605	502
Annual listing fee		40	40
Rating fee		249	210
Printing charges		110	166
Legal and professional charges		125	101
Securities transaction cost		179	95
Settlement and bank charges		556	702
<b>Total expenses</b>		<b>45,349</b>	<b>86,934</b>
<b>Net Income from operating activities</b>		<b>205,219</b>	<b>297,504</b>
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - net		(70,800)	-
<b>Net income for the year</b>		<b>134,419</b>	<b>297,504</b>
Provision for Workers' Welfare Fund	17	(2,688)	(5,950)
<b>Net income for the year before taxation</b>		<b>131,731</b>	<b>291,554</b>
Taxation	18	-	-
<b>Net income for the year after taxation</b>		<b>131,731</b>	<b>291,554</b>
<b>Earnings per unit</b>	3.12		

The annexed notes 1 to 29 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, 2015

	2015	2014
	-----Rupees in '000-----	
Net income for the year after taxation	131,731	291,554
Other comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	<u>131,731</u>	<u>291,554</u>

The annexed notes 1 to 29 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, 2015

	2015	2014
	-----Rupees in '000-----	
<b>Undistributed income at the beginning of the year comprising of:</b>		
- Realised income	88,333	104,392
- Unrealised (loss)	(13,458)	2,382
	<u>74,875</u>	<u>106,774</u>
Net income for the year after taxation	131,731	291,554
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - net	(11,768)	(48,026)
<b>Final distribution for the year ended June 30, 2014</b>		
Nil (Re 0.0101 per unit declared on July 11, 2013)		
- Cash distribution	-	(2,438)
- Issue of bonus units	-	(2,463)
	-	(4,901)
Interim distributions during the year		
- Nil (Re 0.1540 per unit declared on October 30, 2013)		
- Cash distribution	-	(37,174)
- Issue of bonus units	-	(35,578)
- Nil (Re 0.2567 per unit declared on February 13, 2014)		
- Cash distribution	-	-
- Issue of bonus units	-	(69,644)
- Nil (Re 0.2567 per unit declared on April 30, 2014)		
- Cash distribution	-	-
- Issue of bonus units	-	(65,877)
- Re 0.7768 per unit declared on June 30, 2015 (2014 : Re 0.2567 per unit declared on June 26, 2014)		
- Cash distribution	(95,697)	-
- Issue of bonus units	-	(62,253)
	<u>(95,697)</u>	<u>(270,526)</u>
Undistributed income carried forward	<u>99,141</u>	<u>74,875</u>
<b>Undistributed income at the end of the year comprising of:</b>		
- Realised income	103,179	88,333
- Unrealised (loss)	(4,038)	(13,458)
	<u>99,141</u>	<u>74,875</u>

The annexed notes 1 to 29 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, 2015

	2015	2014
	-----Rupees in '000-----	
<b>Net assets at the beginning of the year</b>	2,177,036	4,962,334
Issue of 154,812,857 units(2014: 212,870,837 units)	1,701,352	1,961,441
Redemption of 295,280,860 units (2014: 481,062,694 units)	(3,208,289)	(4,998,681)
	(1,506,937)	(3,037,240)
Element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed - net		
- transferred to distribution statement	11,768	48,026
- transferred to income statement	70,800	-
	82,568	48,026
Unrealised diminution / (appreciation) on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net	(4,038)	(13,458)
Capital gain on sale of investments - net	43,691	698
Other income (net of expenses) for the year	92,078	304,314
	131,731	291,554
<b>Distributions of bonus units during the year</b>		
Interim distributions	-	233,352
Final distributions	-	2,463
<b>Final distribution for the year ended June 30, 2014</b>		
Nil (Re 0.0101 per unit declared on July 11, 2013)		
- Cash distribution	-	(2,438)
- Issue of bonus units	-	(2,463)
	-	(4,901)
<b>Interim distributions made during the year</b>		
- Nil (Re 0.1540 per unit declared on October 30, 2013)		
- Cash distribution	-	(37,174)
- Issue of bonus units	-	(35,578)
- Nil (Re 0.2567 per unit declared on February 13, 2014)		
- Cash distribution	-	-
- Issue of bonus units	-	(69,644)
- Nil (Re 0.2567 per unit declared on April 30, 2014)		
- Cash distribution	-	-
- Issue of bonus units	-	(65,877)
- Re 0.7768 per unit declared on June 30, 2015 (2014 : Re 0.2567 per unit declared on June 26, 2014)		
- Cash distribution	(95,697)	-
- Issue of bonus units	-	(62,253)
	(95,697)	(270,526)
Element of income / (loss) and capital gains/ (losses) included in the prices of units issued less those in units redeemed - transferred to distribution statement	(11,768)	(48,026)
<b>Net assets at the end of the year</b>	<u>776,933</u>	<u>2,177,036</u>

The annexed notes 1 to 29 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, 2015

	Note	2015	2014
-----Rupees in '000-----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year before taxation		131,731	291,554
<b>Adjustments for:</b>			
Profit / Income on bank deposits and debt securities		(210,915)	(397,198)
Unrealised diminution on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net		4,038	13,458
Amortisation of preliminary expenses and floatation costs		219	219
Element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed - net		70,800	-
Provision for Workers' Welfare Fund		2,688	5,950
Federal excise duty on remuneration of the Management Company		4,711	9,251
		(128,459)	(368,320)
<b>Decrease / (increase) in assets</b>			
Investments - net		1,199,052	930,676
Receivable against issue of units		-	964,360
Prepayments and other receivables		(796)	(44)
		1,198,256	1,894,992
<b>Increase / (decrease) in liabilities</b>			
Payable to NBP Fullerton Asset Management Limited - Management Company		1,158	(6,257)
Payable to the Central Depository Company of Pakistan Limited - Trustee		(59)	(92)
Payable to the Securities and Exchange Commission of Pakistan		(1,419)	115
Accrued expenses and other liabilities		1,106	138
		786	(6,096)
Profit received on bank balances and debt securities		263,260	400,400
<b>Net cash generated from operating activities</b>		1,465,574	2,212,530
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipts from issue of units		1,664,501	1,961,441
Payments on redemption of units		(2,994,526)	(4,044,149)
Distributions paid		-	(39,612)
<b>Net cash used in financing activities</b>		(1,330,025)	(2,122,320)
<b>Net increase in cash and cash equivalents during the year</b>		135,549	90,210
Cash and cash equivalents at the beginning of the year		1,411,420	1,321,210
<b>Cash and cash equivalents at the end of the year</b>	4	1,546,969	1,411,420

The annexed notes 1 to 29 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, 2015

### 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 and Notified Entities Regulations, 2008 (the NBFC Regulations).

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 as at March 19, 2015 and an asset manager rating of AM2+ to the Management Company as at April 6, 2015.

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 Companies 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

The following amendments to existing standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2014:

- Amendment to IAS 32, "Financial Instruments: Presentation" on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have any significant effect on the financial statements of the Fund.
- IFRIC 21, "Levies", sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 "Provisions." The interpretation addresses the obligating event that gives rise to pay a levy and when a liability should be recognised. The Fund has incorporated the impact of this amendment in the financial statements.

There are other amendments to the standards and new interpretations that are mandatory for 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 financial statements 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 accounting periods beginning on or after July 1, 2015 but are considered not to be relevant or will not have any significant effect on the Fund's financial statements and are therefore not detailed in these financial statements.

# NAFA FINANCIAL SECTOR INCOME FUND

Further, the following new standards have been issued by the IASB which is yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standards	IASB effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2018
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 15 – Revenue from Contracts with Customers	January 01, 2017

## 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. These estimates and assumptions are reviewed as on ongoing basis. 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.

The areas involving a higher degree of judgment or complexity, or areas where estimates and assumptions are significant to the financial statements relate to classification, impairment and valuation of investments (note 3.2 and 5).

## 2.5 Accounting Convention

These financial statements have been prepared under the historical cost convention except that certain financial assets have been carried at fair value in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments Recognition and Measurement'.

## 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. This include held for trading instruments and such other instruments that upon initial recognition are designated under this 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.



# NAFA FINANCIAL SECTOR INCOME FUND

## 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 Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the SECP for valuation of debt securities. In the determination of the rates the MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The methodology also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

#### - Basis of valuation of government securities

The investments of the Fund in government securities are valued on the basis of rates published by MUFAP.

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 the fair value of available for sale financial assets are taken to other comprehensive income until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is shown as part of net income for the year.

### 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 reviewed 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.

# NAFA FINANCIAL SECTOR INCOME FUND

## 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.

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

Units redeemed are recorded at the redemption price, 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 daily Net Asset Value (NAV) announced as of the close of the dealing day less any back end load, provisions for transaction costs and any provision for duties and charges, if applicable.

# NAFA FINANCIAL SECTOR INCOME FUND

## 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' (the 'element') is created in order to prevent the dilution of per unit income and distribution of income already paid out on redemption. The element is determined based on the income / (loss) incurred during the year including income / (loss) arising as a result of unrealised appreciation / (diminution) on available for sale securities.

Uptill March 31, 2015, the element so determined was recognised in the distribution statement. From April 1, 2015, the Fund has revised its methodology for the allocation of element. As per the revised methodology, element arising as a result of unrealised appreciation / (diminution) on available for sale securities is recognised in the distribution statement. The remaining portion of the element is recognised in the income statement. The revised methodology in the opinion of the management reflects a more appropriate manner for allocation of element.

The revision has been accounted for as a change in accounting estimate in accordance with the requirements of International Accounting Standard 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Had the Fund not revised its methodology, income for the year would have been higher by Rs 69.384 million and the amount of element of loss taken to distribution statement would have been higher by Rs 70.8 million. Further, the Net Asset Value (NAV) per unit of the Fund as at June 30, 2015 would have been lower by Re 0.0191.

## 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.

## 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.
- Income on government securities is recognised on an accrual basis, using the effective interest rate.
- 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	2015	2014
		----- (Rupees in '000) -----		
	In savings accounts	4.1	1,543,822	904,082
	In current accounts	4.2	3,147	4,025
	Pay order in hand		-	503,313
			<u>1,546,969</u>	<u>1,411,420</u>

4.1 These accounts carry a rate of return ranging from 4.50% to 10.75% per annum (2014: 6.50% to 11.00% per annum).

4.2 Deposits in current accounts include Rs 2.113 million (2014: Rs 1.241 million) and Rs 1.034 million (2014: 1.624 million) maintained with National Bank of Pakistan and Summit Bank Limited respectively - related parties.

# NAFA FINANCIAL SECTOR INCOME FUND

5 INVESTMENTS	Note	2015	2014
		----- (Rupees in '000) -----	
<b>Financial assets 'at fair value through profit or loss'</b>			
Investment in term finance certificates - listed	5.1	222,732	568,230
Investment in term finance certificates - unlisted	5.2	264,611	591,677
Investment in government securities - Pakistan Investment Bonds	5.4	-	482,685
		487,343	1,642,592
<b>Loans and receivables</b>			
Investment in commercial papers		-	47,841
		<u>487,343</u>	<u>1,690,433</u>

## 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, 2015	Investment as a percentage of		
	As at July 01, 2014	Purchases during the period	Sale during the period	As at June 30, 2015		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	-	-	-	-	
Allied Bank Limited II	13,000	-	-	13,000	63,448	8.17	13.02	2.17
Askari Bank Limited - III	30,336	-	30,336	-	-	-	-	
Bank Al-Habib Limited -II	1,077	-	1,077	-	-	-	-	
Faysal Bank Limited - III	59,000	-	31,100	27,900	142,799	18.38	29.30	4.65
Pak Libya Holding Company (Pvt) Limited	10,000	-	-	10,000	16,485	2.12	3.38	5.00
United Bank Limited -III	3,900	-	3,900	-	-	-	-	
				<u>50,900</u>	<u>222,732</u>	<u>28.67</u>	<u>45.70</u>	
<b>Carrying Value as at June 30, 2015</b>					225,399			
Net unrealised diminution on re-measurement of investments as at June 30, 2015					<u>(2,667)</u>			

## 5.1 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, 2015	Investment as a percentage of		
	As at July 01, 2014	Purchases during the period	Sale during the period	As at June 30, 2015		Net assets	Market value of total investments	Issue size
					Rupees in '000	----- % -----		
<b>Term finance certificates - unlisted</b>								
Bank Alfalah Limited - IV FT	70,200	-	30,700	39,500	203,963	26.25	41.85	3.95
Askari Bank Limited - IV	44	-	-	44	44,334	5.71	9.10	0.02
Bank Alfalah Limited - IV FX	11,500	-	11,500	-	-	-	-	
Standard Chartered Bank	10,000	-	6,700	3,300	16,314	2.10	3.35	0.83
Pakistan Mobile Communication Limited	14,420	-	14,420	-	-	-	-	
Hascol Petroleum Limited	-	9,000	9,000	-	-	-	-	
				<u>42,844</u>	<u>264,611</u>	<u>34.06</u>	<u>54.30</u>	
<b>Carrying Value as at June 30, 2015</b>					265,982			
Net unrealised diminution on re-measurement of investments as at June 30, 2015					<u>(1,371)</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 II	13,000	5,000	6 month KIBOR+1.30%	Aug 28, 2019	Unsecured	AA
Faysal Bank Limited - III	27,900	5,000	6 month KIBOR+2.25%	Dec 27, 2017	Unsecured	AA-
Pak Libya Holding Company (Pvt) Limited	10,000	5,000	6 month KIBOR+1.60%	Feb 6, 2016	Secured	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 FT	39,500	5,000	6 month KIBOR+2.5%	Dec 2, 2017	Unsecured	AA-
Askari Bank Limited - IV	44	5,000	6 month KIBOR+1.75%	Dec 23, 2021	Unsecured	AA-
Standard Chartered Bank	3,300	5,000	6 month KIBOR+0.75%	June 29, 2022	Unsecured	AAA

## 5.4 Government securities

### Market Treasury Bills

Issue date	Tenor	-----Face value-----				Market value as at June 30, 2015	Investment as a percentage of	
		As at July 01, 2014	Purchases during the period	Sales / matured during the period	As at June 30, 2015		Net assets	Market value of total investments
						Rupees in '000	----- % -----	
November 13, 2014	3 Months	-	400,000	400,000	-	-	-	-
January 8, 2015	3 Months	-	90,000	90,000	-	-	-	-
March 5, 2015	12 Months	-	50,000	50,000	-	-	-	-
March 19, 2015	3 Months	-	50,000	50,000	-	-	-	-

## 5.4 Government securities

### Market Treasury Bills

Issue date	Tenor	-----Face value-----				Market value as at June 30, 2015	Investment as a percentage of	
		As at July 01, 2014	Purchases during the period	Sales / matured during the period	As at June 30, 2015		Net assets	Market value of total investments
						Rupees in '000	----- % -----	
July 18, 2013	3 years	450,000	-	450,000	-	-	-	-
July 18, 2013	5 years	40,000	50,000	90,000	-	-	-	-
July 17, 2014	3 years	-	380,000	380,000	-	-	-	-

Note

2015

2014

## 5.5 Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' - net

----- (Rupees in '000) -----

Market value of investments	5.1 & 5.2	487,343	1,642,592
Less : carrying value of investments	5.1 & 5.2	(491,381)	(1,656,050)
		<u>(4,038)</u>	<u>(13,458)</u>

## 6 PROFIT RECEIVABLE

Profit receivable on bank deposits	2,666	2,517
Profit receivable on term finance certificates	4,477	32,158
Profit receivable on government securities	-	24,813
Profit receivable on certificate of investment	-	-
	<u>7,143</u>	<u>59,488</u>

## 7 PRELIMINARY EXPENSES AND FLOATATION COSTS

Opening balance	507	726
Less: amortisation for the year	(219)	(219)
Closing balance	<u>288</u>	<u>507</u>

# NAFA FINANCIAL SECTOR INCOME FUND

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	2015 ------(Rupees in '000)-----	2014
<b>8 PAYABLE TO NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY</b>			
Remuneration of the Management Company	8.1	2,320	594
Sindh Sales Tax on the Management Company's remuneration	8.2	481	200
Federal Excise Duty on the Management Company's remuneration	8.3	12,947	8,236
Sales load and transfer load payable to the Management Company		765	539
Preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund		17	1,092
<b>Expenses paid by the Management Company on behalf of the Fund</b>		<u>152</u>	<u>152</u>
		<u>16,682</u>	<u>10,813</u>

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 3% per annum of the average annual net assets of the Fund and thereafter of an amount equal to 2% per annum of such assets of the Fund. Management remuneration has been charged at the rate of 1.5% (2014 : 1.5%) of the average annual net assets of the Fund during the year ended June 30, 2015.

8.2 The Provincial Government of Sindh has levied Sindh sales tax at the rate of 15% (2014 : 16%) on the remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011.

8.3 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 as explained in note 8.2, 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 their trustees, 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 12.947 million (including Rs 4.711 million for the current year). Had the charge for the period from June 13, 2013 to June 30, 2015, amounting to Rs. 14.443 million, not been made the net asset value per unit of the Fund as at June 30, 2015 would have been higher by Rs 0.1946 per unit (2014 : Rs 0.0453 per unit).

	Note	2015	2014
<b>9 PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE</b>			
	9.1	<u>201</u>	<u>260</u>

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2015 and 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	2015	2014
<b>10 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>			
Annual fee	10.1	<u>1,472</u>	<u>2,891</u>



# NAFA FINANCIAL SECTOR INCOME FUND

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. There has been no change in this percentage in the current year.

## 11 PAYABLE AGAINST REDEMPTION OF UNITS

This includes Rs 721.058 million which is payable to the National Bank of Pakistan (a related party). It also includes amounts payable to other collective investment schemes being managed by the Management Company of the Fund. These amounts are payable in respect of units redeemed by various unit holders based on their request for transfer units from the Fund to the other collective investment schemes.

These amounts have been paid to the respective parties subsequent to the year ended June 30, 2015.

	Note	2015	2014
<b>12 ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Auditors' remuneration		436	357
Provision for Workers' Welfare Fund	17	17,975	15,287
Brokerage		39	20
Printing charges		135	150
Legal fee		125	50
Settlement and bank charges		81	66
Withholding tax payable		6,930	659
		<u>25,721</u>	<u>16,589</u>

## 13 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2015 and June 30, 2014.

	2015	2014
	-----Number of units-----	
<b>14 NUMBER OF UNITS IN ISSUE</b>		
Total units in issue at the beginning of the year	214,688,472	482,880,329
Add: units issued during the year	154,812,857	189,953,909
Add: bonus units issued during the year	-	22,916,928
Less: units redeemed during the year	295,280,860	481,062,694
Total units in issue at the end of the year	<u>74,220,469</u>	<u>214,688,472</u>
<b>15 PROFIT ON BANK DEPOSITS AND TERM DEPOSIT RECEIPTS</b>		
Profit on savings deposits	58,917	197,423
Profit on term deposit receipts	103	8,682
	<u>59,020</u>	<u>206,105</u>
<b>16 AUDITORS' REMUNERATION</b>		
Annual audit fee and other certifications	380	309
Half yearly review fee	168	128
Out of pocket expenses	57	65
	<u>605</u>	<u>502</u>

## 17 PROVISION FOR WORKERS' WELFARE FUND

17.1 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.

# NAFA FINANCIAL SECTOR INCOME FUND

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 the applicability of WWF to the CISs which is still pending before the Court.

In a judgment of May 2014, the Honourable 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 17.975 million (including Rs 2.688 million for the current year) in these financial statements. Had the provision not been made the net asset value per unit of the Fund would have been higher by Rs. 0.2422 per unit (2014 : 0.0712 per unit).

- 17.2 The Finance Act, 2015 has excluded mutual funds and Collective Investment Schemes from the definition of 'Industrial establishment' subject to WWF under the WWF Ordinance, 1971. The provision made till June 30, 2015 has not been reversed as the above petition is still pending in the SHC. This amendment is, however, applicable prospectively i.e. from tax year 2016.

## 18 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.

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

## 19 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. It also includes any person or company beneficially owing directly or indirectly 10% or more of the units in the issue/ net assets of the Fund.

- 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.

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

	2015	2014
	-----Rupees in '000-----	
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Remuneration for the year	29,442	57,822
Sindh Sales Tax on Management Company's remuneration	5,123	10,809
Federal Excise Duty on Management Company's remuneration	4,711	9,251
Sales load and transfer load paid	1,275	2,277
<b>Alexandra Fund Management Pte. Limited - Sponsor</b>		
Bonus of Nil units (2014 : 182,969 units)	-	-
Redemption of Nil units (2014 : 11,735,970 units)	-	122,137
<b>National Bank of Pakistan</b>		
Bonus of Nil units (2014 : 7,559,151 units)	-	-
Issue of Nil units (2014 : 56,847,658 units)	-	576,043
Redemption of 68,882,766 units (2014 : 236,914,652 units)	721,058	2,451,764
Cash distribution for the year	53,508	39,612
Market treasury bills purchased during the year	-	1,358,125
Placement of Term Deposit Receipts	-	500,000
Profit on Term Deposit Receipt	-	7,474
PIBs purchased during the year	-	153,348

# NAFA FINANCIAL SECTOR INCOME FUND

	2015	2014
	-----Rupees in '000-----	
<b>CDC Trustee NAFA Government Securities Liquid Fund</b>		
Market treasury bills sold during the year	-	425,292
<b>CDC Trustee NAFA Money Market Fund</b>		
Market treasury bills sold during the year	186,275	48,949
<b>CDC Trustee NAFA Savings Plus Fund</b>		
Market treasury bills sold during the year	-	63,637
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration for the year	2,518	4,126
<b>Employees of the Management Company</b>		
Bonus of Nil units (2014 :32,439 units)	-	-
Issue of 611,772 units (2014 : 1,303,948 units)	6,764	13,579
Redemption of 968,414 units (2014 : 1,383,412 units)	10,669	14,428
Cash distribution for the year	11	-
<b>Muhammad Murtaza Ali - Company Secretary / CFO</b>		
Bonus of Nil units (2014 : 9,885 units)	-	-
Issue of 2,878 units (2014 : 181,291 units)	30	1,887
Redemption of 37,226 units (2014: 129,958 units)	400	1,369
Cash distribution for the year	33	-
<b>NAFA Income Opportunity Fund</b>		
Sale of Pakistan Investment Bond	234,085	-
<b>Summit Bank Limited</b>		
Bank Profit	-	135
<b>Pakistan Electronic Media Regulatory Authority</b>		
Bonus of Nil units (2014 : 807,091 units)	-	-
Issue of 523,158 units (2014 : Nil units)	5,476	-
Cash distribution for the year	7,302	-
<b>Discretionary portfolio managed by the Management Company:</b>		
<b>Byco Petroleum Pakistan Limited –Employee Provident Fund</b>		
Term finance certificates sold during the year	17,587	-
<b>Byco Oil Pakistan Limited –Employee Provident Fund</b>		
Term finance certificates sold during the year	11,199	-
<b>Thal Limited Employees Provident Fund</b>		
Term finance certificates sold during the year	48,768	-
<b>Thal Limited Employees Retirement Benefit Fund</b>		
Term finance certificates sold during the year	5,876	-

# NAFA FINANCIAL SECTOR INCOME FUND

	2015	2014
	-----Rupees in '000-----	
<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	17	1,092
Rating fee paid by the Management Company on behalf of the Fund	52	52
Sales load and transfer load (including Federal excise duty) payable to the Management Company	765	539
Security deposit with Central Depository Company of Pakistan Limited given by the Management Company on behalf of the Fund	100	100
Management remuneration payable	2,320	594
Sindh Sales Tax payable on Management Company's remuneration	481	200
Federal Excise Duty on Management Company's remuneration	12,947	8,236
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	201	260
Security deposit	100	100
<b>National Bank of Pakistan - Sponsor</b>		
Units held : Nil units (2014 :68,882,766 units)	-	698,499
Payable against 68,882,766 units (2014 : 93,858,593 units ) redeemed as at June 30, 2015	721,058	951,764
Bank balance	2,113	1,241
Dividend Payable	53,508	-
<b>Summit Bank Limited</b>		
Bank balance	1,034	1,624
<b>Pakistan Electronic Media Regulatory Authority</b>		
Units held : 9,923,033 units (2014 : 9,399,875 units)	103,873	95,318
<b>Employees of the Management Company</b>		
Units held : 14,505 units (2014 : 371,147 units)	152	3,764
<b>Muhammad Murtaza Ali - Company Secretary / CFO</b>		
Units held : 45,963 units (2014 : 80,311 units)	481	814
<b>Amount payable against redemption of units to:</b>		
NAFA Government Securities Liquid Fund	126,227	-
NAFA Government Securities Saving Fund	3,735	-
NAFA Islamic Asset Allocation Fund	4,079	-
NAFA Income Opportunity Fund	299,121	-
NAFA Multi Asset Fund	6,484	-
NAFA Stock Fund	2,466	-
NAFA Income Fund	4,992	-

## 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	27
2	Mr. Sajjad Anwar	MBA / CFA	15
3	Mr. Muhammad Ali Bhaba	FRM / CFA	20
4	Mr. Syed Suleman Akhtar	CFA	20
5	Mr. Salman Ahmed*	EMBA / CFA	15

Mr. Salman Ahmed is the manager of the Fund. He is also the fund manager Nafa Money Market Fund and Nafa Riba Free Savings Fund.

# NAFA FINANCIAL SECTOR INCOME FUND

## 21 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION CHARGED

2015

1	Invest Capital Markets Limited	33.15%
2	J. S. Global Capital Limited	30.26%
3	Next Capital Limited	19.49%
5	Invest One Markets Limited	6.76%
4	Vector Capital (Pvt) Limited	6.00%
6	First Capital Securities Corporation Limited	2.57%
7	Elixir Securities Pakistan (Pvt) Limited	1.77%

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%

## 22 PATTERN OF UNIT HOLDING

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

Category	Number of unit holders	Invested amount	Percentage of investment
Rupees in '000			
Individuals*	714	569,083	73.25%
Retirement funds	12	36,548	4.70%
Others**	25	171,302	22.05%
	751	776,933	100.00%

\* This includes investment amount of Rs. 0.633 million by related parties / connected persons.

\*\* This includes investment amount of Rs. 103.873 million by related party / connected person.

----- 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%

\* This includes investment amount of Rs 4.578 million by related parties / connected persons.

# NAFA FINANCIAL SECTOR INCOME FUND

## 23 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 48th, 49th, 50th, 51st, 52nd and 53rd Board meetings were held on September 16, 2014, October 30, 2014, February 17, 2015 and April 21, 2015, June 29, 2015 and June 30, 2015, 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. Nausherwan Adil	6	3	3	50th, 52nd & 53rd
Mr. Aamir Sattar	6	5	1	51st
Mr. Abdul Hadi Palekar	6	5	1	49th
Mr. Wah Geok Sum*	3	-	3	48th, 49th & 50th
Mr. Koh Boon San	6	4	2	52nd & 53rd
Mr. Nigel Poh Cheng**	2	2	-	-
Mr. Shehryar Faruque	6	5	1	52nd
Mr. Kamal Amir Chinoy	6	4	2	50th & 51st
Dr Amjad Waheed	6	6	-	-

\* Mr Wah Geok Sum retired from the Board with effect from February 17, 2015

\*\* Mr Nigel Poh Cheng was appointed on the Board with effect from February 17, 2015

## 24 FINANCIAL INSTRUMENTS BY CATEGORY

	-----As at June 30, 2015-----		
	Loans and receivables	Financial assets' at fair value through profit or loss'	Total
	(Rupees in '000)		
<b>Financial assets</b>			
Cash and bank balances	1,546,969	-	1,546,969
Investments	-	487,343	487,343
Profit receivable	7,143	-	7,143
Security deposit	100	-	100
	<u>1,554,212</u>	<u>487,343</u>	<u>2,041,555</u>
	-----As at June 30, 2015-----		
	Loans and receivables	Assets at fair value through profit or loss	Total
	(Rupees in '000)		
<b>Financial liabilities</b>			
Payable to NBP Fullerton Asset Management Limited - Management Company	-	16,682	16,682
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	201	201
Dividend payable	-	53,508	53,508
Payable against redemption of units	-	1,168,295	1,168,295
Accrued expenses and other liabilities	-	816	816
	<u>-</u>	<u>1,239,502</u>	<u>1,239,502</u>

# NAFA FINANCIAL SECTOR INCOME FUND

	-----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 NBP Fullerton Asset Management Limited - 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
	<u>-</u>	<u>966,248</u>	<u>966,248</u>

## 25 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 risk that the Fund is willing to accept. The Board of Directors of the Management Company supervise 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.

### 25.1 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 the Securities and Exchange Commission of Pakistan.

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

#### 25.1.1 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.

#### 25.1.2 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 4.783 million (2014: Rs1.398 million).

Presently, the Fund also has balances in saving accounts with certain banks the interest rate of which is 4.50% to 10.75%.

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

As at June 30, 2015, the Fund does not hold any fixed rate instruments that may expose the Fund to fair value interest rate risk.



# NAFA FINANCIAL SECTOR INCOME FUND

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, 2015-----

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		
<b>On-balance sheet financial instruments</b>						
(Rupees in '000)						
<b>Financial assets</b>						
Cash and bank balances	4.5 - 10.75	1,546,969	1,543,822	-	-	3,147
Investments	7.73-15.00	487,343	79,933	407,410	-	-
Profit receivable		7,143	-	-	-	7,143
Security deposit		100	-	-	-	100
		2,041,555	1,623,755	407,410	-	10,390
<b>Financial liabilities</b>						
Payable to NBP Fullerton Asset Management Limited - Management Company		16,682	-	-	-	16,682
Payable to the Central Depository Company of Pakistan Limited - Trustee		201	-	-	-	201
Dividend payable		53,508	-	-	-	53,508
Payable against redemption of units		1,168,295	-	-	-	1,168,295
Accrued expenses and other liabilities		816	-	-	-	816
		1,239,502	-	-	-	1,239,502
<b>On-balance sheet gap (a)</b>		802,053	1,623,755	407,410	-	(1,229,112)
<b>Off-balance sheet financial instruments</b>		-	-	-	-	-
<b>Off-balance sheet gap (b)</b>		-	-	-	-	-
<b>Total interest rate sensitivity gap (a+b)</b>		802,053	1,623,755	407,410	-	(1,229,112)
<b>Cumulative interest rate sensitivity gap</b>			1,623,755	2,031,165	2,031,165	

-----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		
<b>On-balance sheet financial instruments</b>						
(Rupees in '000)						
<b>Financial assets</b>						
Cash and bank balances	6.5 - 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
<b>Financial liabilities</b>						
Payable to NBP Fullerton Asset Management Limited - 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
<b>On-balance sheet gap (a)</b>		2,195,193	907,329	86,552	1,600,634	(399,322)
<b>Off-balance sheet financial instruments</b>		-	-	-	-	-
<b>Off-balance sheet gap (b)</b>		-	-	-	-	-
<b>Total interest rate sensitivity gap (a+b)</b>		2,195,193	907,329	86,552	1,600,634	(399,322)
<b>Cumulative interest rate sensitivity gap</b>			907,329	993,881	2,594,515	

# 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.

### Credit quality of the Fund's financial assets

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

Name of the Bank	Rating Agency	Latest available published rating	Percentage of Bank Balance
Bank of Punjab Limited	PACRA	AA-	0.06%
Habib Bank Limited	JCR-VIS	AAA	0.12%
Askari Bank Limited	PACRA	AA	0.06%
JS Bank Limited	PACRA	A+	0.08%
Allied Bank Limited	PACRA	AA+	3.07%
United Bank Limited	JCR-VIS	AA+	0.13%
Bank Alfalah Limited	PACRA	AA	12.11%
Khushhali Bank Limited	JCR-VIS	A+	13.19%
Albaraka Bank (Pakistan) Limited	PACRA	A	0.03%
Burj Bank Limited	JCR-VIS	A	0.03%
MCB Bank Limited	PACRA	AAA	0.12%
Bank Al Habib Limited	PACRA	AA+	0.13%
NIB Bank Limited	PACRA	AA-	70.49%
Faysal Bank Limited	PACRA	AA	0.10%
Sindh Bank Limited	JCR-VIS	AA	0.07%
Summit Bank Limited	JCR-VIS	A	0.07%
National Bank of Pakistan	JCR-VIS	AAA	0.14%
			<u>100.00%</u>

	2015	2014
<b>Bank Balances by rating category</b>		
AA	24.20%	13.94%
AA-	72.33%	79.85%
AAA	3.47%	6.21%
	<u>100%</u>	<u>100%</u>

There are no financial assets that are past due or impaired as at June 30, 2015.

The maximum exposure to credit risk before any credit enhancement as at June 30, 2015 is the carrying amount of the financial assets.

## 25.2.1 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 instruments is mainly held with various banks.

# NAFA FINANCIAL SECTOR INCOME FUND

The Fund's bank balances and term finance certificates are mainly held with three banks. The management believes that these are credit worthy counterparties.

## 25.2.2 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.

## 25.3 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 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.

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, 2015 -----

Particulars	Total	Upto three months	Over three months and upto one year	Over one year
-------------	-------	-------------------	-------------------------------------	---------------

### Financial liabilities

Payable to NBP Fullerton Asset Management Limited

- Management Company 16,682 16,682 - -

Payable to Central Depository Company of Pakistan Limited - Trustee 201 201 - -

Dividend payable 53,508 53,508 - -

Payable against redemption of units 1,168,295 1,168,295 - -

Accrued expenses and other liabilities 816 816 - -

1,239,502 1,239,502 - -

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

Particulars	Total	Upto three months	Over three months and upto one year	Over one year
-------------	-------	-------------------	-------------------------------------	---------------

### Financial liabilities

Payable to NBP Fullerton Asset Management Limited

- Management Company 10,813 10,813 - -

Payable to Central Depository Company of Pakistan Limited - Trustee 260 260 - -

Accrued expenses and other liabilities 643 643 - -

11,716 11,716 - -

# NAFA FINANCIAL SECTOR INCOME FUND

## 26 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 25, 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.

## 27 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.

International Financial Reporting Standard 7, 'Financial Instruments : Disclosure' requires the Fund to classify assets 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, 2015 -----			
	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	-	222,732	-	222,732
Investment in term finance certificates - unlisted	-	264,611	-	264,611

	----- 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

# NAFA FINANCIAL SECTOR INCOME FUND

## 28 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 30, 2015.

## 29 GENERAL

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

29.2 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation. No significant rearrangements or reclassifications were made in these financial statements.

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, 2015	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013	For the period from October 18,2011 to June 30, 2012
Net assets (Rs. '000')	776,933	2,177,036	4,962,334	2,767,667
Net Income (Rs. '000')	131,731	291,554	324,206	133,321
Net Asset Value per units (Rs.)	10.4679	10.1404	10.2765	10.4231
Offer price per unit	10.6075	10.2768	10.3793	10.4231
Redemption price per unit	10.4679	10.1404	10.2765	10.4231
Highest offer price per unit (Rs.)	10.6075	10.2978	9.4880	9.4071
Lowest offer price per unit (Rs.)	9.5686	9.7627	9.5012	8.6781
Highest redemption price per unit (Rs.)	10.4679	10.1611	9.3941	9.4071
Lowest redemption price per unit (Rs.)	9.4426	9.6331	9.4071	8.6781
Fiscal Year Opening Ex Nav	9.4392	9.3941	9.4045	9.618
Total return of the fund (Annualized)	10.90%	7.94%	9.27%	8.37%
Capital growth	2.67%	-1.89%	1.09%	1.09%
Income distribution as a % of ex nav	8.23%	9.84%	8.18%	7.28%
Income distribution as a % of par value	7.77%	9.24%	7.69%	7.00%
Distribution dates				
Interim				
30-Jun-15	0.7768			
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, 2015)	10.00%			
(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	93 Days	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."












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National Bank of Pakistan

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