



NBP Fullerton
Asset Management Ltd.

A Subsidiary of
National Bank of Pakistan

Your investments & "NAFA" grow together




Joint - Venture Partners

NAFA FINANCIAL SECTOR INCOME FUND

HALF YEARLY REPORT
DECEMBER 31
2013



MISSION STATEMENT



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

NAFA FINANCIAL SECTOR INCOME FUND

FUND'S INFORMATION

Management Company

NBP Fullerton Asset Management Limited – Management Company

Board of Directors of the Management Company

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

Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

Audit & Risk Committee

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

Human Resource Committee

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

Trustee

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

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

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, 1-9/3 Islamabad.
UAN: 051-111-111-632
Phone: 051-2514987
Fax: 051-4859031

Peshawar Office:

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

Multan Office:

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

NAFA FINANCIAL SECTOR INCOME FUND

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NAFA FINANCIAL SECTOR INCOME FUND

DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the reviewed financial statements of **NAFA Financial Sector Income Fund (NFSIF)** for the half year ended December 31, 2013.

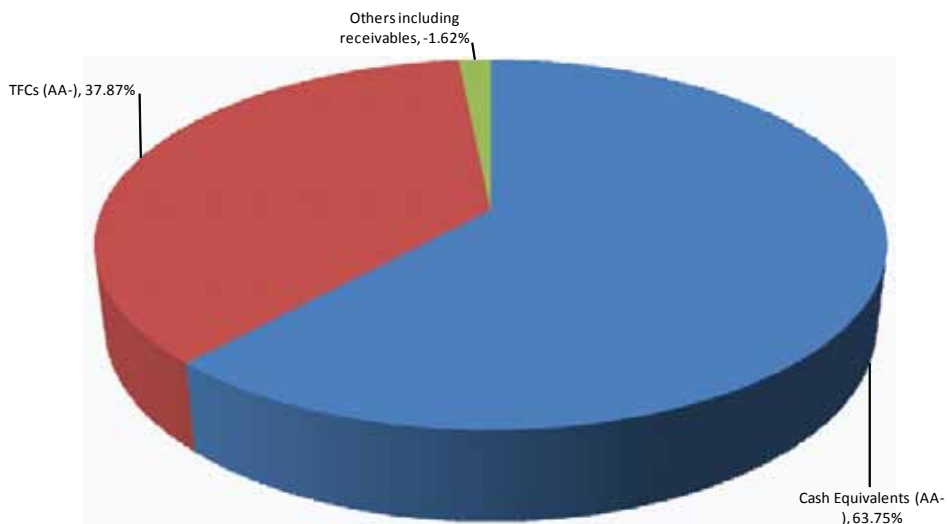
Fund's Performance

The size of NAFA Financial Sector Income Fund declined from Rs. 4,962 million to Rs. 3,089 million during the period, i.e. a decline of 37.75%. During the period, the unit price of the Fund increased from Rs. 10.1163 (Ex-Div) on June 30, 2013 to Rs. 10.5029 on December 31, 2013, thus showing an annualized return of 7.64% as compared to its Benchmark (70% 6 month KIBOR & 30% average 3 month deposit rates of A & above rated banks) return of 8.62%.

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, there were few primary issuance amid muted private sector borrowing and elevated risk aversion in the market. Trading activity in TFCs was skewed towards high quality issues, especially belonging to the financial sector. The State Bank of Pakistan increased the policy rate by 100bps during the period under review citing upside risks to the external account, depleting FX reserves, and rising inflation expectations. Most TFCs in the Fund are floating rate linked to KIBOR. Therefore, increase in interest rates will increase the coupon income of the TFC portfolio.

The Fund has earned total income of Rs.241.07 million during the period. After deducting expenses of Rs.59.02 million, the net income is Rs.182.05 million. The asset allocation of the Fund as on December 31, 2013 is as follows:



NAFA FINANCIAL SECTOR INCOME FUND

Income Distribution

In addition to interim distribution of 1.50%, the Board of Directors of the Management Company has approved further interim distribution of 2.50% of opening ex-NAV (2.567% of the par value) for the quarter ended December 31, 2013.

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: February 13, 2014
Place: Karachi.

NAFA FINANCIAL SECTOR INCOME FUND

TRUSTEE REPORT TO THE UNIT HOLDERS

NAFA FINANCIAL SECTOR INCOME FUND

Report of the Trustee pursuant to Regulation 41(h) 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 six months period ended December 31, 2013 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: February 24, 2014

NAFA FINANCIAL SECTOR INCOME FUND

INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION TO THE UNITHOLDERS

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **NAFA Financial Sector Income Fund** as at December 31, 2013, and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement, together with the notes forming part thereof (here-in-after referred to as the 'condensed interim financial information'), for the half year ended December 31, 2013. The Management Company (NBP Fullerton Asset Management Limited) is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement for the quarter ended December 31, 2013 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2013.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2013 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

A.F. Ferguson & Co.
Chartered Accountants
Engagement Partner: **Rashid A. Jafer**
Dated: February 26, 2014
Karachi

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2013

| | Note | (Unaudited) December 31, 2013 | (Audited) June 30, 2013 |
|---|------|-------------------------------------|-------------------------------|
| (Rupees in '000) | | | |
| ASSETS | | | |
| Bank balances | 4 | 1,968,991 | 1,321,210 |
| Investments | 5 | 1,169,757 | 2,634,567 |
| Profit receivable | | 18,703 | 62,690 |
| Preliminary expenses and floatation costs | | 616 | 726 |
| Security deposit | | 100 | 100 |
| Receivable against issue of units | | - | 964,360 |
| Prepayments and other receivables | | 24 | 129 |
| Total assets | | 3,158,191 | 4,983,782 |
| LIABILITIES | | | |
| Payable to the Management Company | 6 | 14,042 | 7,819 |
| Payable to the Central Depository Company of Pakistan Limited - Trustee | | 426 | 352 |
| Payable to the Securities and Exchange Commission of Pakistan | | 1,851 | 2,776 |
| Payable against redemption of units | | 38,891 | - |
| Accrued expenses and other liabilities | | 14,141 | 10,501 |
| Total liabilities | | 69,351 | 21,448 |
| NET ASSETS | | 3,088,840 | 4,962,334 |
| UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED) | | 3,088,840 | 4,962,334 |
| CONTINGENCIES AND COMMITMENTS | 7 | - | - |
| (Number of units) | | | |
| NUMBER OF UNITS IN ISSUE | | 294,093,183 | 482,880,329 |
| (Rupees) | | | |
| NET ASSET VALUE PER UNIT | 8 | 10.5029 | 10.2765 |

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

| Note | Half year | Half year | Quarter | Quarter |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | ended December 31, 2013 | ended December 31, 2012 | ended December 31, 2013 | ended December 31, 2012 |
| ------(Rupees in '000)----- | | | | |
| INCOME | | | | |
| Capital (loss) / gain on sale of investments - net | (3,454) | 1,287 | (3,527) | 461 |
| Income from government securities | 4,974 | 39,280 | 444 | 15,738 |
| Income from letters of placement | 863 | 2,285 | 47 | - |
| Income from certificates of investment | 6,680 | 9,083 | - | 7,928 |
| Income from term deposit receipts | 7,474 | - | - | - |
| Income from term finance certificates and sukuk bonds | 83,620 | 126,797 | 34,762 | 65,799 |
| Profit on bank deposits | 140,873 | 16,357 | 86,478 | 9,849 |
| Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'at fair value through profit or loss' - net | 45 | (1,662) | (1,896) | (5,098) |
| Total Income | 241,075 | 193,427 | 116,308 | 94,677 |
| EXPENSES | | | | |
| Remuneration of the Management Company | 37,018 | 25,244 | 18,156 | 13,419 |
| Sindh Sales tax on remuneration of the Management Company | 6,948 | 4,039 | 3,930 | 2,147 |
| Federal excise duties on remuneration of the Management Company | 5,923 | - | 2,905 | - |
| Remuneration of the Central Depository Company of Pakistan Limited - Trustee | 2,526 | 1,859 | 1,243 | 975 |
| Annual fee - Securities and Exchange Commission of Pakistan | 1,851 | 1,262 | 908 | 671 |
| Securities' transaction cost | 27 | 112 | 1 | 20 |
| Bank charges | 397 | 359 | 207 | 250 |
| Listing fee | 20 | 20 | 10 | 10 |
| Auditors' remuneration | 295 | 272 | 174 | 145 |
| Printing charges | 66 | - | 66 | (47) |
| Rating fee | 100 | 113 | 50 | 57 |
| Legal Fee | 30 | - | 30 | - |
| Amortisation of preliminary expenses and floatation costs | 110 | 110 | 55 | 55 |
| Total Expenses | 55,311 | 33,390 | 27,735 | 17,702 |
| Net income from operating activities | 185,764 | 160,037 | 88,573 | 76,975 |
| Provision for Workers' Welfare Fund | 9 | (3,715) | (1,771) | (1,540) |
| Net income for the period before taxation | 182,049 | 156,836 | 86,802 | 75,435 |
| Taxation | 10 | - | - | - |
| Net income for the period after taxation | 182,049 | 156,836 | 86,802 | 75,435 |
| Earnings per unit | 11 | | | |

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

| | Half year ended December 31, 2013 | Half year ended December 31, 2012 | Quarter ended December 31, 2013 | Quarter ended December 31, 2012 |
|--|--|--|--|--|
| | ------(Rupees in '000)----- | | | |
| Net income for the period after taxation | 182,049 | 156,836 | 86,802 | 75,435 |
| Other comprehensive income for the period | - | - | - | - |
| Total comprehensive income for the period | <u>182,049</u> | <u>156,836</u> | <u>86,802</u> | <u>75,435</u> |

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

| | Half year ended December 31, 2013 | Half year ended December 31, 2012 | Quarter ended December 31, 2013 | Quarter ended December 31, 2012 |
|---|--|--|--|--|
| ------(Rupees in '000)----- | | | | |
| Undistributed income brought forward comprising: | | | | |
| - Realised income | 104,392 | 94,644 | 194,403 | 115,989 |
| - Unrealised income | 2,382 | 17,699 | 1,941 | 3,436 |
| | <u>106,774</u> | <u>112,343</u> | <u>196,344</u> | <u>119,425</u> |
| Net income for the period | 182,049 | 156,836 | 86,802 | 75,435 |
| Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed | (39,725) | 13,786 | (38,949) | 7,212 |
| Final distribution for the year ended June 30, 2013 | | | | |
| - Re 0.0101 per unit declared on July 11, 2013 | | | | |
| - Cash distribution | (2,438) | (44,925) | - | - |
| - Issue of bonus units | (2,463) | (35,968) | - | - |
| Interim distribution for the quarter ended September 30, 2013 | | | | |
| - Re 0.1540 per unit declared on October 30, 2013 | | | | |
| - Cash distribution | (37,174) | (41,691) | (37,174) | (41,691) |
| - Issue of bonus units | (35,578) | (51,664) | (35,578) | (51,664) |
| | <u>(77,653)</u> | <u>(174,248)</u> | <u>(72,752)</u> | <u>(93,355)</u> |
| Undistributed income carried forward | 171,445 | 108,717 | 171,445 | 108,717 |
| Undistributed income comprising: | | | | |
| - Realised income | 171,400 | 110,379 | 171,400 | 110,379 |
| - Unrealised income / (loss) | 45 | (1,662) | 45 | (1,662) |
| | <u>171,445</u> | <u>108,717</u> | <u>171,445</u> | <u>108,717</u> |

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

| | Half year ended December 31, 2013 | Half year ended December 31, 2012 | Quarter ended December 31, 2013 | Quarter ended December 31, 2012 |
|---|--|--|--|--|
| ------(Rupees in '000)----- | | | | |
| Net assets at the beginning of the period | 4,962,334 | 2,767,667 | 4,991,532 | 3,360,200 |
| Issue of 70,881,407 units including 3,668,138 bonus units (Dec 2012: 157,089,072 units) | 699,049 | 1,525,809 | 242,169 | 749,235 |
| Redemption of 259,668,552 units (Dec 2012: 60,610,967 units) | (2,714,980) | (622,994) | (2,194,489) | (402,477) |
| | (2,015,931) | 902,815 | (1,952,320) | 346,758 |
| Element of loss / (income) and capital losses / (gains) included in the prices of units issued less those in units redeemed | 39,725 | (13,786) | 38,949 | (7,212) |
| Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'at fair value through profit or loss' - net | 45 | (1,662) | (1,896) | (5,098) |
| Capital (loss) / gain on sale of investments - net | (3,454) | 1,287 | (3,527) | 461 |
| Other income (net of expenses) for the period | 185,458 | 157,211 | 92,225 | 80,072 |
| | 182,049 | 156,836 | 86,802 | 75,435 |
| Distribution of bonus units during the period | 38,041 | 87,632 | 35,578 | 51,664 |
| Final distribution for the year ended June 30, 2013 | | | | |
| - Re 0.0101 per unit declared on July 11, 2013 | | | | |
| - Cash distribution | (2,438) | (44,925) | - | - |
| - Issue of bonus units | (2,463) | (35,968) | - | - |
| Interim distribution for the quarter ended September 30, 2013 | | | | |
| - Re 0.1540 per unit declared on October 30, 2013 | | | | |
| - Cash distribution | (37,174) | (41,691) | (37,174) | (41,691) |
| - Issue of bonus units | (35,578) | (51,664) | (35,578) | (51,664) |
| | (77,653) | (174,248) | (72,752) | (93,355) |
| Element of (loss) / income and capital (losses) / gains included in prices of units issued less those in units redeemed | | | | |
| - transferred to distribution statement | (39,725) | 13,786 | (38,949) | 7,212 |
| Net assets as at the end of the period | <u>3,088,840</u> | <u>3,740,702</u> | <u>3,088,840</u> | <u>3,740,702</u> |

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

| Note | Half year ended | Half year ended | Quarter ended | Quarter ended |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | December 31, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 |
| ------(Rupees in '000)----- | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income for the period before taxation | 182,049 | 156,836 | 86,802 | 75,435 |
| Adjustments for : | | | | |
| Net unrealised (appreciation) / diminution on re-measurement of investments classified as 'at fair value through profit or loss' - net | (45) | 1,662 | 1,896 | 5,098 |
| Amortisation of preliminary expenses and floatation costs | 110 | 110 | 55 | 55 |
| | <u>182,114</u> | <u>158,608</u> | <u>88,753</u> | <u>80,588</u> |
| (Increase) / decrease in assets | | | | |
| Investments - net | 1,464,855 | 31,386 | 147,178 | 305,461 |
| Profit receivable | 43,987 | (5,511) | 28,473 | 10,858 |
| Prepayments and other receivables | 105 | (13) | 60 | (70) |
| | <u>1,508,947</u> | <u>25,862</u> | <u>175,711</u> | <u>316,249</u> |
| Increase / (decrease) in liabilities | | | | |
| Payable to the Management Company | 6,223 | 4,654 | 2,550 | 1,190 |
| Payable to the Central Depository Company of Pakistan Limited - Trustee | 74 | 90 | 7 | 4 |
| Payable to the Securities and Exchange Commission of Pakistan | (925) | 424 | 908 | 671 |
| Accrued expenses and other liabilities | 3,640 | 3,408 | 1,622 | 580 |
| | <u>9,012</u> | <u>8,576</u> | <u>5,087</u> | <u>2,445</u> |
| Net cash generated from operating activities | <u>1,700,073</u> | <u>193,046</u> | <u>269,551</u> | <u>399,282</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Receipts from issue of units | 1,663,409 | 1,525,809 | 245,080 | 755,378 |
| Payment on redemption of units | (2,676,089) | (624,052) | (2,162,544) | (399,171) |
| Distribution paid | (39,612) | (86,616) | (37,174) | (41,691) |
| Net cash (used in) / generated from financing activities | <u>(1,052,292)</u> | <u>815,141</u> | <u>(1,954,638)</u> | <u>314,516</u> |
| Net increase / (decrease) in cash and cash equivalents during the period | <u>647,781</u> | <u>1,008,187</u> | <u>(1,685,087)</u> | <u>713,798</u> |
| Cash and cash equivalents at the beginning of the period | 1,321,210 | 125,856 | 3,654,078 | 420,245 |
| Cash and cash equivalents as at the end of the period 4 | <u><u>1,968,991</u></u> | <u><u>1,134,043</u></u> | <u><u>1,968,991</u></u> | <u><u>1,134,043</u></u> |

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2013

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 as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on July 28, 2011 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on August 16, 2011 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The principal office of the Management Company is situated at 7th Floor Clifton Diamond Building, Block No.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 of the Fund are offered for public subscription on a continuous basis. These units are transferable and can be redeemed by surrendering these to the Fund. The Fund is categorized as Open-End "Income Scheme" as per the criteria laid down by SECP for categorization of Collective Investment Schemes (CIS).

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

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

Title to 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

This condensed interim financial information has been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRSs, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by SECP prevail.

The condensed interim financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the financial statements of the Fund for the year ended 30 June 2013.

This condensed interim financial information is unaudited but has been subject to limited scope review by the auditors.

In compliance with Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the directors of the Management Company hereby declare that this condensed interim financial information gives a true and fair view of the state of the Fund's affairs as at December 31, 2013.

2.2 Standards, interpretations and amendments to published approved accounting standards, as adopted in Pakistan, that are effective:

There are certain new standards, amendments to approved accounting standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2013 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not detailed in this condensed interim financial information.

NAFA FINANCIAL SECTOR INCOME FUND

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual financial statements for the year ended June 30, 2013.

The preparation of this condensed interim financial information in conformity with approved accounting standards requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

The significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended June 30, 2013.

The financial risk management objectives and policies are consistent with those disclosed in the annual financial statements of the Fund for the year ended June 30, 2013.

| | Note | (Un-audited) December 31, 2013 | (Audited) June 30, 2013 |
|--|------|--------------------------------------|-------------------------------|
| (Rupees in '000) | | | |
| 4 BANK BALANCES | | | |
| In savings accounts | 4.1 | 1,964,923 | 1,320,049 |
| In current accounts | | 4,068 | 1,161 |
| | | <u>1,968,991</u> | <u>1,321,210</u> |
| 4.1 These carry profit at rates ranging from 6.50% to 11.00% (June 30, 2013: 6.00% to 11.00%) per annum. | | | |
| 5 INVESTMENTS | | | |
| At fair value through profit or loss | | | |
| Term finance certificates - listed | 5.1 | 637,633 | 1,500,406 |
| Term finance certificates - unlisted | 5.2 | 532,124 | 514,161 |
| Government securities | 5.3 | - | - |
| Loans and receivables | | | |
| Letters of placement | | - | - |
| Certificates of Investment | | - | 300,000 |
| Sukuk certificates | | - | 320,000 |
| | | <u>1,169,757</u> | <u>2,634,567</u> |

NAFA FINANCIAL SECTOR INCOME FUND

5.1 Term finance certificates - listed

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

| Name of the investee company | Number of Certificates / bonds | | | | Market value as at December 31, 2013 | Investment as a percentage of | |
|--|--------------------------------|-----------------------------|----------------------------------|-------------------------|--------------------------------------|-------------------------------|-----------------------------------|
| | As at July 01, 2013 | Purchases during the period | Sales / Mature during the period | As at December 31, 2013 | | Net assets | Market value of total investments |
| Rupees in '000 | | | | | | ----- % ----- | |
| Term finance certificates - listed | | | | | | | |
| Allied Bank Limited - I | 4,400 | - | - | 4,400 | 11,024 | 0.00 | 0.01 |
| Allied Bank Limited - II | 13,000 | - | - | 13,000 | 64,793 | 0.02 | 0.06 |
| Askari Bank Limited - II | 3,000 | - | 3,000 | - | - | - | - |
| Askari Bank Limited - III | 30,336 | - | - | 30,336 | 153,695 | 0.05 | 0.13 |
| Askari Bank Limited - IV | 44 | - | - | 44 | 46,100 | 0.01 | 0.04 |
| Bank Al-Habib Limited - II | 1,077 | - | - | 1,077 | 5,399 | 0.00 | - |
| Faysal Bank Limited - III | 59,000 | - | - | 59,000 | 308,589 | 0.10 | 0.26 |
| NIB Bank Limited | 54,600 | - | 54,600 | - | - | - | - |
| Pak Libya Holding Company (Pvt) Limited | 10,000 | - | - | 10,000 | 41,545 | 0.01 | 0.04 |
| Pakistan Mobile Communication Limited | 22,677 | 1,930 | 24,607 | - | - | - | - |
| United Bank Limited - III | 3,900 | - | - | 3,900 | 6,488 | 0.00 | 0.01 |
| United Bank Limited - IV | 88,100 | - | 88,100 | - | - | - | - |
| | | | | <u>121,757</u> | <u>637,633</u> | <u>0.19</u> | <u>0.55</u> |
| Carrying Value as at December 31, 2013 | | | | | 639,325 | | |
| Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss' | | | | | | | |
| | | | | | <u>(1,692)</u> | | |

5.2 Term finance certificates - unlisted

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

| Name of the investee company | Number of Certificates / bonds | | | | Market value as at December 31, 2013 | Investment as a percentage of | |
|--|--------------------------------|-----------------------------|----------------------------------|-------------------------|--------------------------------------|-------------------------------|-----------------------------------|
| | As at July 01, 2013 | Purchases during the period | Sales / Mature during the period | As at December 31, 2013 | | Net assets | Market value of total investments |
| Rupees in '000 | | | | | | ----- % ----- | |
| Term finance certificates - unlisted | | | | | | | |
| Bank Alfalah Limited - IV | 70,200 | - | - | 70,200 | 370,291 | 0.12 | 0.32 |
| Bank Alfalah Limited - IV FX | 11,500 | - | - | 11,500 | 61,645 | 0.02 | 0.05 |
| Jahangir Siddiqui & Company Limited | 13,500 | - | 13,500 | - | - | - | - |
| Standard Chartered Bank | 10,000 | - | - | 10,000 | 50,188 | 0.02 | 0.04 |
| Pakistan Mobile Communication Limited | - | 10,000 | - | 10,000 | 50,000 | 0.02 | 0.04 |
| | | | | <u>101,700</u> | <u>532,124</u> | <u>0.18</u> | <u>0.45</u> |
| Carrying Value as at December 31, 2013 | | | | | 530,387 | | |
| Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss' | | | | | | | |
| | | | | | <u>1,737</u> | | |

5.3 Government securities

| Issue Date | Tenor | As at July 01, 2013 | -----Face value----- | | | Market value as at December 31, 2013 | Investment as a percentage of | |
|--|-----------|---------------------|-----------------------------|-----------------------------------|-------------------------|--------------------------------------|-------------------------------|-----------------------------------|
| | | | Purchases during the period | Sales / matured during the period | As at December 31, 2013 | | Net assets | Market value of total investments |
| (Rupees in '000) | | | | | | ----- % ----- | | |
| 2-May-13 | 3 Months | - | 969,500 | 969,500 | - | - | - | |
| 26-Jul-12 | 12 Months | - | 240,000 | 240,000 | - | - | - | |
| 24-Jan-13 | 6 Months | - | 150,000 | 150,000 | - | - | - | |
| 19-Sep-13 | 3 Months | - | 250,000 | 250,000 | - | - | - | |
| 28-Nov-13 | 3 Months | - | 70,000 | 70,000 | - | - | - | |
| | | | | | | | | |
| Carrying Value as at December 31, 2013 | | | | | | | | |
| Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss' | | | | | | | | |
| | | | | | | | | |

5.4 The term finance certificates held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage of fixed assets of the issuer.

NAFA FINANCIAL SECTOR INCOME FUND

| | (Un-audited) | (Audited) |
|---|----------------------|------------------|
| Note | December 31, 2013 | June 30, 2013 |
| | (Rupees in '000) | |
| 6 PAYABLE TO NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY | | |
| Remuneration of the Management Company | 5,801 | 4,977 |
| Sindh Sales Tax on Management Company's remuneration | 1,462 | 797 |
| FED on Management Company's remuneration | 6.1 4,908 | 481 |
| Sales Load and Transfer Load Payable to Management Company | 628 | 320 |
| Preliminary expenses and floatation costs paid by Management Company on behalf of the Fund | 1,092 | 1,092 |
| Expenses paid by the Management Company on behalf of the Fund | 151 | 152 |
| | <u>14,042</u> | <u>7,819</u> |

- 6.1 The Finance Act, 2013 has enlarged the scope of Federal Excise Duty (FED) on financial services to include Asset Management Companies (AMCs) with effect from June 13, 2013. As the asset management services rendered by the Management Company of the Fund are already subject to provincial sales tax on services levied by the Sindh Revenue Board, which is being charged to the Fund, the Management Company is of the view that further levy of FED is not justified.

On 4 September 2013, a Constitutional Petition has been filed in the Honorable Sindh High Court (SHC) jointly by various asset management companies, together with their representative Collective Investment Schemes through their trustees, challenging the levy of FED. In this respect, the Honorable SHC has issued a stay order against recovery proceedings. The hearing of the petition is pending.

Consequently, pending the decision of the SHC, the Fund has stopped making payments for FED since August, 2013 although full provision is being made in the books of account.

7 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at December 31, 2013.

8 NET ASSET VALUE PER UNIT

The net asset value (NAV) per unit, as disclosed on the Statement of Asset and Liabilities, is calculated by dividing the net assets of the Fund by the number of units in issue at the period / year end.

9 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / Mutual Funds (CISs) / Pension Funds whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a Constitutional Petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh (SHC), challenging the applicability of WWF to the CISs / pension funds, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

During the year ended June 30, 2011, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) on July 8, 2010 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 same. This response was contradictory to the earlier clarification issued by the Ministry. Show cause notices were then issued by the Federal Board of Revenue (FBR) to several mutual funds (CISs) / pension funds for the collection of WWF. In respect of such show cause notices, certain mutual funds (CISs) / pension funds have been granted stay by the Honorable SHC on the basis of the pending Constitutional Petition as referred to above.

NAFA FINANCIAL SECTOR INCOME FUND

In March 2013, a three member bench of the Sindh High Court in its judgement on various Constitutional Petitions challenging the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, held that WWF is a tax and consequently, the amendments introduced in the Workers' Welfare Fund Ordinance, 1971 through the Finance Act, 2006 and 2008 respectively (Money Bills) do not suffer from any constitutional or legal infirmity. This judgement was in contrast to the July 2011 single member bench decision of the Honorable Lahore High Court which had held such amendments as unlawful and unconstitutional for the reason that they were made through the money bills. For the CISs and pension funds, the issue of chargeability or otherwise of WWF levy to the CISs / pension funds is currently pending before the Honorable SHC.

In view of the pending decision, the Management Company of the Fund, as a matter of abundant caution, has continued to maintain the provision for WWF amounting to Rs. 13.052 million (June 30, 2013 : Rs. 9.337 million) in this condensed interim financial information. Had the same not been made the net asset value per unit of the Fund would have been higher by Re. 0.0444 per unit.

10 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. No provision for taxation for the current period has been made in this condensed interim financial information as the Management Company intends to distribute the required minimum percentage of the Fund's accounting income for the current year as reduced by capital gains (whether realised or unrealised) to its unit holders.

11 EARNINGS PER UNIT

Earnings per unit (EPU) for the period ended December 31, 2013 has not been disclosed as in the opinion of the management, determination of cumulative weighted average number of outstanding units for calculating EPU is not practicable.

12 TRANSACTIONS WITH CONNECTED PERSONS

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.

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

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

NAFA FINANCIAL SECTOR INCOME FUND

12.1 Details of transactions with connected persons are as follows:

| | Half year ended December 31, 2013 | Half year ended December 31, 2012 | Quarter ended December 31, 2013 | Quarter ended December 31, 2012 |
|--|--|--|--|--|
| ------(Rupees in '000)----- | | | | |
| NBP Fullerton Asset Management Limited - Management Company | | | | |
| Remuneration | 37,018 | 25,244 | 18,156 | 13,419 |
| Sindh Sales Tax on Management Company's remuneration | 6,948 | 4,039 | 3,930 | 2,147 |
| Federal excise duty on Management Company's remuneration | 5,923 | - | 2,905 | - |
| Front end load | 1,391 | - | 543 | - |
| National Bank of Pakistan - Sponsor | | | | |
| Issue of nil units (December 31, 2012: 20,220 units) | - | 211 | - | - |
| Redemption of 143,056,059 units (December 31, 2012: 2,219,549 units) | 1,500,000 | 22,864 | 1,500,000 | 22,864 |
| Distributions paid | 39,612 | 86,616 | 37,174 | 41,691 |
| Purchase of Market Treasury Bills | 1,358,125 | 2,393,425 | - | 1,101,147 |
| Purchase of Pakistan Investment Bonds | - | 179,386 | - | 153,449 |
| Placement of Term Deposit Receipts | 500,000 | - | - | - |
| Profit on Term Deposit Receipt | 7,474 | - | - | - |
| Central Depository Company of Pakistan Limited - Trustee | | | | |
| Remuneration of the Trustee | 2,526 | 1,859 | 1,243 | 975 |
| CDS Charges | 101 | 92 | 51 | 46 |
| Alexandra Fund Management Pte. Limited - Sponsor | | | | |
| Bonus of 182,969 units (December 31, 2012: 601,966 units) | - | - | - | - |
| Redemption of 11,735,970 units (December 31, 2012: Nil units) | 122,137 | - | 122,137 | - |
| Employees of the Management Company | | | | |
| Issue of 974,715 units (2012: 986,928 units) | 10,145 | 10,169 | 1,213 | 3,527 |
| Bonus of 7,543 units (2012: 32,817 units) | - | - | - | - |
| Redemption of 989,104 units (2012: 928,774 units) | 10,298 | 9,528 | 1,759 | 4,681 |
| NAFA Asset Allocation Fund | | | | |
| Purchase of Sukuk certificates | - | 38,430 | - | - |
| Summit Bank Limited | | | | |
| Bank Profit | 135 | - | - | - |
| NAFA Government Securities Liquid Fund | | | | |
| Sale of Treasury Bills | 68,679 | - | 68,679 | - |
| CFO / Company Secretary | | | | |
| Issue of 181,291 units (2012: 96,936 units) | 1,887 | 993 | - | 593 |
| Redemption of 10,512 units (2012: 46,449 units) | 110 | 481 | 100 | 74 |
| Bonus of 2,979 units (2012: Nil units) | - | - | - | - |

NAFA FINANCIAL SECTOR INCOME FUND

| | (Un-Audited) As at December 31, 2013 | (Audited) As at June 30, 2013 |
|--|---|-------------------------------------|
| | Rupees in '000 | |
| 12.2 Balances outstanding as at period end | | |
| NBP Fullerton Asset Management Limited - Management Company | | |
| Preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund | 1,092 | 1,092 |
| Rating fee paid by the Management Company on behalf of the Fund | 51 | 52 |
| Security deposit with Central Depository Company of Pakistan Limited given by the Management Company on behalf of the Fund | 100 | 100 |
| Management remuneration payable | 5,801 | 4,977 |
| Sindh Sales Tax payable on Management Company's remuneration | 1,462 | 797 |
| Federal Excise Duty on Management Company's remuneration | 4,908 | 481 |
| Sales load and transfer load payable to the Management Company | 628 | 320 |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Remuneration payable | 400 | 352 |
| Security deposit | 100 | 100 |
| CDC Charges Payable | 26 | - |
| Alexandra Fund Management Pte. Limited - Sponsor | | |
| Units held nil units (June 30, 2013: 11,553,000 units) | - | 118,724 |
| Employees of the Management Company | | |
| Units held 411,326 units (June 30, 2013 : 250,012 units) | 4,320 | 2,569 |
| National Bank of Pakistan - Sponsor | | |
| Units held 98,334,550 units (June 30, 2013: 241,390,610 units) | 1,032,798 | 2,480,651 |
| Balance in current account | 761 | 1,161 |
| Summit Bank Limited | | |
| Bank balance | | |
| - in current accounts | 3,306 | - |
| - in Saving accounts | - | 8,702 |
| The Hub Power Company Limited | | |
| Short term Islamic sukuk | - | 320,000 |
| CFO / Company Secretary | | |
| Units held 192,852 units (June 30, 2013: 19,094 units) | 2,026 | 196 |
| Nafa Money Market Fund | | |
| Amount receivable due to transfer of units on behalf of National Bank of Pakistan | - | 964,360 |

13 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on February 13, 2014 by the Board of Directors of the Management Company.

14 GENERAL

14.1 Figures have been rounded off to the nearest thousand rupees, unless otherwise specified.

14.2 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation. No significant reclassifications have been made during the current period.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director



NBP Fullerton
Asset Management Ltd.

A Subsidiary of
National Bank of Pakistan

Your investments & "NAFA" grow together



Joint - Venture Partners

Head Office

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