



NBP Fullerton  
Asset Management Ltd.

A Subsidiary of  
National Bank of Pakistan

## NAFA FINANCIAL SECTOR INCOME FUND

# HALF YEARLY REPORT DECEMBER 31

# 2014




*Your investments & "NAFA" grow together*



**FULLERTON FUND  
MANAGEMENT**

*Joint - Venture Partners*

## MISSION STATEMENT



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

# NAFA FINANCIAL SECTOR INCOME FUND

## FUND'S INFORMATION

### Management Company

NBP Fullerton Asset Management Limited – Management Company

### Board of Directors of the Management Company

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

### Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

### Audit & Risk Committee

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

### Human Resource Committee

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

### Trustee

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

# NAFA FINANCIAL SECTOR INCOME FUND

## **Auditors**

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

## **Legal Advisor**

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

## **Head Office:**

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

## **Lahore Office:**

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

## **Islamabad Office:**

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

## **Peshawar Office:**

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

## **Multan Office:**

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

# NAFA FINANCIAL SECTOR INCOME FUND

## Contents

FUND'S INFORMATION	02
DIRECTORS' REPORT	05
REPORT OF THE TRUSTEE TO THE UNITHOLDERS	07
AUDITORS' REVIEW REPORT TO THE UNITHOLDERS	08
CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES	09
CONDENSED INTERIM INCOME STATEMENT	10
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME	11
CONDENSED INTERIM DISTRIBUTION STATEMENT	12
CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND	13
CONDENSED INTERIM CASH FLOW STATEMENT	14
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS	15

# 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, 2014.

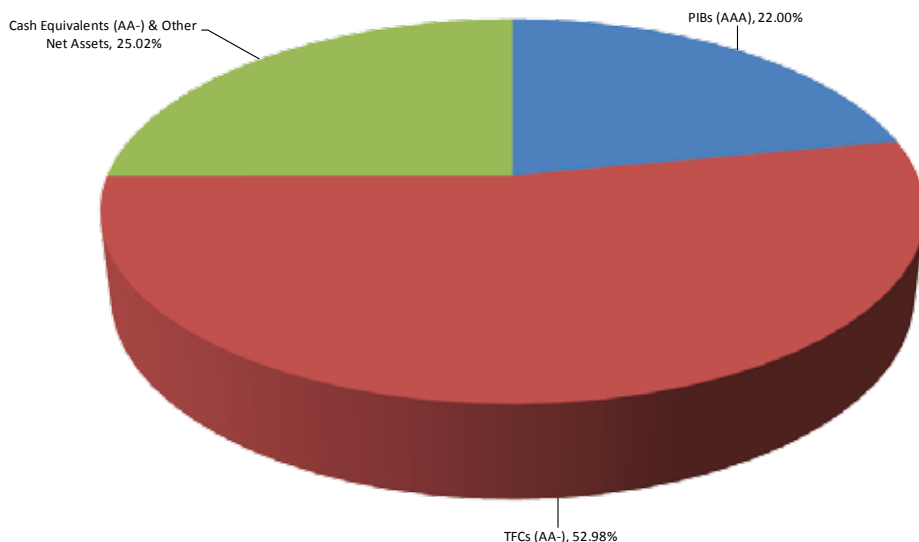
### Fund's Performance

The size of **NAFA Financial Sector Income Fund** has declined from Rs. 2,177 million to Rs. 1,940 million during the period, i.e. a decline of 10.9%. During the period, the unit price of the Fund has increased from Rs. 10.1404 on June 30, 2014 to Rs. 10.7026 on December 31, 2014, thus showing an annualized return of 11.00% as compared to its Benchmark (70% 6 month KIBOR & 30% average 3 month deposit rates of A & above rated banks) annualized return of 9.21% for the same period. The performance of the Fund is net of management fee and 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 remained skewed towards high quality issues, especially those belonging to the financial sector. Hunt for yields and limited primary issuance kept the yield on the high credit quality corporate bonds depressed. Furthermore, we have seen recoveries from many non-performing corporate bonds with pick-up in economic activity and declining interest rate environment. During the period under review, the State Bank of Pakistan reduced the policy rate by 50bps to 9.5% due to sharp decline in inflation and improved external account position. Sovereign securities responded to the beginning of 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 total income of Rs.134.72 million during the period. After deducting expenses of Rs.25.66 million, the net income is Rs.109.06 million. The below chart presents the asset allocation and the weighted average credit rating of each of the sub-asset classes of NFSIF.



# 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: February 17, 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) 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, 2014 in accordance with the provisions of the following:

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

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

Karachi: February 27, 2015



# NAFA FINANCIAL SECTOR INCOME FUND

## AUDITORS' REPORT TO THE UNIT HOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

### *Introduction*

We have reviewed the accompanying condensed interim statement of assets and liabilities of **NAFA Financial Sector Income Fund** as at December 31, 2014, 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, 2014. 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, 2014 and December 31, 2013 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2014.

### *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, 2014 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Chartered Accountants  
Engagement Partner: **Rashid A. Jafer**  
Dated: February 27, 2015  
Karachi

# NAFA FINANCIAL SECTOR INCOME FUND

## CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2014

	Note	(Unaudited) December 31, 2014	(Audited) June 30, 2014
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with banks	4	495,009	1,411,420
Investments	5	1,454,680	1,690,433
Profit receivable		36,428	59,488
Preliminary expenses and floatation costs		397	507
Security deposit		100	100
Prepayments and other receivables		25	173
<b>Total assets</b>		<b>1,986,639</b>	<b>3,162,121</b>
<b>LIABILITIES</b>			
Payable to the Management Company	6	14,735	10,813
Payable to the Central Depository Company of Pakistan Limited - Trustee		215	260
Payable to the Securities and Exchange Commission of Pakistan		767	2,891
Payable against redemption of units		12,065	954,532
Accrued expenses and other liabilities		18,575	16,589
<b>Total liabilities</b>		<b>46,357</b>	<b>985,085</b>
<b>NET ASSETS</b>		<b>1,940,282</b>	<b>2,177,036</b>
<b>UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>		<b>1,940,282</b>	<b>2,177,036</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	7		
(Number of units)			
<b>NUMBER OF UNITS IN ISSUE</b>		<b>181,290,110</b>	<b>214,688,472</b>
(Rupees)			
<b>NET ASSET VALUE PER UNIT</b>	8	<b>10.7026</b>	<b>10.1404</b>

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, 2014

Note	Half year ended December 31, 2014	Half year ended December 31, 2013	Quarter ended December 31, 2014	Quarter ended December 31, 2013
------(Rupees in '000)-----				
<b>INCOME</b>				
Capital gain / (loss) on sale of investments - net	1,087	(3,454)	310	(3,527)
Income from government securities	19,792	4,974	10,999	444
Income from letters of placement	-	863	-	47
Income from certificates of investment	-	6,680	-	-
Income from term deposit receipts	103	7,474	-	-
Income from term finance certificates and commercial paper	68,761	83,620	32,336	34,762
Profit on bank deposits	28,087	140,873	13,210	86,478
Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'at fair value through profit or loss' - net	16,890	45	15,695	(1,896)
<b>Total Income</b>	<b>134,720</b>	<b>241,075</b>	<b>72,550</b>	<b>116,308</b>
<b>EXPENSES</b>				
Remuneration of the Management Company 6.1	15,341	37,018	7,471	18,156
Sindh Sales Tax on remuneration of the Management Company 6.2	2,669	6,948	1,208	3,930
Federal Excise Duty on remuneration of the Management Company 6.3	2,455	5,923	1,196	2,905
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	1,298	2,526	638	1,243
Annual fee to the Securities and Exchange Commission of Pakistan	767	1,851	373	908
Securities' transaction cost	36	27	5	1
Bank charges	247	397	105	207
Listing fee	20	20	10	10
Auditors' remuneration	329	295	203	174
Printing charges	30	66	30	66
Rating fee	110	100	67	50
Legal Fee	25	30	25	30
Amortisation of preliminary expenses and floatation costs	110	110	55	55
<b>Total Expenses</b>	<b>23,437</b>	<b>55,311</b>	<b>11,386</b>	<b>27,735</b>
<b>Net income from operating activities</b>	<b>111,283</b>	<b>185,764</b>	<b>61,164</b>	<b>88,573</b>
Provision for Workers' Welfare Fund 9	(2,226)	(3,715)	(1,224)	(1,771)
<b>Net income for the period before taxation</b>	<b>109,057</b>	<b>182,049</b>	<b>59,940</b>	<b>86,802</b>
Taxation 10	-	-	-	-
<b>Net income for the period after taxation</b>	<b>109,057</b>	<b>182,049</b>	<b>59,940</b>	<b>86,802</b>
<b>Earnings per unit</b>	<b>11</b>			

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, 2014

	Half year ended December 31, 2014	Half year ended December 31, 2013	Quarter ended December 31, 2014	Quarter ended December 31, 2013
	------(Rupees in '000)-----			
Net income for the period after taxation	109,057	182,049	59,940	86,802
Other comprehensive income for the period	-	-	-	-
<b>Total comprehensive income for the period</b>	<u>109,057</u>	<u>182,049</u>	<u>59,940</u>	<u>86,802</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, 2014

	Half year ended December 31, 2014	Half year ended December 31, 2013	Quarter ended December 31, 2014	Quarter ended December 31, 2013
------(Rupees in '000)-----				
<b>Undistributed income brought forward comprising of :</b>				
- Realised income	88,333	104,392	120,569	194,403
- Unrealised (loss) / income	<u>(13,458)</u>	<u>2,382</u>	<u>1,195</u>	<u>1,941</u>
	74,875	106,774	121,764	196,344
Net income for the period	109,057	182,049	59,940	86,802
Element of loss and capital losses included in the prices of units issued less those in units redeemed-net	(7,170)	(39,725)	(4,942)	(38,949)
Final distribution for the year ended June 30, 2014				
- Nil (Dec 2013: Re 0.0101 per unit declared on July 11, 2013)				
- Cash distribution	-	(2,438)	-	-
- Issue of bonus units	-	(2,463)	-	-
Interim distribution for the quarter ended September 30, 2014				
- Nil (Dec 2013: Re 0.1540 per unit declared on October 30, 2013)				
- Cash distribution	-	(37,174)	-	(37,174)
- Issue of bonus units	-	(35,578)	-	(35,578)
	-	(77,653)	-	(72,752)
<b>Undistributed income carried forward</b>	<u>176,762</u>	<u>171,445</u>	<u>176,762</u>	<u>171,445</u>
<b>Undistributed income comprising of :</b>				
- Realised income	159,872	171,400	159,872	171,400
- Unrealised / income	<u>16,890</u>	<u>45</u>	<u>16,890</u>	<u>45</u>
	<u>176,762</u>	<u>171,445</u>	<u>176,762</u>	<u>171,445</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, 2014

	Half year ended December 31, 2014	Half year ended December 31, 2013	Quarter ended December 31, 2014	Quarter ended December 31, 2013
------(Rupees in '000)-----				
Net assets at the beginning of the period	2,177,036	4,962,334	2,013,057	4,991,532
Issue of 20,332,367 units (Dec 2013: 70,881,407 units)	212,573	699,049	140,048	242,169
Redemption of 53,730,729 units (Dec 2013: 259,668,552 units)	(558,384)	(2,714,980)	(272,763)	(2,194,489)
	(345,811)	(2,015,931)	(132,715)	(1,952,320)
Net element of loss and capital losses included in the prices of units issued less those in units redeemed	7,170	39,725	4,942	38,949
Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'at fair value through profit or loss' - net	16,890	45	15,695	(1,896)
Capital gain / (loss) on sale of investments - net	1,087	(3,454)	310	(3,527)
Other income (net of expenses) for the period	91,080	185,458	43,935	92,225
	109,057	182,049	59,940	86,802
Distribution of bonus units during the period	-	38,041	-	35,578
<b>Final distribution for the year ended June 30, 2014</b>				
- Nil (Dec 2013: Re 0.0101 per unit declared on July 11, 2013)				
- Cash distribution	-	(2,438)	-	-
- Issue of bonus units	-	(2,463)	-	-
Interim distribution for the quarter ended September 30, 2014				
- Nil (Dec 2013: Re 0.1540 per unit declared on October 30, 2013)				
- Cash distribution	-	(37,174)	-	(37,174)
- Issue of bonus units	-	(35,578)	-	(35,578)
	-	(77,653)	-	(72,752)
Net element of loss and capital losses included in the prices of units issued less those in units redeemed - transferred to distribution statement	(7,170)	(39,725)	(4,942)	(38,949)
<b>Net assets as at the end of the period</b>	<u>1,940,282</u>	<u>3,088,840</u>	<u>1,940,282</u>	<u>3,088,840</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, 2014

	Half year ended December 31, 2014	Half year ended December 31, 2013	Quarter ended December 31, 2014	Quarter ended December 31, 2013
------(Rupees in '000)-----				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period before taxation	109,057	182,049	59,940	86,802
<b>Adjustments for :</b>				
Net unrealised (appreciation) / diminution on re-measurement of investments classified as 'at fair value through profit or loss' - net	(16,890)	(45)	(15,695)	1,896
Amortisation of preliminary expenses and floatation costs	110	110	55	55
	<u>92,277</u>	<u>182,114</u>	<u>44,300</u>	<u>88,753</u>
<b>(Increase) / decrease in assets</b>				
Investments - net	252,643	1,464,855	(21,491)	147,178
Profit receivable	23,060	43,987	7,083	28,473
Receivable against sale of units	-	-	61	-
Prepayments and other receivables	148	105	46	60
	<u>275,851</u>	<u>1,508,947</u>	<u>(14,301)</u>	<u>175,711</u>
<b>Increase / (decrease) in liabilities</b>				
Payable to the Management Company	3,922	6,223	610	2,550
Payable to the Central Depository Company of Pakistan Limited - Trustee	(45)	74	3	7
Payable to the Securities and Exchange Commission of Pakistan	(2,124)	(925)	373	908
Accrued expenses and other liabilities	1,986	3,640	551	1,622
	<u>3,739</u>	<u>9,012</u>	<u>1,537</u>	<u>5,087</u>
<b>Net cash generated from operating activities</b>	<u>371,867</u>	<u>1,700,073</u>	<u>31,536</u>	<u>269,551</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Receipts from issue of units	212,573	1,663,409	140,048	245,080
Payment on redemption of units	(1,500,851)	(2,676,089)	(271,006)	(2,162,544)
Distribution paid	-	(39,612)	-	(37,174)
<b>Net cash used in financing activities</b>	<u>(1,288,278)</u>	<u>(1,052,292)</u>	<u>(130,958)</u>	<u>(1,954,638)</u>
<b>Net (decrease) / increase in cash and cash equivalents during the period</b>	<u>(916,411)</u>	<u>647,781</u>	<u>(99,422)</u>	<u>(1,685,087)</u>
Cash and cash equivalents at the beginning of the period	1,411,420	1,321,210	594,431	3,654,078
<b>Cash and cash equivalents as at the end of the period</b>	<u>495,009</u>	<u>1,968,991</u>	<u>495,009</u>	<u>1,968,991</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, 2014

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Financial Sector Income Fund (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited 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) / sukuku, 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 as at April 8, 2014.

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 have been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules), the Non-Banking Finance and Notified Entities Regulations, 2008 (the NBFC Regulations) and the directives issued by the Securities and Exchange Commission of Pakistan (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 IFRSs, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the 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 annual published financial statements of the Fund for the year ended June 30, 2014.

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, 2014.

### 3 SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES, ESTIMATES, JUDGEMENT AND CHANGES THEREIN

The accounting policies adopted for the preparation of the condensed interim financial statements for the half year and quarter ended December 31, 2014 are same as those applied in the preparation of annual audited financial statements for the year ended June 30, 2014.



# NAFA FINANCIAL SECTOR INCOME FUND

The preparation of this condensed interim financial information 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 on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The significant estimates, judgments and assumptions made by the management in applying the accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the audited annual financial statements as at and for the year ended June 30, 2014.

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, 2014.

Certain amendments to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2014. None of these amendments have a significant effect on this condensed interim financial information.

	Note	(Un-audited) December 31, 2014	(Audited) June 30, 2014
<b>(Rupees in '000)</b>			
<b>4 BANK BALANCES</b>			
In savings accounts	4.1	491,277	904,082
In current accounts		3,732	4,025
Pay order in hand		-	503,313
		<u>495,009</u>	<u>1,411,420</u>
<b>4.1</b>			
These accounts carry profit at the rates ranging from 6.50% to 10.75% (June 30, 2014: 6.50% to 11%) per annum.			
<b>5 INVESTMENTS</b>			
<b>Financial assets classified as 'at fair value through profit or loss'</b>			
Term finance certificates - listed	5.1	545,377	568,230
Term finance certificates - unlisted	5.2	482,500	591,677
Government securities - Pakistan Investment Bonds	5.3	426,803	482,685
		1,454,680	1,642,592
<b>Loans and receivables</b>			
Commercial Paper	5.4	-	47,841
		<u>1,454,680</u>	<u>1,690,433</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, 2014	Investment as a percentage of	
	As at July 01, 2014	Purchases during the period	Sales / Mature during the period	As at December 31, 2014		Net assets	Market value of total investments
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	63,460	0.03	0.04
Askari Bank Limited - III	30,336	-	-	30,336	150,807	0.08	0.10
Bank Al-Habib Limited-II	1,077	-	-	1,077	2,687	0.00	0.00
Faysal Bank Limited - III	59,000	-	-	59,000	303,391	0.16	0.21
Pak Libya Holding Company (Pvt) Limited	10,000	-	-	10,000	25,032	0.01	0.02
United Bank Limited -III	3,900	-	3,900	-	-	-	-
				<u>113,413</u>	<u>545,377</u>	<u>0.28</u>	<u>0.37</u>
<b>Carrying Value as at December 31, 2014</b>					<u><b>548,373</b></u>		
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'					<u><b>(2,996)</b></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, 2014	Investment as a percentage of	
	As at July 01, 2014	Purchases during the period	Sales / Mature during the period	As at December 31, 2014		Net assets	Market value of total investments
Rupees in '000						----- % -----	
<b>Term finance certificates - unlisted</b>							
Bank Alfalah Limited - IV	70,200	-	2,800	67,400	343,024	0.18	0.24
Askari Bank Limited - IV	44	-	-	44	44,444	0.02	0.03
Bank Alfalah Limited - IV FX	11,500	-	11,500	-	-	-	-
Standard Chartered Bank	10,000	-	-	10,000	50,032	0.03	0.03
Pakistan Mobile Communication Limited	14,420	-	14,420	-	-	-	-
Hascol Petroleum limited	-	9,000	-	-	9,000	0.02	0.03
				<u>86,444</u>	<u>482,500</u>	<u>0.25</u>	<u>0.33</u>
<b>Carrying Value as at December 31, 2014</b>					<u><b>488,177</b></u>		
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'					<u><b>(5,677)</b></u>		

## 5.3 Government securities

### Market Treasury Bills

Issue Date	Tenor	As at July 01, 2014	-----Face value-----			Market value as at December 31, 2014	Investment as a percentage of	
			Purchases during the period	Sales/ matured during the period	As at December 31, 2014		Net assets	Market value of total investments
(Rupees in '000)						----- % -----		
13-Nov-14	3 Months	-	400,000	400,000	-	-	-	
					<u>-</u>	<u>-</u>	<u>-</u>	
<b>Carrying Value as at December 31, 2014</b>					<u><b>-</b></u>			
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'					<u><b>-</b></u>			

# NAFA FINANCIAL SECTOR INCOME FUND

## Pakistan Investment Bonds

Issue Date	Tenor	As at July 01, 2014	-----Face value-----			Market value as at December 31, 2014	Investment as a percentage of	
			Purchases during the period	Sales/ matured during the period	As at December 31, 2014		Net assets	Market value of total investments
						(Rupees in '000)	----- % -----	
18-Jul-13	3 Years	450,000	-	450,000	-	-	-	-
18-Jul-13	5 Years	40,000	50,000	-	90,000	94,867	0.05	0.07
17-Jul-14	3 Years	-	380,000	60,000	320,000	331,936	0.17	0.23
					<u>410,000</u>	<u>426,803</u>	<u>0.22</u>	<u>0.30</u>

Carrying Value as at December 31, 2014

401,240

Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'

25,563

5.4 This represents commercial paper, having a face value of Rs. 50 million, issued at discount by PAIR Investment Company Limited. The Fund had purchased this commercial paper at Rs. 47.224 million and it was matured on November 18, 2014 after being amortized over a period of 180 days.

5.5 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.

Note	(Un-audited) December 31, 2014	(Audited) June 30, 2014
		(Rupees in '000)

## 6 PAYABLE TO THE MANAGEMENT COMPANY

Remuneration of the Management Company	6.1	2,534	594
Sindh Sales Tax on Management Company's remuneration	6.2	441	200
Federal Excise Duty on Management Company's remuneration	6.3	10,691	8,236
Sales Load and Transfer Load payable to Management Company		900	539
Preliminary expenses and floatation costs paid by Management Company on behalf of the Fund		17	1,092
Expenses paid by the Management Company on behalf of the Fund		<u>152</u>	<u>152</u>
		<u>14,735</u>	<u>10,813</u>

6.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 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 percent of the average annual net assets of the Fund and thereafter of an amount equal to 2 percent of such assets of the Fund. Further, as per the requirement of the NBFC Regulations the Management Company shall not charge any fee if the Fund makes investment in CIS managed by the same Management Company. The Management Company has charged remuneration at the rate of 1.5% per annum based on the daily net assets of the Fund after deducting the investment made by the Fund in the CIS managed by the Management Company during the half year ended December 31, 2014. The amount of remuneration is paid monthly in arrears.

6.2 The Provincial Government of Sindh has levied Sindh sales tax at the rate of 15% (June 30, 2014: 16%) on the remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011.

6.3 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 6.2, 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.

# NAFA FINANCIAL SECTOR INCOME FUND

Pending decision of the SHC, the Fund is not making payments for FED. However, the Fund, as a matter of abundant caution, has made full provision in respect of FED amounting to Rs 10.691 million. Had the provision not been made the net asset value per unit of the Fund as at December 31, 2014 would have been higher by Re. 0.0590 per unit.

## 7 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at December 31, 2014 and as at June 30, 2014.

## 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") 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 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, 2012, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008, had declared the said amendments as unlawful and unconstitutional. In March 2013, a larger bench of the Honourable Sindh High Court (SHC) passed an order declaring that the amendments introduced in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 do not suffer from any constitutional or legal infirmity. However, the Honourable High Court of Sindh has not addressed the other amendments made in the WWF Ordinance 1971 about applicability of WWF to the CISs which is still pending before the Court. In a recent judgment, the Peshawar High Court (PHC) has also held these amendments to be ultra vires as they lacked the essential mandate to be introduced and passed through the Money Bill under the Constitution. Without prejudice to the above, the Management Company, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs 17.513 million (including Rs 2.226 million for the current period) in this condensed interim financial information. Had the same not been made the net asset value per unit of the Fund as at December 31, 2014 would have been higher by Rs 0.0966 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. The management intends to distribute at least 90% of the Fund's net accounting income earned by the year end to the unit holders. Accordingly, no provision in respect of taxation has been made in this condensed interim financial information.

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.

## 11 EARNINGS PER UNIT

Earnings per unit (EPU) for the period ended December 31, 2014 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 RELATED PARTIES / CONNECTED PERSONS

- 12.1 Related parties / 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.

# NAFA FINANCIAL SECTOR INCOME FUND

- 12.2 The transactions related parties / connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 12.3 Remuneration and sales load payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.
- 12.4 Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.
- 12.5 Details of transactions with related parties / connected persons are as follows:

	Half year ended December 31, 2014	Half year ended December 31, 2013	Quarter ended December 31, 2014	Quarter ended December 31, 2013
------(Rupees in '000)-----				
<b>NBP Fullerton Asset Management Limited - Management Company</b>				
Remuneration of the Management Company	15,341	37,018	7,471	18,156
Sindh Sales Tax on Management Company's remuneration	2,669	6,948	1,208	3,930
Federal Excise Duty on Management Company's remuneration	2,455	5,923	1,196	2,905
Front end load	590	1,391	395	543
<b>National Bank of Pakistan - Sponsor</b>				
Redemption of Nil units (December 31, 2013: 143,056,059 units)	-	1,500,000	-	1,500,000
Distributions paid	-	39,612	-	37,174
Purchase of Market Treasury Bills	-	1,358,125	-	-
Placement of Term Deposit Receipts	-	500,000	-	-
Profit on Term Deposit Receipt	-	7,474	-	-
<b>Central Depository Company of Pakistan Limited - Trustee</b>				
Remuneration of the Trustee	1,298	2,526	638	1,243
CDS Charges	112	101	61	51
<b>Alexandra Fund Management Pte. Limited - Sponsor</b>				
Bonus of Nil units (December 31, 2013: 182,969 units)	-	-	-	-
Redemption of Nil units (December 31, 2013: 11,735,970 units)	-	122,137	-	122,137
<b>Employees of the Management Company</b>				
Issue of 100,242 units (2013: 974,715 units)	1,034	10,145	185	1,213
Bonus of Nil units (2013: 7,543 units)	-	-	-	-
Redemption of 221,972 units (2013: 989,104 units)	2,302	10,298	1,463	1,759
<b>Summit Bank Limited</b>				
Bank Profit	-	135	-	-
<b>NAFA Income Opportunity Fund</b>				
Sale of Pakistan Investment Bond	207,600	-	-	-
<b>NAFA Government Securities Liquid Fund</b>				
Sale of Treasury Bills	-	68,679	-	68,679
<b>NAFA Money Market Fund</b>				
Sale of Treasury Bills	186,275	-	186,275	-
<b>CFO / Company Secretary</b>				
Issue of Nil units (2013: 181,291 units)	-	1,887	-	-
Redemption of Nil units (2013: 10,512 units)	-	110	-	100
Bonus of Nil units (2013: 2,979 units)	-	-	-	-
<b>Habib Metropolitan Bank Limited*</b>				
Redemption of 4,943,630 units (2013: Nil units)	51,324	-	16,324	-

\*Prior period comparatives have not been presented as the entity was not classified as a related party / connected person in the prior periods.

# NAFA FINANCIAL SECTOR INCOME FUND

	(Un-Audited) As at December 31, 2014	(Audited) As at June 30, 2014
	Rupees in '000	
<b>12.6 Balances outstanding as at period / year end</b>		
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund	17	1,092
Rating fee paid by the Management Company on behalf of the Fund	52	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	2,534	594
Sindh Sales Tax payable on Management Company's remuneration	441	200
Federal Excise Duty on Management Company's remuneration	10,691	8,236
Sales load and transfer load payable to the Management Company	900	539
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	215	260
Security deposit	100	100
<b>Employees of the Management Company</b>		
Units held 249,417 units (June 30, 2014 : 371,147units)	2,669	3,764
<b>National Bank of Pakistan - Sponsor</b>		
Units held 68,882,766 units (June 30, 2014: 68,882,766 units)	737,225	698,499
Payable against 93,858,593 units redeemed as at June 30, 2014	-	951,764
Bank balance	2,228	1,241
<b>Summit Bank Limited</b>		
Bank balance	1,504	1,624
<b>Habib Metropolitan Bank Limited</b>		
Units held : 18,617,448 units (2014: 23,561,078 units)	199,255	238,919
<b>CFO / Company Secretary</b>		
Units held 80,311 units (June 30, 2014: 80,311units)	860	814

## 13 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on February 17, 2015 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

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