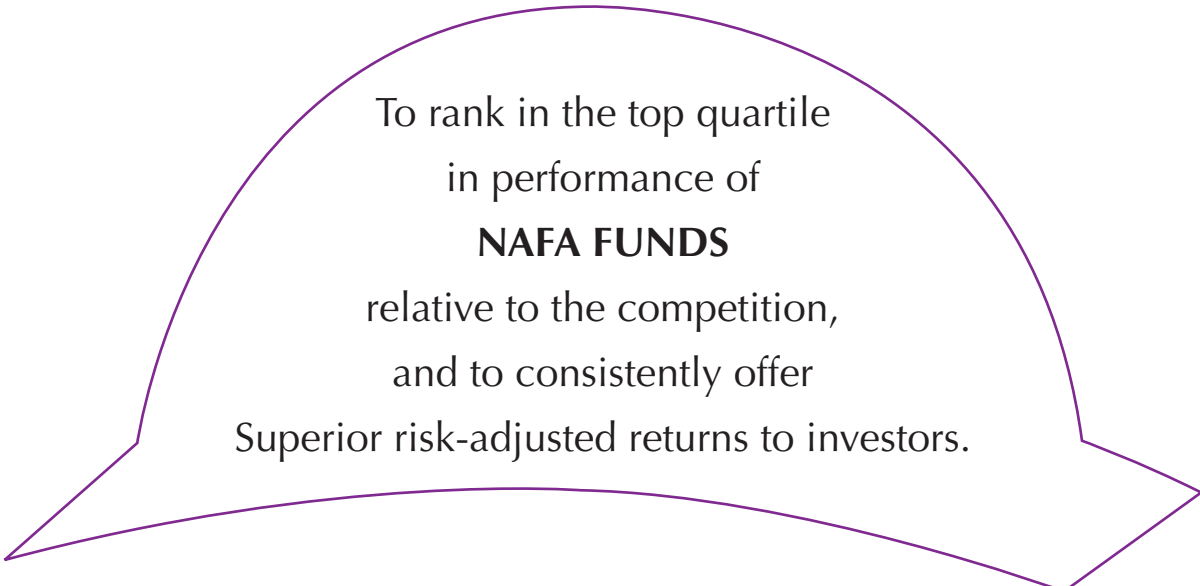


## MISSION STATEMENT



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. Asif Hassan	Chairman
Dr. Amjad Waheed	Chief Executive Officer
Mr. Khalid Mahmood	Director
Mr. Aamir Shehzad	Director
Mr. Wah Geok Sum	Director
Mr. Koh Boon San	Director
Mr. Shehryar Faruque	Director
Mr. Kamal Amir Chinoy	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 Shehzad	Member

### Human Resource Committee

Mr. Khalid Mahmood	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](http://www.nafafunds.com)

## **Lahore Office:**

House # 10 - A, Block -S, Gulberg - II, Lahore.  
UAN: (+92-42) 111-111-NFA (632)  
Fax No: (+92-42) 35760373

## **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 Second Annual Report of NAFA Financial Sector Income Fund (NFSIF) for the year ended June 30, 2013.

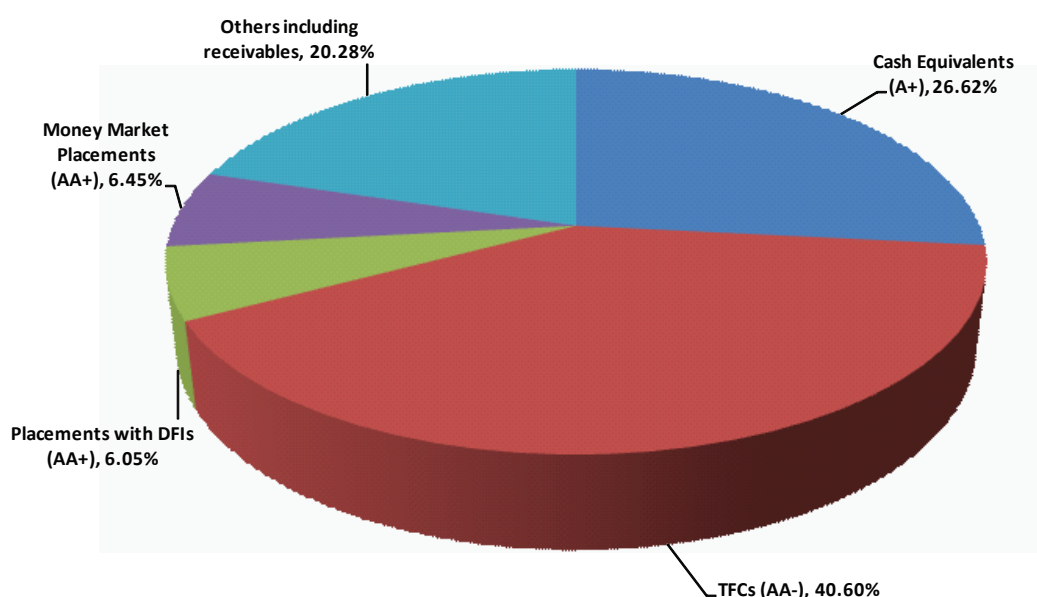
### **Fund's Performance**

The size of NAFA Financial Sector Income Fund has increased from Rs. 2,768 million to Rs. 4,962 million during the period, i.e. a growth of 79.26%. During the period, the unit price of the Fund has increased from Rs. 9.4045 (Ex - Div) on June 30, 2012 to Rs. 10.2765 on June 30, 2013 thus posting a return of 9.27% as compared to its Benchmark (70% 6 month KIBOR & 30% average 3 month deposit rates of A & above rated banks) return of 9.02% for the same period.

NFSIF is an Income Scheme that invests a minimum of 70% of its assets in financial sector debt securities, instruments or deposits. Minimum entity rating of issuers of debt securities (mainly banks) is AA-. Almost all debt securities in the Fund are floating rate i.e linked to KIBOR. Duration of the Fund cannot be more than one year. This minimizes interest rate or pricing risk. The Fund invests at least 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.

With letup in inflationary pressures and manageable external account position, SBP slashed the Policy Rate during FY13 by 300 bps to 9%. On the corporate debt sphere, yields on the corporate bonds in the secondary market squeezed due to the price appreciation on the back of decline in interest rates and increased risk appetite of the investors, and limited primary issuance. Most TFCs in the Fund are floating rate linked to KIBOR.

The Fund has earned a total income of Rs.404.32 million during the year. After deducting total expenses of Rs.80.11 million, the net income is Rs.324.21 million. The asset allocation of NAFA Financial Sector Income Fund as on June 30, 2013 is as follows:



# NAFA FINANCIAL SECTOR INCOME FUND

## Income Distribution

In addition to interim distribution of 7.50% of opening ex-NAV (7.59% of the par value), the Board of Directors of the Management Company has also approved a final distribution of 0.1%, translating into total distribution of 7.60% of opening ex-NAV (7.691% of the par value). After final distribution, the net asset value per unit will be Rs.10.2664 on June 30, 2013.

## Taxation

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

## Auditors

The present auditors, Messers A.F.Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2014.

## 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 five meetings during the period. The attendance of all directors is disclosed in the note 22 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 21 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 18 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: August 27, 2013  
Place: Karachi.

# NAFA FINANCIAL SECTOR INCOME FUND

## TRUSTEE REPORT TO THE UNIT HOLDERS NAFA FINANCIAL SECTOR INCOME FUND

### Report of Trustee pursuant to Regulation 41(h) and Clause 9 schedule V of the Non-Banking Finance Companies and Notified Entities Regulation, 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, 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 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: SEPTEMBER 18, 2013



# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE NAFA FINANCIAL SECTOR INCOME FUND FOR THE YEAR ENDED JUNE 30, 2013

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. At present the Board includes:

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. Asif Hassan (Chairman) 2. Mr. Khalid Mahmood 3. Mr. Amir Shehzad 4. Mr. Wah Geok Sum 5. Mr. Koh Boon San

The independent directors meet the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director of more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable). However, the requirement of serving as a director of seven listed companies is applicable from the date of next election of directors.
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. Two casual vacancies were occurred on the board on February 26, 2013 and on May 20, 2013 during the year which were filled up by the directors on April 11, 2013 and May 20, 2013 respectively.
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 and requirements of CCG, the code requires company to conduct formal orientation for directors. Up to 30 June 2013, one of the directors has obtained the director's training program offered by Pakistan Institute of Corporate Governance. The Company has started the process for training of other directors and it is expected that some of other directors may also obtain certification of the director's training program in upcoming year. However, the directors are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
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 18 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 revised terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. All the members are non-executive directors and the chairman of the committee is a non-independent director.
18. The Board has set up an effective internal audit function.

# NAFA FINANCIAL SECTOR INCOME FUND

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. 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.

For and behalf of the board

Karachi  
August 27, 2013

Dr. Amjad Waheed  
Chief Executive Officer

# NAFA FINANCIAL SECTOR INCOME FUND

## FUND MANAGER REPORT

### NAFA Financial Sector Income Fund

NAFA Financial Sector Income Fund 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 second Annual report since the launch of the Fund on October 28, 2011. The Fund size increased by 79.30% during FY13 and stands at Rs 4,962 million as on June 30, 2013. The Fund's annualized return since inception is 10.63%. During the same period the benchmark return has been 9.72%. This translates into an out-performance of 0.91% p.a. The Fund's annualized return during FY 2012-13 is 9.27% versus the benchmark return of 9.02%, thus registering an out-performance of 0.25%. This out-performance is net of management fee and all other expenses. Thus the Fund has achieved its investment objectives.

The Fund is unique as it invests a minimum of 70% of its assets in financial sector debt securities, instruments or deposits. Minimum entity / instrument rating of debt securities (mainly banks) 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.

With letup in inflationary pressures and manageable external account position, SBP slashed the Policy Rate during FY13 by 300 bps to 9%. On the corporate debt sphere, yields on the corporate bond in the secondary market squeezed amid ample liquidity in the market on the back of incessant government borrowing, elevated risk appetite of the investors in search of yield and limited primary issuance. All corporate TFCs in the Fund are floating rate linked to KIBOR. 6-Months KIBOR declined to 9.09% from 12.06% during the year.

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

Particulars	30-Jun-13	30-Jun-12
Cash Equivalents (A+)	26.62%	4.55%
TFCs (AA-)	40.60%	63.27%
T. Bills (AAA)	-	26.17%
Placements with DFIs (AA+)	6.05%	4.34%
Money Market Placements (AA+)	6.45%	-
Others including receivables	20.28%	1.67%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

# NAFA FINANCIAL SECTOR INCOME FUND

## Distribution for the Financial Year 2013

Interim Period / Quarter	Dividend as a % of Par Value (Rs.10)	Cummlative Div. Price / Unit	Ex- Div. Price
Sep Qtr 2012	2.7840%	10.4494	10.1710
Dec Qtr 2012	2.2780%	10.4711	10.2433
Mar Qtr 2013	2.5310%	10.3751	10.1220
Jun Qtr 2013	0.1010%	10.2765	10.2664

## Unit Holding Pattern of NAFA Financial Sector Income Fund as on 30th June 2013

Size of Unit Holding (Units)	# of Unit Holders
1-1000	54
1001-5000	110
5001-10000	107
10001-50000	421
50001-100000	212
100001-500000	229
500001-1000000	28
1000001-5000000	27
5000001-10000000	6
10000001-100000000	2
100000001-1000000000	1
	<b>1197</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. 9,337,235/-. If the same were not made the NAV per unit/ FY 2013 return of scheme would be higher by Rs. 0.0193/ 0.24%. For details investors are advised to read note 15 of the Financial Statement of the Scheme for the period from October 18, 2011 to June 30, 2013.

# NAFA FINANCIAL SECTOR INCOME FUND

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **NBP Fullerton Asset Management Limited**, the Management Company of **NAFA Financial Sector Income Fund**, 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. 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 Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the 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 Company's corporate governance procedures and risks.

Sub-Regulation (x) of Listing Regulations No. 35 as notified by the Lahore Stock Exchange (Guarantee) Limited on which the Fund is listed requires the Management Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the above requirements to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices 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, 2013.

A.F. Ferguson & Co. Chartered Accountants  
Karachi  
Dated: September 18, 2013

# NAFA FINANCIAL SECTOR INCOME FUND

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **NAFA Financial Sector Income Fund** (here in after referred to as "the Fund"), which comprise the statement of assets and liabilities as at June 30, 2013, 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 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.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 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 financial position of the Fund as at June 30, 2013, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

A.F. Ferguson & Co. Chartered Accountants  
Engagement Partner: **Rashid A. Jafer**  
Dated: September 18, 2013  
Karachi

# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012 (Rupees in '000)
<b>ASSETS</b>			
Bank balances	4	1,321,210	125,856
Investments	5	2,634,567	2,595,324
Profit receivable	6	62,690	59,557
Preliminary expenses and floatation costs	7	726	945
Security deposit		100	100
Receivable against issue of units	17.1	964,360	-
Prepayments and other receivables		129	108
<b>Total assets</b>		<b>4,983,782</b>	<b>2,781,890</b>
<b>LIABILITIES</b>			
Payable to the Management Company	8	7,819	5,078
Fee payable to Central Depository Company of Pakistan Limited - Trustee	9	352	257
Payable to the Securities and Exchange Commission of Pakistan	10	2,776	838
Payable against redemption of units		-	4,465
Accrued expenses and other liabilities	11	10,501	3,585
<b>Total liabilities</b>		<b>21,448</b>	<b>14,223</b>
<b>NET ASSETS</b>		<b>4,962,334</b>	<b>2,767,667</b>
<b>UNIT HOLDERS' FUNDS (AS PER STATEMENT ATTACHED)</b>		<b>4,962,334</b>	<b>2,767,667</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	12		
		<b>Number of units</b>	
<b>NUMBER OF UNITS IN ISSUE</b>		<b>482,880,329</b>	<b>265,532,658</b>
		<b>Rupees</b>	
<b>NET ASSET VALUE PER UNIT</b>	3.10	<b>10.2765</b>	<b>10.4231</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 Officer

Director



# NAFA FINANCIAL SECTOR INCOME FUND

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	Note	For the year ended June 30, 2013	For the period from October 18, 2011 to June 30, 2012
(Rupees in '000)			
<b>INCOME</b>			
Capital gain / (loss) on sale of investments - net		1,380	(280)
Income from term finance certificates		252,002	100,331
Income from government securities		39,600	33,034
Income from letters of placement		26,220	2,940
Profit on bank deposits and term deposit receipts	13	82,739	5,907
Net unrealised appreciation on re-measurement of investments classified as financial assets 'at fair value through profit or loss'	5.7	2,382	17,699
<b>Total Income</b>		<b>404,323</b>	<b>159,631</b>
<b>EXPENSES</b>			
Remuneration of the Management Company		55,510	16,598
Sindh Sales Tax on Management Company's remuneration		8,882	2,656
Federal excise duties on remuneration of the Management Company		481	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee		3,996	1,507
Annual fee - Securities and Exchange Commission of Pakistan		2,776	838
Amortisation of preliminary expenses and floatation costs	7	219	147
Auditors' remuneration	14	452	381
Listing fee		40	20
Rating fee		100	121
Printing charges		6	101
Legal fee		40	40
Securities transaction cost		144	833
Settlement and bank charges		855	347
<b>Total Expenses</b>		<b>73,501</b>	<b>23,589</b>
<b>Net Income from operating activities</b>		<b>330,822</b>	<b>136,042</b>
Provision for Workers' Welfare Fund	15	(6,616)	(2,721)
<b>Net income for the year before taxation</b>		<b>324,206</b>	<b>133,321</b>
Taxation	16	-	-
<b>Net income for the year after taxation</b>		<b>324,206</b>	<b>133,321</b>
<b>Earnings per unit</b>	3.11		

The annexed notes 1 to 29 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2013

	For the year ended June 30, 2013	For the period from October 18, 2011 to June 30, 2012
	(Rupees in '000)	
Net income for the year after taxation	324,206	133,321
Other comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	<u>324,206</u>	<u>133,321</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 Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	For the year ended June 30, 2013	For the period from October 18, 2011 to June 30, 2012
	(Rupees in '000)	
Undistributed income brought forward	112,343	-
Net income for the year after taxation	324,206	133,321
Element of income and capital gains included in the prices of units issued less those in units redeemed	37,072	44,672
<b>Final distribution for the year ended June 30, 2012</b>		
- Re 0.3 per unit declared on July 9, 2012		
- Cash distribution	(44,925)	-
- Issue of bonus units	(35,968)	-
<b>Interim distributions during the year</b>		
- Re 0.2784 per unit declared on October 23, 2012		
- Cash distribution	(41,691)	-
- Issue of bonus units	(51,664)	-
- Re 0.2278 per unit declared on February 26, 2013 (2012 : 0.2 per unit)		
- Cash distribution	-	(1,688)
- Issue of bonus units	(91,476)	(27,980)
- Re 0.2531 per unit declared on April 26, 2013 (2012 : 0.2 per unit)		
- Cash distribution	(37,360)	(23,603)
- Issue of bonus units	(63,763)	(12,379)
Undistributed income carried forward	<u>106,774</u>	<u>112,343</u>
<b>Undistributed income comprising:</b>		
- Realised income	104,392	94,644
- Unrealised income	2,382	17,699
	<u>106,774</u>	<u>112,343</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 Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2013

	For the year ended June 30, 2013	For the period from October 18, 2011 to June 30, 2012
	(Rupees in '000)	
Net assets at the beginning of the year	2,767,667	-
Issue of 444,514,151 units(2012: 297,765,543units) including 23,853,783 bonus units (2012: 3,968,570 bonus units)	4,327,598	2,991,557
Redemption of 227,166,480 units (2012: 32,232,885 units)	(2,333,161)	(331,920)
	1,994,437	2,659,637
Element of income and capital gains included in the prices of units issued less those in units redeemed - amount transferred to distribution statement	(37,072)	(44,672)
Net unrealised appreciation on re-measurement of investments classified as financial assets 'at fair value through profit or loss'	2,382	17,699
Net Income / (loss) on sale of investments	1,380	(280)
Other income (net of expenses) for the year	320,444	115,902
	324,206	133,321
<b>Distributions of bonus units during the year</b>		
Interim distributions	206,903	40,359
Final distributions	35,968	-
<b>Final distribution for the year ended June 30, 2012</b>		
- Re 0.3 per unit declared on July 9, 2012		
- Cash distribution	(44,925)	-
- Issue of bonus units	(35,968)	-
	(80,893)	
<b>Interim distributions made during the year</b>		
- Re 0.2784 per unit declared on October 23, 2012 (2011: Nil)		
- Cash distribution	(41,691)	-
- Issue of bonus units	(51,664)	-
- Re 0.2278 per unit declared on February 26, 2013 (2012 : 0.2 per unit)		
- Cash distribution	-	(1,688)
- Issue of bonus units	(91,476)	(27,980)
- Re 0.2531 per unit declared on April 26, 2013 (2012 : 0.2 per unit)		
- Cash distribution	(37,360)	(23,603)
- Issue of bonus units	(63,763)	(12,379)
	(285,954)	(65,650)
Net element of income and capital gains included in the prices of units issued less those in units redeemed - amount transferred to distribution statement	37,072	44,672
<b>Net assets at the end of the year</b>	<u>4,962,334</u>	<u>2,767,667</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 Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

Note	For the year ended June 30, 2013	For the period from October 18, 2011 to June 30, 2012
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	324,206	133,321
<b>Adjustments for:</b>		
Net unrealised appreciation on re-measurement of investments classified as financial assets 'at fair value through profit or loss'	(2,382)	(17,699)
Amortisation of preliminary expenses and floatation costs	219	147
	<u>322,043</u>	<u>115,769</u>
<b>Increase in assets</b>		
Investments - net	(36,861)	(2,577,625)
Profit receivable	(3,133)	(59,557)
Security deposit	-	(100)
Receivable against issue of units	(964,360)	-
Prepayments and other receivables	(21)	(108)
	<u>(1,004,375)</u>	<u>(2,637,390)</u>
<b>Increase in liabilities</b>		
Payable to the Management Company	2,741	3,986
Fee payable to Central Depository Company of Pakistan Limited - Trustee	95	257
Payable to the Securities and Exchange Commission of Pakistan	1,938	838
Accrued expenses and other liabilities	6,916	3,585
	<u>11,690</u>	<u>8,666</u>
<b>Net cash used in operating activities</b>	<u>(670,642)</u>	<u>(2,512,955)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts from issue of units	4,327,598	2,991,557
Payments on redemption of units	(2,337,626)	(327,455)
Distributions paid	(123,976)	(25,291)
<b>Net cash generated from financing activities</b>	<u>1,865,996</u>	<u>2,638,811</u>
<b>Net increase in cash and cash equivalents during the year</b>	<u>1,195,354</u>	<u>125,856</u>
Cash and cash equivalents at the beginning of the year	125,856	-
<b>Cash and cash equivalents at the end of the year</b>	<u><u>1,321,210</u></u>	<u><u>125,856</u></u>
	4	

The annexed notes 1 to 29 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 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 (NAFA) as the Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on July 28, 2011 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on August 16, 2011 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 7th floor, Clifton Diamond Building, Block 4, Scheme no. 5, Clifton, Karachi. The Management Company is a member of the Mutual Fund Association of Pakistan (MUFAP).

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

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

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

Title of the assets of the Fund is held in the name of CDC as trustee of the Fund.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of Compliance

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

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

The following standards and amendments to standards have been published and are mandatory for the fund accounting period beginning on or after July 1, 2012:

IAS 1, 'Financial statement presentation'. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendments do not have any effect on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Funds operations and are therefore not detailed in these financial statements.

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

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

# NAFA FINANCIAL SECTOR INCOME FUND

## 2.3 Critical accounting estimates and judgments

The preparation of 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 the management's 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 areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments (note 3.2 and note 5).

## 2.4 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.'

## 2.5 Functional and Presentation Currency

The financial statements are presented in Pak Rupees, which is the functional and presentation currency of the Fund.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

### 3.1 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances in savings accounts and other deposits with banks having 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
- available for sale

The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

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

These are financial assets acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

#### b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

#### c) Available for sale

These are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

#### 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 in the income statement.

# NAFA FINANCIAL SECTOR INCOME FUND

## 3.2.4 Subsequent measurement

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

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

#### Basis of valuation of debt securities

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

#### Basis of valuation of government securities

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

Net gains and losses arising from changes in fair value of financial assets carried at fair value through profit or loss are taken to the income statement.

Net gains and losses arising from changes in fair value of 'available for sale' financial assets are recognised as 'other comprehensive income' in the statement of comprehensive income until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised as 'other comprehensive income' is transferred to the income statement as capital gain / (loss).

### b) Loans and receivables

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

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

## 3.2.5 Impairment

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

### a) Debt securities

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

As allowed under circular no. 33 of 2012 dated October 24, 2012, issued by the SECP, the management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid circular, in accordance with a provisioning policy approved by the Board of Directors.

### b) Loans and receivables

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

## 3.2.6 Derecognition

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



# NAFA FINANCIAL SECTOR INCOME FUND

## 3.2.7 Offsetting of financial assets and liabilities

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.

## 3.3 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 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 Non-Banking Finance Companies and Notified Entities Regulations, 2008.

## 3.5 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.

## 3.6 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 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.

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.

## 3.7 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company of the Fund for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable.

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

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

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

Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed is determined based on the income earned during the year and on unrealised appreciation / (diminution) arising during the year on available for sale securities. The amount so determined is taken directly to the distribution statement.

## 3.9 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.

# NAFA FINANCIAL SECTOR INCOME FUND

## 3.10 Net asset value per unit

The net asset value 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.

## 3.11 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.

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

4	BANK BALANCES	Note	June 30, 2013	June 30, 2012
		(Rupees in '000)		
	In savings accounts	4.1	1,320,049	121,670
	In current accounts		1,161	4,186
			<u>1,321,210</u>	<u>125,856</u>

4.1 These accounts carry a rate of return ranging from 6.00% to 11.00% per annum (2012: 6.00% to 11.00% per annum).

5	INVESTMENTS	Note	June 30, 2013	June 30, 2012
		(Rupees in '000)		
	<b>Financial assets 'at fair value through profit or loss'</b>			
	Investment in term finance certificates - listed	5.1	1,500,406	1,204,815
	Investment in term finance certificates - unlisted	5.2	514,161	546,185
	Investment in government securities	5.4	-	724,324
			2,014,567	2,475,324
	<b>Loans and receivables</b>			
	Investment in letter of placement		-	120,000
	Certificate of Investment	5.5	300,000	-
	Sukuk Certificates	5.6	320,000	-
			<u>620,000</u>	<u>120,000</u>
			<u>2,634,567</u>	<u>2,595,324</u>

# NAFA FINANCIAL SECTOR INCOME FUND

## 5.1 Term finance certificates - listed

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

Name of the investee company	Number of certificates / bonds				Market Value as at June 30, 2013	Investment as a percentage of		
	As at July 01, 2012	Purchases during the period	Sale during the period	As at June 30, 2013		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	16,639	0.34	0.63	0.88%
Allied Bank Limited II	13,000	-	-	13,000	62,759	1.26	2.38	2.16%
Askari Bank Limited - II	3,000	-	-	3,000	15,022	0.30	0.57	1.00%
Askari Bank Limited - III	2,600	27,736	-	30,336	157,586	3.18	5.98	5.00%
Askari Bank Limited - IV	-	44	-	44	47,853	0.96	1.82	0.02%
Bank Al-Habib Limited -I	27,000	-	27,000	-	-	-	-	-
Bank Al-Habib Limited -II	1,077	-	-	1,077	5,432	0.11	0.21	0.36%
Faysal Bank Limited - III	60,000	-	1,000	59,000	306,346	6.17	11.63	9.99%
NIB Bank Limited	47,600	7,000	-	54,600	271,740	5.48	10.31	9.10%
Pak Libya Holding Company (Pvt) Limited	-	10,000	-	10,000	50,082	1.01	1.90	5.00%
Pakistan Mobile Communication Limited	-	22,677	-	22,677	113,425	2.29	4.31	6.00%
Soneri Bank Limited	24,000	-	24,000	-	-	-	-	-
United Bank Limited -III	3,900	-	-	3,900	9,797	0.20	0.37	0.98%
United Bank Limited -IV	83,100	5,000	-	88,100	443,725	8.94	16.84	0.37%
				<u>290,134</u>	<u>1,500,406</u>	<u>30.24</u>	<u>56.95</u>	
<b>Carrying Value as at June 30, 2013</b>					1,500,783			
Net unrealised diminution on re-measurement of investments					<u>(377)</u>			

## 5.2 Term finance certificates - unlisted

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

Name of the investee company	Number of certificates / bonds				Market Value as at June 30, 2013	Investment as a percentage of		
	As at July 01, 2012	Purchases during the period	Sale during the period	As at June 30, 2013		Net assets	Market value of total investments	Issue size
					Rupees in '000	----- % -----		
<b>Term finance certificates - unlisted</b>								
Bank Alfalah Limited - IV	70,200	-	-	70,200	368,440	7.42	13.98	7.01%
Bank Alfalah Limited - IV FX	11,500	-	-	11,500	62,354	1.26	2.37	1.15%
Jahangir Siddiqui & Company Limited	13,500	-	-	13,500	33,692	0.68	1.28	5.39%
Standard Chartered Bank	10,000	-	-	10,000	49,675	1.00	1.89	2.50%
				<u>105,200</u>	<u>514,161</u>	<u>10.36</u>	<u>19.52</u>	
<b>Carrying Value as at June 30, 2013</b>					512,016			
Net unrealised appreciation on re-measurement of investments					<u>2,145</u>			

# NAFA FINANCIAL SECTOR INCOME FUND

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

### Term finance certificates - listed

Name of the investee company	Number of certificates	Face value (Rupees)	Mark up rate (per annum)	Maturity	Secured/Unsecured	Rating
Allied Bank Limited - I	4,400	5,000	6 month KIBOR+1.90%	28-Aug-19	Unsecured	AA
Allied Bank Limited II	13,000	5,000	6 month KIBOR+0.85%	28-Aug-19	Unsecured	AA
Askari Bank Limited - II	3,000	5,000	6 month KIBOR+1.50%	31-Oct-13	Unsecured	AA-
Askari Bank Limited - III	30,336	5,000	6 month KIBOR+2.50%	18-Nov-19	Unsecured	AA-
Askari Bank Limited - IV	44	5,000	6 month KIBOR+1.75%	19-Mar-21	Unsecured	AA-
Bank Al-Habib Limited -II	1,077	5,000	6 month KIBOR+1.95%	7-Feb-15	Unsecured	AA
Faysal Bank Limited - III	59,000	5,000	6 month KIBOR+2.25%	27-Dec-17	Unsecured	AA-
NIB Bank Limited	54,600	5,000	6 month KIBOR+1.15%	5-Mar-16	Unsecured	A+
Pakistan Mobile Communication Limited	22,677	5,000	6 month KIBOR+1.65%	28-Oct-13	Unsecured	AA-
Pak Libya Holding Company (Pvt) Limited	10,000	5,000	6 month KIBOR+1.60%	7-Nov-14	Unsecured	AA
United Bank Limited -III	3,900	5,000	6 month KIBOR+1.7%	8-Sep-14	Unsecured	AA
United Bank Limited -IV	88,100	5,000	6 month KIBOR+0.85%	14-Feb-18	Unsecured	AA

### Term finance certificates - unlisted

Name of the investee company	Number of certificates	Face value (Rupees)	Mark up rate (per annum)	Maturity	Secured/Unsecured	Rating
Bank Alfalah Limited - IV	70,200	5,000	6 month KIBOR+2.5%	2-Dec-17	Unsecured	AA-
Bank Alfalah Limited - IV FX	11,500	5,000	6 month KIBOR+1.95%	2-Dec-17	Unsecured	AA-
Jahangir Siddiqui & Company Limited	13,500	5,000	6 month KIBOR+1.70%	4-Jul-13	Secured	AA
Standard Chartered Bank	10,000	5,000	6 month KIBOR+0.75%	30-Mar-22	Unsecured	AAA

## 5.4 Government securities

### Market Treasury Bills

Issue date	Tenor	-----Face value-----				Market value as at June 30, 2013	Investment as a percentage of	
		As at July 01, 2012	Purchases during the period	Sales / matured during the period	As at June 30, 2013		Net assets	Market value of total investments
19-Apr-12	3 Months	25,000	-	25,000	-	Rupees in '000	%	-
3-May-12	3 Months	320,000	40,000	360,000	-	-	-	-
17-May-12	3 Months	275,000	-	275,000	-	-	-	-
14-Jun-12	3 Months	50,000	-	50,000	-	-	-	-
28-Jun-12	3 Months	12,500	-	12,500	-	-	-	-
12-Jul-12	3 Months	-	250,000	250,000	-	-	-	-
26-Jul-12	3 Months	-	175,000	175,000	-	-	-	-
9-Aug-12	3 Months	-	275,000	275,000	-	-	-	-
23-Aug-12	3 Months	-	150,000	150,000	-	-	-	-
6-Sep-12	3 Months	-	250,000	250,000	-	-	-	-
20-Sep-12	3 Months	-	250,000	250,000	-	-	-	-
4-Oct-12	3 Months	-	250,000	250,000	-	-	-	-
18-Oct-12	3 Months	-	175,000	175,000	-	-	-	-
1-Nov-12	3 Months	-	250,000	250,000	-	-	-	-
15-Nov-12	3 Months	-	250,000	250,000	-	-	-	-
29-Nov-12	3 Months	-	200,000	200,000	-	-	-	-
13-Dec-12	3 Months	-	187,500	187,500	-	-	-	-
10-Jan-13	3 Months	-	250,000	250,000	-	-	-	-
24-Jan-13	3 Months	-	250,000	250,000	-	-	-	-
21-Feb-13	3 Months	-	250,000	250,000	-	-	-	-
21-Mar-13	3 Months	-	250,000	250,000	-	-	-	-
4-Apr-13	3 Months	-	300,000	300,000	-	-	-	-
16-May-13	3 Months	-	250,000	250,000	-	-	-	-
30-May-13	3 Months	-	250,000	250,000	-	-	-	-
17-May-12	6 Months	-	100,000	100,000	-	-	-	-
26-Jul-12	6 Months	-	50,000	50,000	-	-	-	-
9-Aug-12	6 Months	-	100,000	100,000	-	-	-	-
4-Oct-12	6 Months	-	250,000	250,000	-	-	-	-
18-Oct-12	6 Months	-	250,000	250,000	-	-	-	-
1-Nov-12	6 Months	-	250,000	250,000	-	-	-	-
13-Dec-12	6 Months	-	187,500	187,500	-	-	-	-
10-Jan-13	6 Months	-	250,000	250,000	-	-	-	-
24-Jan-13	6 Months	-	250,000	250,000	-	-	-	-
21-Feb-13	6 Months	-	250,000	250,000	-	-	-	-
2-May-13	6 Months	-	250,000	250,000	-	-	-	-
16-May-13	6 Months	-	250,000	250,000	-	-	-	-
30-May-13	6 Months	-	250,000	250,000	-	-	-	-
13-Jun-13	6 Months	-	250,000	250,000	-	-	-	-
25-Aug-11	12 Months	-	100,000	100,000	-	-	-	-
28-Jul-11	12 Months	50,000	-	50,000	-	-	-	-
1-Nov-12	12 Months	-	250,000	250,000	-	-	-	-
13-Dec-12	12 Months	-	187,500	187,500	-	-	-	-
10-Jan-13	12 Months	-	250,000	250,000	-	-	-	-
24-Jan-13	12 Months	-	250,000	250,000	-	-	-	-
21-Feb-13	12 Months	-	250,000	250,000	-	-	-	-
30-May-13	12 Months	-	250,000	250,000	-	-	-	-
13-Jun-13	12 Months	-	250,000	250,000	-	-	-	-
Carrying Value as at June 30, 2013						-	-	-
Net unrealised appreciation/ (diminution) on re-measurement of investments						-	-	-

# NAFA FINANCIAL SECTOR INCOME FUND

## 5.5 Certificate of Investment

Name of issuer	Maturity date	Rate	As at June 30, 2013
(Rupees in '000)			
Pak Brunei Investement Company Ltd	25-Sep-13	9.45%	300,000
			<u>300,000</u>

## 5.6 Sukuk Certificates

Name of issuer	Maturity date	Rate	As at June 30, 2013
(Rupees in '000)			
The Hub Power Limited Company	12-Sep-13	10.80%	230,000
The Hub Power Limited Company	14-Aug-13	10.70%	90,000
			<u>320,000</u>

	Note	June 30, 2013	June 30, 2012
(Rupees in '000)			
<b>5.7 Net unrealised appreciation in fair value of investments classified as 'at fair value through profit or loss'</b>			
Market value of investments	5.1 & 5.2	2,014,567	2,475,324
Less : carrying value of investments	5.1 & 5.2	(2,012,799)	(2,457,625)
		1,768	17,699
Reversal of unrealised dimunition on term finance certificates matured during the year		614	-
		<u>2,382</u>	<u>17,699</u>

## 6 PROFIT RECEIVABLE

Profit receivable on bank deposits	6,027	750
Profit receivable on term finance certificates	56,197	58,653
Profit receivable on letter of placement	-	154
Profit receivable on certificate of investment	466	-
	<u>62,690</u>	<u>59,557</u>

## 7 PRELIMINARY EXPENSES AND FLOATATION COSTS

Balance as at June 30, 2012	945	-
Preliminary expenses and floatation costs incurred	-	1,092
Less: amortisation during the year	(219)	(147)
Balance as at June 30, 2013	<u>726</u>	<u>945</u>

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

	Note	June 30, 2013	June 30, 2012
(Rupees in '000)			
<b>8 PAYABLE TO THE MANAGEMENT COMPANY</b>			
Remuneration of the Management Company	8.1	4,977	3,306
Sindh Sales Tax on Management Company's remuneration		797	529
Federal Excise Duty on Management Company's remuneration	8.2	481	-
Sales load and transfer load payable to the Management Company		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		152	151
		<u>7,819</u>	<u>5,078</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 three percent per annum of the average annual net assets of the Fund and thereafter of an amount equal to two percent per annum of such assets of the Fund. Management remuneration is charged at the rate of 1.5% of the average annual net assets of the Fund during the year ended June 30, 2013.

# NAFA FINANCIAL SECTOR INCOME FUND

8.2 During the current year, effective from June 13, 2013, the Federal Government has levied Federal Excise Duty at the rate of 16% on the remuneration of the Management Company through Finance Act, 2013 .

	Note	June 30, 2013 (Rupees in '000)	June 30, 2012 (Rupees in '000)
9 FEE PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	9.1	<u>352</u>	<u>257</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, 2013 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	June 30, 2013 (Rupees in '000)	June 30, 2012 (Rupees in '000)
10 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN			
Annual fee	10.1	<u>2,776</u>	<u>838</u>

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

	Note	June 30, 2013 (Rupees in '000)	June 30, 2012 (Rupees in '000)
11 ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		328	294
Provision for Workers' Welfare Fund	15	9,337	2,721
Brokerage		28	37
Printing charges		75	124
Legal fee		40	40
Settlement and bank charges		46	-
Withholding tax payable		647	369
		<u>10,501</u>	<u>3,585</u>

## 12 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2013.

	For the year ended June 30, 2013	For the period from October 18, 2011 to June 30, 2012
	(Rupees in '000)	
13 PROFIT ON BANK DEPOSITS		
Profit on savings deposits	78,322	5,907
Profit on term deposits receipts	4,417	-
	<u>82,739</u>	<u>5,907</u>
14 AUDITORS' REMUNERATION		
Annual audit fee	280	254
Half yearly review fee	133	102
Out of pocket expenses	39	25
	<u>452</u>	<u>381</u>

# NAFA FINANCIAL SECTOR INCOME FUND

## 15 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / Mutual Funds (CISs) / 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.

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. 9.337 million (2012: Rs. 2.721 million) in these financial statements. Had the same not been made the net asset value per unit /return of the Fund would have been higher by Re. 0.01934 per unit.

## 16 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a provision for taxation in respect of income relating to the current year as subsequent to the year end the Management Company has distributed the required minimum percentage of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders.

	Note	For the year ended June 30, 2013	For the period from October 18, 2011 to June 30, 2012
Number of units			
<b>17 NUMBER OF UNITS IN ISSUE</b>			
Total units in issue at the beginning of the year		265,532,658	-
Add: units issued during the year	17.1	420,660,368	293,796,973
Add: bonus units issued during the year		23,853,783	3,968,570
Less: units redeemed during the year		227,166,480	32,232,885
Total units in issue at the end of the year		<u>482,880,329</u>	<u>265,532,658</u>

**17.1** This includes 93,858,593 units issued to the National Bank of Pakistan (NBP), on June 29, 2013, based on their request for transfer of units from the NAFA Money Market Fund. Amount of Rs 964,359,499 in respect of this transaction was received from the Nafa Money Market Fund on July 2, 2013.

## 18 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.

# NAFA FINANCIAL SECTOR INCOME FUND

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

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

For the year ended June 30, 2013	For the period from October 18, 2011 to June 30, 2012
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(Rupees in '000)

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

#### NBP Fullerton Asset Management Limited - Management Company

Remuneration	55,510	16,598
Sindh Sales Tax on Management Company's remuneration	8,882	2,656
Federal Excise Duty on Management Company's remuneration	481	-
Expenses paid by the Management Company on behalf of the Fund		
- Preliminary expenses and floatation costs	-	1,092
- Rating fee	-	51
- Security deposit with Central Depository Company of Pakistan Limited	-	100

#### Alexandra Fund Management Pte. Limited - Sponsor

Bonus of 1,129,006 units (2012 : 398,236 units)	-	-
Issue of Nil units (2012 : 10,025,758 units)	-	100,258
Pre-IPO profit	-	151

#### National Bank of Pakistan

Bonus of 3,280,954 units (2012 : 1,942,024 units)	-	-
Issue of 241,410,829 units (2012 : 147,789,321 units)	2,488,266	1,502,644
Redemption of 153,032,518 units (2012 : Nil units)	1,580,275	-
Market treasury bills purchased during the year	3,105,825	1,725,688
Market treasury bills sold during the year	299,319	125,000
Term finance certificates purchased during the year	-	1,817,855
Term finance certificates sold during the year	-	142,451
PIBs purchased during the year	206,769	100,000

#### CDC Trustee NAFA Government Securities Liquid Fund

Market treasury bills sold during the year	49,414	-
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#### CDC Trustee NAFA Asset Allocation Fund

Term finance certificates purchased during the year	38,430	-
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#### The Hub Power Company Limited

Sukuk purchased during the period	420,000	-
Sukuk matured during the period	138,000	-

#### Central Depository Company of Pakistan Limited - Trustee

Remuneration for the year	3,996	1,507
Security deposit	-	100

#### Employees of the Management Company

Bonus of 43,012 units (2012 : 12,950 units)	-	-
Issue of 1,408,431 units (2012 : 2,324,602 units)	14,532	23,845
Redemption of 1,606,243 units (2012 : 1,932,740 units)	16,562	19,822

#### Muhammad Murtaza Ali - Company Secretary / CFO

Bonus of 1,829 units (2012 : Nil units)	-	-
Issue of 125,036 units (2012 : Nil units)	1,283	-
Redemption of 107,771 units (2012 : Nil units)	1,112	-

#### Gul Ahmed Textile Mills Ltd. Employee Provident Fund

Bonus of 14,598 units (2012 : Nil units)	-	-
Redemption of 267,393 units (2012 : Nil units)	2,734	-

#### Greaves Pakistan (Pvt) Limited- Staff Gratuity Fund

Bonus of 23,330 units (2012 : Nil units)	-	-
Issue of 488,071 units (2012 : Nil units)	5,047	-
Redemption of 511,401 units (2012 : Nil units)	5,204	-

#### Greaves Pakistan Pvt. Limited-provident Fund Trust

Bonus of 23,324 units (2012 : Nil units)	-	-
Issue of 487,948 units (2012 : Nil units)	5,000	-
Redemption of 511,272 units (2012 : Nil units)	5,202	-

#### Taurus Securities Limited

Brokerage	-	565
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# NAFA FINANCIAL SECTOR INCOME FUND

For the year  
ended June  
30, 2013

For the period  
from October  
18, 2011 to June  
30, 2012

(Rupees in '000)

## 18.5 Amounts outstanding as at year end

<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Preliminary expenses and floatation costs paid by Management Company on behalf of the Fund	1,092	1,092
Rating fee paid by the Management Company on behalf of the Fund	52	51
Sales load and transfer load payable to the Management Company	320	-
Security deposit with Central Depository Company of Pakistan Limited given by the Management Company on behalf of the Fund	100	100
Management remuneration payable	4,977	3,306
Sindh Sales Tax payable on Management Company's remuneration	797	529
FED on Management Company's remuneration	481	-
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	352	257
Security deposit	100	100
<b>Alexandra Fund Management Pte. Limited - Sponsor</b>		
Units held : 11,553,000 units (2012 : 10,423,994 units)	118,724	108,650
<b>National Bank of Pakistan - Sponsor</b>		
Units held : 241,390,610 units (2012 : 149,731,345 units)	2,480,651	1,560,665
Balance in current account	1,161	3,887
<b>Summit Bank Limited</b>		
Bank balance	8,702	-
<b>The Hub Power Company Limited</b>		
Short term Islamic sukuk held	320,000	-
<b>Employees of the Management Company</b>		
Units held : 250,012 units (2012 : 404,812 units)	2,569	4,219
<b>Muhammad Murtaza Ali - Company Secretary / CFO</b>		
Units held : 19,094 units (2012 : Nil units)	196	-
<b>Nafa Money Market Fund</b>		
Amount receivable due to transfer of units on behalf of National Bank of Pakistan - note 17.1		

## 19 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	25
2	Sajjad Anwar	MBA / CFA	13
3	Syed Suleman Akhtar	CFA	13
4	Salman Ahmed	EMBA / CFA	7.5
5	Asim Wahab Khan	MBA / CFA	7

19.1 Mr. Salman Ahmed is the manager of the Fund.

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

	For the period from October 18, 2011 to June 30, 2013
1) Invest & Finance Securities (Pvt.) Ltd.	48.64%
2) J.S. Global Capital Limited.	14.69%
3) Summit Capital Private Limited	10.31%
4) C & M Management Pvt. Limited	8.33%
5) KASB Securities Ltd.	8.17%
6) Invest Capital Markets Limited	4.13%
7) BMA Capital Management Limited	2.43%
8) Elixir Securities Pakistan (Pvt) Limited	1.97%
9) Vector Capital Private Limited	0.87%
10) Optimus Capital Management Limited	0.26%

# NAFA FINANCIAL SECTOR INCOME FUND

For the period  
from October 18,  
2011 to June 30,  
2012

1)	Taurus Securities Limited.	67.83%
2)	J.S. Global Capital Limited.	8.33%
3)	Invest & Finance Securities (Private) Limited.	6.95%
4)	Burj Capital Pakistan (Private) Limited	3.45%
5)	BMA Capital Management Limited	3.38%
6)	Pearl Securities (Private) Limited	2.77%
7)	Invisor Markets (Private) Limited	2.25%
8)	Invest Capital Markets Limited	1.91%
9)	Alfalah Securities (Private) Limited	1.32%
10)	Summit Capital Private Limited	0.91%

## 21 PATTERN OF UNIT HOLDING

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

Category	Number of unit holders	Invested amount	Percentage of investment
Rupees in '000			
Associated companies	3	2,602,040	52.44%
Insurance companies	1	25,575	0.52%
Individuals	1,131	1,184,829	23.86%
Banks / DFIs	1	298,096	6.01%
Retirement funds	26	213,141	4.30%
Public limited companies	1	52,504	1.06%
Others	34	586,149	11.81%
	<b>1,197</b>	<b>4,962,334</b>	<b>100.00%</b>

----- As on June 30, 2012 -----

Category	Number of unit holders	Invested amount	Percentage of investment
Rupees in '000			
Associated companies	2	1,669,315	60.31%
Insurance companies	1	26,989	0.98%
Individuals	480	494,016	17.85%
Banks / DFIs	1	179,764	6.50%
Retirement funds	18	182,190	6.58%
Public limited companies	9	204,351	7.38%
Others	2	11,042	0.40%
	<b>513</b>	<b>2,767,667</b>	<b>100.00%</b>

## ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 37th, 38th, 39th, 40th and 41st Board meetings were held on July 09, 2012, September 11, 2012, October 23, 2012, February 26, 2013 and April 26, 2013 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. Shahid Anwar Khan***	5	5	0	
Dr. Asif A. Brohi*	5	1	4	37th, 38th, 40th & 41st meeting
Mr. Khalid Mahmood*	1	0	1	41st meeting
Mr. Wah Geok Sum	5	4	1	41st meeting
Mr. Koh Boon San	5	5	0	
Mr. Shehryar Faruque	5	4	1	37th meeting
Mr. Kamal Amir Chinoy	5	2	3	37th, 39th & 41st meeting
Mr. Amir Shehzad	5	3	2	37th & 39th meeting
Mr. Asif Hassan****	0	0	0	
Dr Amjad Waheed	5	5	0	

\* Dr. Asif A. Brohi retired from Board with effect from February 26, 2013

\*\* Mr.Khalid Mahmood was co-opted on the Board with effect from April 11, 2013

\*\*\* Mr. Shahid Anwar Khan retired from Board with effect from May 20, 2013

\*\*\*\* Mr.Asif Hasan was co-opted on the Board with effect from May 20, 2013

# NAFA FINANCIAL SECTOR INCOME FUND

## 23 FINANCIAL INSTRUMENTS BY CATEGORY

	-----As at June 30, 2013-----		
	Loans and receivables	Assets at fair value through profit or loss	Total
		(Rupees in '000)	
<b>Financial assets</b>			
Bank balances	1,321,210	-	1,321,210
Investments	620,000	2,014,567	2,634,567
Profit receivable	62,690	-	62,690
Receivable against issue of units	964,360	-	964,360
Security deposit	100	-	100
	<u>2,968,360</u>	<u>2,014,567</u>	<u>4,982,927</u>

	-----As at June 30, 2013-----		
	Loans and receivables	Assets at fair value through profit or loss	Total
		(Rupees in '000)	
<b>Financial liabilities</b>			
Payable to the Management Company			
Payable to Central Depository Company of Pakistan Limited - Trustee	-	7,819	7,819
Payable against redemption of units	-	352	352
Accrued expenses and other liabilities	-	-	-
	<u>-</u>	<u>517</u>	<u>517</u>
	<u>-</u>	<u>8,688</u>	<u>8,688</u>

	-----As at June 30, 2012-----		
	Loans and receivables	Assets at fair value through profit or loss	Total
		(Rupees in '000)	
<b>Financial assets</b>			
Bank balances	125,856	-	125,856
Investments	120,000	2,475,324	2,595,324
Profit receivable	59,557	-	59,557
Security deposit	100	-	100
	<u>305,513</u>	<u>2,475,324</u>	<u>2,780,837</u>

	-----As at June 30, 2012-----		
	Loans and receivables	Assets at fair value through profit or loss	Total
		(Rupees in '000)	
<b>Financial liabilities</b>			
Payable to the Management Company	-	5,078	5,078
Payable to Central Depository Company of Pakistan Limited - Trustee	-	257	257
Payable against redemption of units	-	4,465	4,465
Accrued expenses and other liabilities	-	495	495
	<u>-</u>	<u>10,295</u>	<u>10,295</u>

# NAFA FINANCIAL SECTOR INCOME FUND

## 24 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

### 24.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market prices.

The Management Company manages the market risk by monitoring exposure on marketable securities by following internal risk management policies and investment guidelines approved by the investment committee and regulations laid down by SECP.

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

#### Currency risk

24.1.1 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.

#### Interest rate risk

24.1.2 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.

##### 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 3.792 million and Rs 3.921 million respectively.

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

Fixed rate instruments comprise of certificate of investment, Letter of placement and Bank balances in savings deposits. The income from these financial assets are substantially independent of changes in market interest rates except for changes, if any, as a result of fluctuation in respective fair value.

The composition of the Fund's investment portfolio and rates announced by the Financial Market Association is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2013 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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

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

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

(Rupees in '000)

#### On-balance sheet financial instruments

##### Financial assets

Bank balances	6.00 - 11.00	1,321,210	1,320,049	-	-	1,161
Investments	9.84 - 15	2,634,567	653,692	176,301	1,804,574	-
Profit receivable		62,690	-	-	-	62,690
Receivable against issue of units		964,360	-	-	-	964,360
Security deposit		100	-	-	-	100
		4,982,927	1,973,741	176,301	1,804,574	1,028,311

##### Financial liabilities

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

#### On-balance sheet gap

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

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

		-	-	-	-	-
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# NAFA FINANCIAL SECTOR INCOME FUND

-----As at June 30, 2012-----

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

(Rupees in '000)

## On-balance sheet financial instruments

### Financial assets

Bank balances	6.00 - 11.00	125,856	121,670	-	-	4,186
Investments	10.00 - 16.24	2,595,324	849,824	-	1,745,500	-
Profit receivable		59,557	-	-	-	59,557
Security deposit		100	-	-	-	100
		<u>2,780,837</u>	<u>971,494</u>	<u>-</u>	<u>1,745,500</u>	<u>63,843</u>

### Financial liabilities

Payable to the Management Company		5,078	-	-	-	5,078
Payable to Central Depository Company of Pakistan Limited - Trustee		257	-	-	-	257
Payable against redemption of units		4,465	-	-	-	4,465
Accrued expenses and other liabilities		495	-	-	-	495
		<u>10,295</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,295</u>

## On-balance sheet gap

	<u>2,770,542</u>	<u>971,494</u>	<u>-</u>	<u>1,745,500</u>	<u>53,548</u>
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## Off-balance sheet financial instruments

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

	-	-	-	-	-
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## 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.

## 24.2 Credit risk

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

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

Bank Balances by rating category	June 30,	June 30,
	2013	2012
	Percentage	
A1+	43.44%	100.0%
A1	55.90%	-
A3	0.66%	-
	<u>100%</u>	<u>100.00%</u>
Term Finance Certificates by rating category		
AA	49.05%	54.10%
A+	13.49%	16.91%
AA-	35.00%	26.13%
AAA	2.46%	2.86%
	<u>100.00%</u>	<u>100.00%</u>

# NAFA FINANCIAL SECTOR INCOME FUND

The maximum exposure to credit risk before any credit enhancement as at June 30, 2013 is the carrying amount of the financial assets. The term finance certificates held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage of fixed assets.

## 24.2.1 Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial statements is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentration of credit risk.

## 24.2.2 Settlement risk

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

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

## 24.3 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation 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, if any, at the option of 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 government securities that can be readily disposed and are considered readily realisable.

For the purpose of making redemptions, the Fund has the ability to borrow in the short term. However, such need did not arise during the year. 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.

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 significant redemptions 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, 2013-----			
	Total	Upto three months	Over three months and upto one year	Over one year
	----- (Rupees in '000) -----			
<b>Financial liabilities</b>				
Payable to the Management Company	7,819	7,819	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	352	352	-	-
Accrued expenses and other liabilities	517	517	-	-
	<u>8,688</u>	<u>8,688</u>	<u>-</u>	<u>-</u>
	-----As at June 30, 2012-----			
	Total	Upto three months	Over three months and upto one year	Over one year
	----- (Rupees in '000) -----			
<b>Financial liabilities</b>				
Payable to the Management Company	5,078	5,078	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	257	257	-	-
Payable against redemption of units	4,465	4,465	-	-
Accrued expenses and other liabilities	495	495	-	-
	<u>10,295</u>	<u>10,295</u>	<u>-</u>	<u>-</u>

# NAFA FINANCIAL SECTOR INCOME FUND

## 25 UNIT HOLDERS' FUND RISK MANAGEMENT

The unit holders' fund is represented by redeemable units. These units are entitled to distributions and to payment of a proportionate share, based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the Statement of Movement in Unit Holders' Fund.

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets under management.

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

## 26 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

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

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

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

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

	----- As on June 30, 2012 -----			
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
<b>ASSETS</b>				
Financial assets classified as 'fair value through profit or loss'				
Investment in term finance certificates - listed	-	1,204,815	-	1,204,815
Investment in term finance certificates - unlisted	-	546,185	-	546,185
Investment in government securities	-	724,324	-	724,324

# NAFA FINANCIAL SECTOR INCOME FUND

## 27 NON-ADJUSTING EVENT AFTER THE REPORTING DATE

The Board of Directors of the Management Company in their 42nd meeting held on July 11, 2013 have approved a final distribution at the rate of Rs. 0.0101 per unit. The financial statements of the Fund for the year ended June 30, 2013 do not include the effect of the final distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2014.

## 28 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on 27 August, 2013 .

## 29 GENERAL

Figures have been rounded off to the nearest thousand rupees.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive Officer

Director



# NAFA FINANCIAL SECTOR INCOME FUND

## PERFORMANCE TABLE

Particulars	For the period from October 18, to June 30, 2013	For the period from October 18, to June 30, 2012
Net assets (Rs. '000')	4,962,334	2,767,667
Net Income (Rs. '000')	324,206	133,321
Net Asset Value per units (Rs.)	10.2765	10.4231
Offer price per unit	10.3793	10.4231
Redemption price per unit	10.2765	10.4231
Highest offer price per unit (Rs.)	10.3793	10.4231
Lowest offer price per unit (Rs.)	9.5012	9.618
Highest redemption price per unit (Rs.)	10.2765	10.4231
Lowest redemption price per unit (Rs.)	9.4071	9.618
Total return of the fund (Annualized)	9.27%	8.37%
Capital growth	1.58%	1.37%
Income distribution	7.69%	7.00%
Distribution dates		
Interim		
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, 2013)	10.63%	
(Since inception to June 30, 2012)		12.67%
Portfolio Composition (Please see Fund Manager Report)		
Weighted average portfolio duration	55 Days	100.01 Days
"Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up."		