


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. Shahid Anwar Khan	Chairman
Mr. Amir Shehzad	Director
Mr. Wah Geok Sum	Director
Mr. Patrick Pang Chin Hwang	Director
Mr. Shehryar Faruque	Director
Mr. Kamal Amir Chinoy	Director
Dr. Asif A. Brohi	Director
Dr. Amjad Waheed	Chief Executive Officer

Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

Audit & Risk Committee

Mr. Patrick Pang Chin Hwang	Chairman
Mr. Shehryar Faruque	Member
Mr. Amir Shehzad	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

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:

9th Floor, Adamjee House,
I.I. Chundrigar Road,
Karachi

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 Corporate Branch
3rd Floor, Park Lane Tower, Near Shahjahan Banquet Hall,
Officers Colony, Khanewal Road. Multan.
Tel : 92-061-6214070
Fax: 92-061-6214062
UAN: 92-061-111-111-632

NAFA FINANCIAL SECTOR INCOME FUND

Contents

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

NAFA FINANCIAL SECTOR INCOME FUND

DIRECTORS' REPORT

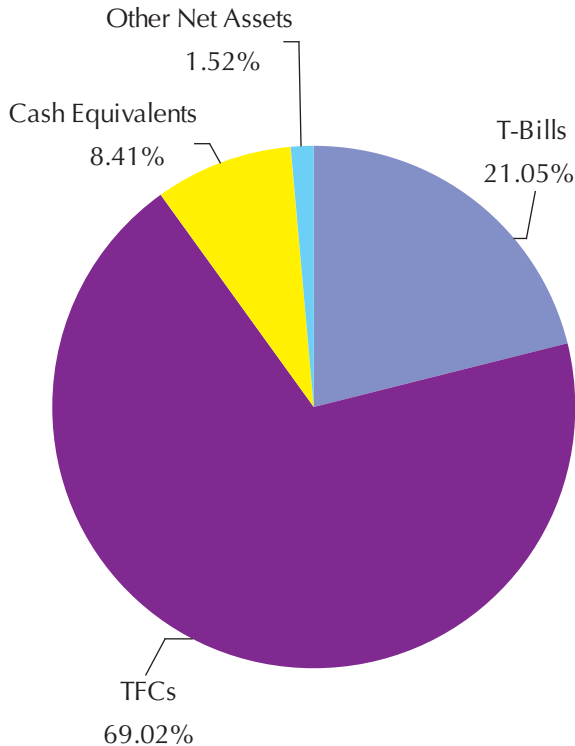
The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present first unaudited (reviewed) financial statements of NAFA Financial Sector Income Fund for the period from October 18, 2011 to December 31, 2011.

Fund's Performance

The Fund was launched on October 28, 2011. The size of NAFA Financial Sector Income Fund is Rs. 1,050 million as at December 31, 2011. The Fund has earned an annualized return of 13.04% since its inception (October 28, 2011) as compared to its Benchmark (70% 6-Month KIBOR & 30% average 3-Month deposit rate of 'A' & above rated banks) annualized return of 10.78% 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. The minimum entity rating of issuers of debt securities (mainly banks) is AA-. All debt securities in the Fund are floating rate i.e linked to KIBOR. Duration of the Fund is one year or less. 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.

The Fund has earned total income of Rs.23.15 million during the period. After deducting expenses of Rs.4.09 million, the net income is Rs.19.06 million. The asset allocation of the Fund as on December 31, 2011 is as follows:



NAFA FINANCIAL SECTOR INCOME FUND

Income Distribution

The Board of Directors of the Management Company has approved an interim distribution of 2%.

Acknowledgement

The Board takes this opportunity to thank its valued unit-holders for their confidence and trust in the Management Company, and providing the opportunity to serve them. It also offers its sincere gratitude to the Securities & Exchange Commission of Pakistan and State Bank of Pakistan for their patronage and guidance.

The Board also wishes to place on record its appreciation for the hard work, dedication and commitment shown by the staff and the Trustee.

On behalf of the Board of
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: February 17, 2012
Place: Karachi.

NAFA FINANCIAL SECTOR INCOME FUND

TRUSTEE REPORT TO THE UNIT HOLDERS NAFA FINANCIAL SECTOR INCOME FUND

Report of the Trustee pursuant to Regulation 41(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Financial Sector Income Fund (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the period from October 18, 2011 to December 31, 2011 in accordance with the provisions of the following:

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

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

Karachi: February 28, 2012

NAFA FINANCIAL SECTOR INCOME FUND

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

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **NAFA Financial Sector Income Fund** as at December 31, 2011 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement together with the notes forming part thereof (here-in-after referred to as the 'condensed interim financial information'), for the period from October 18, 2011 to December 31, 2011. The Management Company (NBP Fullerton Asset Management Limited) is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the period from October 18, 2011 to December 31, 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

A.F. Ferguson & Co.
Chartered Accountants

Dated: February 28, 2012

Karachi

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES (UN-AUDITED) AS AT DECEMBER 31, 2011

		December 31, 2011
	Note	Rupees in '000
ASSETS		
Balances with banks		88,335
Investments	4	945,957
Profit receivable		18,665
Advances, deposits, prepayments and other receivables		115
Preliminary expenses and floatation costs	6	1,055
Total assets		1,054,127
LIABILITIES		
Payable to the Management Company		2,740
Payable to the Trustee		145
Payable to the Securities and Exchange Commission of Pakistan		120
Accrued expenses and other liabilities		926
Total liabilities		3,931
NET ASSETS		1,050,196
Unit holders' fund (as per statement attached)		1,050,196
CONTINGENCIES AND COMMITMENTS		
	8	
Number of units in issue		102,787,024
		Rupees
Net asset value per unit	3.11	10.2172

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED) FOR THE PERIOD FROM OCTOBER 18, 2011 TO DECEMBER 31, 2011

	Note	For the period from October 18, 2011 to December 31, 2011 Rupees in '000
INCOME		
Capital loss on sale of investments - net		(44)
Income from term finance certificates		14,925
Income from government securities		4,331
Profit on bank deposits		1,650
Income on money market placements		622
Net unrealised appreciation in the value of investments classified as financial assets at fair value through profit or loss'		1,661
Total income		23,145
EXPENSES		
Remuneration of the Management Company		2,223
Sindh sales tax on remuneration of the Management Company	5	356
Remuneration of the Trustee		270
Annual fee - Securities and Exchange Commission of Pakistan		120
Securities transaction cost		319
Settlement and bank charges		145
Annual listing fee		5
Auditors' remuneration		191
Printing charges		30
Amortisation of preliminary expenses and floatation costs		38
Total expenses		3,697
Net income from operating activities		19,448
Provision for workers' welfare fund		(389)
Net income for the period before taxation		19,059
Taxation	9	-
Net income for the period after taxation		19,059
Earnings per unit	3.12	

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED) FOR THE PERIOD FROM OCTOBER 18, 2011 TO DECEMBER 31, 2011

	For the period from October 18, 2011 to December 31, 2011 Rupees in '000
Net income for the period after taxation	19,059
Other comprehensive income for the period	-
Total comprehensive income for the period	<u>19,059</u>

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE PERIOD FROM OCTOBER 18, 2011 TO DECEMBER 31, 2011

	For the period from October 18, 2011 to December 31, 2011 Rupees in '000
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed-net	3,266
Net income for the period after taxation	19,059
Undistributed income carried forward	<u><u>22,325</u></u>

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND (UN-AUDITED) FOR THE PERIOD FROM OCTOBER 18, 2011 TO DECEMBER 31, 2011

	For the period from October 18, 2011 to December 31, 2011 Rupees in '000
Issue of 104,590,597 units	1,049,409
Redemption of 1,803,573 units	(18,272)
	1,031,137
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	
- amount representing (income) / loss that form part of unit holders' fund - transferred to distribution statement	(3,266)
Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	1,661
Capital loss on sale of investments	(44)
Other operating income	17,442
Net income for the period	19,059
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	3,266
Net assets as at the end of the period	<u>1,050,196</u>

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED) FOR THE PERIOD FROM OCTOBER 18, 2011 TO DECEMBER 31, 2011

	For the period from October 18, 2011 to December 31, 2011 Rupees in '000
CASH FLOW FROM OPERATING ACTIVITIES	
Net income for the period before taxation	19,059
Adjustments :	
Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	(1,661)
Amortisation of preliminary expenses and floatation costs	38
	<u>17,436</u>
(Increase) / decrease in assets	
Investments	(944,296)
Advances, deposits, prepayments and other receivables	(115)
Profit receivable	(18,665)
	<u>(963,076)</u>
Increase / (decrease) in liabilities	
Payable to the Management Company	2,740
Payable to the Trustee	145
Payable to the Securities and Exchange Commission of Pakistan	120
Accrued expenses and other liabilities	926
	<u>3,931</u>
Formation cost incurred	(1,093)
	<u>(942,802)</u>
Net cash used in operating activities	
CASH FLOW FROM FINANCING ACTIVITIES	
Receipts from issue of units	1,049,409
Payment on redemption of units	(18,272)
Net cash inflow from financing activities	<u>1,031,137</u>
Net increase in cash and cash equivalents during the period	<u>88,335</u>
Cash and cash equivalents as at the end of the period	<u><u>88,335</u></u>

The annexed notes 1 to 12 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE PERIOD FROM OCTOBER 18, 2011 TO DECEMBER 31, 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

NAFA Financial Sector Income Fund (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited as 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.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 9th Floor, Adamjee House, I.I.Chundrigar Road, Karachi.

The Fund is an open-ended mutual fund and is listed on the Lahore Stock Exchange. Units of the Fund are offered for public subscription on a continuous basis. These units are transferable and can be redeemed by surrendering them to the Fund. The Fund has been categorized as "Income Scheme" as per the categories defined by the Securities and Exchange Commission of Pakistan.

The core objective of the 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.

As per the Trust Deed, the first accounting period shall commence from the date on which the Fund property is first paid or transferred to the Trustee. The Fund opened its bank account on October 18, 2011 for receipt of subscription towards seed capital of the Fund. Accordingly, this condensed interim financial information has been prepared for the period from October 18, 2011 to December 31, 2011.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of 'AM2-' (Positive Outlook) to the Management Company. The rating of the Fund has not been obtained as the minimum time required by the credit rating agency for assigning the rating has not been completed by the Fund.

Title of the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as the trustee of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

This condensed interim financial information has been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. Approved accounting standards comprise of International Accounting Standard (IAS) 34: 'Interim Financial Reporting', the Trust Deed, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules), Non Banking Finance Companies and Notified Entities Regulations 2008 (NBFC Regulations) and the directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IAS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

2.1.1 This condensed interim financial information does not include all the information and disclosures required in the annual financial statements.

NAFA FINANCIAL SECTOR INCOME FUND

2.1.2 This condensed interim financial information is unaudited. However, a limited scope review has been performed by the external auditors in accordance with the requirements of the Code of Corporate Governance. Accordingly, the Board of Directors of the Management Company declare that this condensed interim financial information gives a true and fair view of the state of affairs of the Fund.

2.2 Standards, interpretations and amendments to published approved accounting standards, as adopted in Pakistan, that are not yet effective:

There are certain new standards, amendments and International Financial Reporting Interpretations Committee (IFRIC) 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 Fund's operations and are, therefore, not detailed in this condensed interim financial information.

2.3 Critical accounting estimates and judgments

The preparation of financial information in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial information or where judgment was exercised in application of accounting policies are as follows:

- i) Classification and valuation of investments (notes 3.2 and 4)
- ii) Amortisation of preliminary expenses and floatation costs (notes 3.4 and 6)

2.4 Accounting Convention

This condensed interim financial information has been prepared under the historical cost convention except that certain investments have been carried at fair value.

2.5 Functional and Presentation Currency

This condensed interim financial information is presented in Pak Rupees which is the Fund's functional and presentation currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of this condensed interim financial information are set out below:

3.1 Cash and cash equivalents

Cash and cash equivalents include balances with banks and other short term highly liquid investments with original maturities of three months or less.

3.2 Financial assets

3.2.1 Classification

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

Financial assets are categorised as follows:

a) Financial assets at fair value through profit or loss

These are financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices.

b) Available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss. These are intended to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in prices.

c) Loans and receivables

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

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.

3.2.4 Subsequent measurement

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

NAFA FINANCIAL SECTOR INCOME FUND

a) 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. 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.

b) Basis of valuation of government securities

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Markets Association of Pakistan.

3.2.5 Impairment

The carrying value of the Fund's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are 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 issued by the SECP. Impairment losses recognised on debt securities can be reversed through the 'Income Statement'.

As allowed under circular no. 13 of 2009 dated May 4, 2009 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 and disseminated by the Management Company on its website.

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 or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

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 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.

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.

3.5 Issue and redemption of units

Units are issued on the realisation of funds and are recorded at the offer price applicable for that date, determined by the Management Company. The applications are received by the distributors during business hours and are processed by the Management Company on the realisation of funds. The offer price represents the Net Asset Value per unit as of the close of the previous 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 of 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 (if applicable), any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

3.6 Element of income / (loss) and capital gains / (losses) included in 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, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

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

3.7 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.

NAFA FINANCIAL SECTOR INCOME FUND

3.8 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 among 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.

3.9 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.

3.10 Revenue recognition

- Capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
Unrealised 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 period in which they arise.
- Profit on bank deposits is recognised on an accrual basis.
- Profit from investments is recognised on an accrual basis.
- Income from government securities is recognised using the effective interest method.

3.11 Net Asset Value per unit

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

3.12 Earnings per unit

Earnings per unit has not been disclosed as, in the opinion of the management, determination of cumulative weighted average number of outstanding units for calculating earnings per unit is not practicable.

NAFA FINANCIAL SECTOR INCOME FUND

(Un-Audited)
December
31, 2011

4. INVESTMENTS

Note

Rupees in '000

Financial assets 'at fair value through profit or loss'

-	Term finance certificates - listed	4.1	712,407
-	Term finance certificates - unlisted	4.2	12,446
-	Government securities	4.3	221,104
			<u>945,957</u>

4.1 Term finance certificates - listed

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

Name of the investee company	Number of Certificates / bonds			Market value as at December 31, 2011	Investment as a percentage of		
	Purchases during the period	Sale during the period	As at December 31, 2011		Net assets	Market value of total investments	Issue size
				Rupees in '000	----- % -----		
Term finance certificates - listed							
Bank Alfalah Limited - IV	24,000	-	24,000	123,129	11.72	13.02	-
Faysal Bank Limited - II	35,000	-	35,000	184,013	17.52	19.45	-
Allied Bank Limited	4,400	-	4,400	22,005	2.10	2.33	-
United Bank Limited -III	3,900	-	3,900	19,398	1.85	2.05	-
United Bank Limited -IV	34,000	8,600	25,400	126,443	12.04	13.37	-
NIB Bank Limited	28,200	-	28,200	137,996	13.14	14.59	1.00
Askari Bank Limited - III	9,600	-	9,600	49,102	4.68	5.19	-
Askari Bank Limited - PPTFC	10,000	-	10,000	50,321	4.79	5.32	-
			<u>140,500</u>	<u>712,407</u>	<u>67.84</u>	<u>75.32</u>	<u>1.00</u>
Carrying Value as at December 31, 2011				710,781			
Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'				<u>1,626</u>			

4.2 Term finance certificates - Unlisted

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

Name of the investee company	Number of Certificates / bonds			Market value as at December 31, 2011	Investment as a percentage of		
	Purchases during the period	Sale during the period	As at December 31, 2011		Net assets	Market value of total investments	Issue size
				Rupees in '000	----- % -----		
Term finance certificates - unlisted							
Engro Fertilizers Limited	2,600	-	2,600	12,446	1.19	1.32	1.00
			<u>2,600</u>	<u>12,446</u>			
Carrying Value as at December 31, 2011				12,220			
Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'				<u>226</u>			

NAFA FINANCIAL SECTOR INCOME FUND

4.3 Government securities

Issue Date	Tenor	-----Face value-----			Market value as at December 31, 2011	Investment as a percentage of	
		Purchases during the period	Sales/ matured during the period	As at December 31, 2011		Net assets	Market value of total investments
					(Rupees in '000)	----- % -----	
Market Treasury Bills							
May 19, 2011	6 months	200,000	200,000	-	-	-	-
December 02, 2010	12 months	20,000	20,000	-	-	-	-
November 17, 2011	3 months	225,000	225,000	-	-	-	-
December 01, 2011	3 months	225,000	-	225,000	<u>221,104</u>	21.05%	23.37%
					<u>221,104</u>		
Carrying Value as at December 31, 2011					221,295		
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'					<u>(191)</u>		

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

5 SINDH SALES TAX ON REMUNERATION OF THE MANAGEMENT COMPANY

During the current period, the provincial government has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company through Sindh Sales Tax on Services Act 2011 effective from July 1, 2011.

	Note	(Un-Audited) December 31, 2011 Rupees in '000
6. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs incurred	6.1	1,093
Less: Amortisation during the period		(38)
Balance as at December 31, 2011		<u>1,055</u>

6.1 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.

7 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh ("the Court"/"SHC"), challenging the applicability of WWF to the CISs, which is pending adjudication.

Last year, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on December 14, 2010 the Ministry filed its response against the constitutional petition requesting the court to dismiss the petition. According to the legal counsel who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

During the current period, the Honourable Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs. 0.389 million in this condensed interim financial information.

8 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at December 31, 2011.

7 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 intends to distribute such accounting income, if any, for the period ending June 30, 2012 to its unit holders. Accordingly, no tax liability has been recorded in the current period.

10 TRANSACTIONS WITH CONNECTED PERSONS

10.1 Connected persons include NBP Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan (NBP), and Alexandra Fund Management Pte. Limited being the sponsors, NAFA Provident Fund Trust being the employee contribution plan of the Management Company, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.

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

10.3 Remuneration and front - end load payable to the Management Company and remuneration payable to the Trustee are determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

NAFA FINANCIAL SECTOR INCOME FUND

(Un-Audited)
For the period
from October
18, 2011 to
December 31,
2011
(Rupees in '000)

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

NBP Fullerton Asset Management Limited - Management Company	
Remuneration of the Management Company	2,223
Sindh sales tax on remuneration of the Management Company	356
Preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund	1,092
CDC deposit, listing fee and initial deposit on opening of bank accounts paid by the Management Company on behalf of the Fund	145
Alexandra Fund Management Pte. Limited - Sponsor	
Units issued during the period (10,025,759 units)	100,258
Pre-IPO profit	151
Central Depository Company of Pakistan Limited - Trustee	
Remuneration of the Trustee	270
Security deposit	100
Employees of the Management Company	
Units issued / transferred in during the period (365,530 units)	3,665
Units redeemed / transferred out during the period (300,602 units)	3,022
National Bank of Pakistan - Sponsor	
Units issued / transferred in during the period (49,917,636 units)	500,000
TBills purchased from the sponsor	438,188
TFCs purchased from the sponsor	1,042,728
TFCs sold to the sponsor	50,926

NAFA FINANCIAL SECTOR INCOME FUND

(Un-Audited)
As at
December 31,
2011
(Rupees in '000)

10.5 Balances outstanding as at period end

NBP Fullerton Asset Management Limited - Management Company	
Preliminary expenses and floatation costs paid by Management Company on behalf of the Fund	1,092
Deposit on CDC accounts, initial deposit and annual listing fee paid by the Management Company on behalf of the Fund	145
Remuneration payable	1,296
Sindh sales tax payable on remuneration of the Management Company	207
Central Depository Company of Pakistan Limited - Trustee	
Remuneration payable	145
Security deposit	100
Alexandra Fund Management Pte. Limited - Sponsor	
Investment held by the sponsor in the Fund (10,025,759 units)	102,435
Employees of the Management Company	
Investment held in the Fund (64,928 units)	663
National Bank of Pakistan - Sponsor	
Investment held by the Sponsor in the Fund (49,917,636 units)	510,048

11 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on February 17, 2012 by the Board of Directors of the Management Company.

12 GENERAL

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director