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

NAFA INCOME FUND

**HALF YEARLY
REPORT**
**December
31 2016**




Your investments & "NAFA" grow together



**FULLERTON FUND
MANAGEMENT**

Joint - Venture Partners

MISSION STATEMENT



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

NAFA INCOME FUND

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NAFA INCOME FUND

FUND'S INFORMATION

Management Company

NBP Fullerton Asset Management Limited – Management Company

Board of Directors of the Management Company

Mr. Nausherwan Adil	Chairman
Dr. Amjad Waheed	Chief Executive Officer
Mr. Aamir Sattar	Director
Mr. Abdul Hadi Palekar	Director
Mr. Foo Chiah Shiung (Kelvin Foo)	Director
Mr. Lui Mang Yin (Martin Lui)	Director
Mr. Kamal Amir Chinoy	Director
Mr. Shehryar Faruque	Director
Mr. Saiyed Hashim Ishaque	Director

Company Secretary & COO

Mr. Muhammad Murtaza Ali

Chief Financial Officer

Mr. Khalid Mehmood

Audit & Risk Committee

Mr. Shehryar Faruque	Chairman
Mr. Foo Chiah Shiung (Kelvin Foo)	Member
Mr. Aamir Sattar	Member

Human Resource and Remuneration Committee

Mr. Kamal Amir Chinoy	Chairman
Mr. Lui Mang Yin (Martin Lui)	Member
Mr. Abdul Hadi Palekar	Member

Trustee

MCB Financial Service Limited
3rd Floor, Adamjee House,
I.I. Chundrigar Road Karachi - 7400

Bankers to the Fund

Allied Bank Limited
Bank Alfalah Limited
Faysal Bank Limited
Bank of Punjab
National Bank of Pakistan
NIB Bank Limited
Habib Bank Limited
Al Baraka Islamic Bank Limited
Sindh Bank Limited
Silk Bank Limited
Dubai Islamic Bank Pakistan Limited
United Bank Limited
JS Bank Limited
Khushhali Bank Limited
Zarai Taraqiati Bank Limited
Tameer Bank Limited
Summit Bank Limited

NAFA INCOME FUND

Auditors

Deloitte Yousuf Adil
Chartered Accountants
Cavish Court,
A-35, Block 7 & 8,
KCHSU, Sharae Faisal
Karachi-75350 Pakistan

Legal Advisor

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

Head Office:

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

Lahore Office:

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

Islamabad Office:

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

Peshawar Office:

Opposite Gul Haji Plaza, 2nd Floor
National Bank Building
University Road Peshawar,
UAN: 091-111 111 632 (nfa)
Fax: 091-5703202

Multan Office:

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

NAFA INCOME FUND

DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the reviewed financial statements of **NAFA Income Fund (NIF)** for the half year ended December 31, 2016.

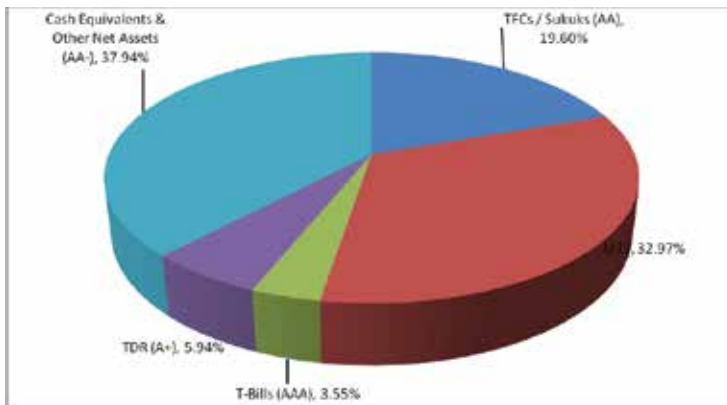
Fund's Performance

The size of NAFA Income Fund has increased from Rs. 619 million to Rs. 842 million during the period, an increase of 36%. During the period, the unit price of NAFA Income Fund has increased from Rs. 9.7377 on June 30, 2016 to Rs. 10.0689 on December 31, 2016, thus showing a return of 6.7% as compared to the benchmark return of 6.1% for the same period. The performance of the Fund is net of management fee and all other expenses.

NIF is categorized as an Income Scheme and has been awarded stability rating of 'A(f)' by PACRA. State Bank of Pakistan (SBP) maintained discount rate and policy rate at 6.25% and 5.75% respectively during the period under review. SBP cited improvement in macroeconomic stability, comfortable liquidity conditions coupled with healthy reserve accumulation, manageable inflationary backdrop, and CPEC related projects gathering momentum being balanced against latent risks to external accounts/factors. However, there are risks to the external account emanating from expected increase in commodity/global oil prices, confluence of declining remittances, challenged exports outlook and mounting external debt levels that may imperil the medium-term sustainability of the BoP position and warrant decisive policy action. Long-term sovereign yields witnessed an average increase of around 50 basis points, reflecting an uptick in inflation and interest rates.

Trading activity in corporate debt securities (TFCs & Sukuks) remained thin and was recorded at around Rs. 5 billion. Demand for the high credit quality corporate bonds issuance was again witnessed. All TFCs/Sukuks in the Fund are floating rate linked to KIBOR, mitigating the interest rate risk.

The Fund has earned total income of Rs.32.80 million during the period. After deducting expenses of Rs.5.07 million, the net income is Rs.27.71 million. The below chart presents the asset allocation and the weighted average credit rating of each of the sub-asset classes of NIF.



NAFA INCOME FUND

Acknowledgement

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

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

On behalf of the Board of
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: February 28, 2017
Place: Karachi.

NAFA INCOME FUND

ڈائریکٹرز رپورٹ

NBP فلٹرن ایسیٹ منجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز بصدِ مسرت 31 دسمبر 2016ء کو ختم ہونے والی ششماہی کے لیے NAFA انکم فنڈ (NIF) کے جانچ شدہ مالیاتی گوشوارے پیش کرتے ہیں۔

فنڈ کی کارکردگی

NAFA انکم فنڈ (NIF) کا فنڈ سائز، اس ششماہی کے دوران 619 ملین روپے سے بڑھ کر 842 ملین روپے تک پہنچ گیا۔ یعنی 36% اضافہ۔ زیرِ جائزہ مدت کے دوران NAFA انکم فنڈ کے یونٹ کی قیمت 30 جون 2016 کو 9.7377 روپے سے بڑھ کر 31 دسمبر 2017 کو 10.0673 روپے ہو چکی ہے اور اس طرح اپنے بیچ مارک کے 6.1% منافع کے مقابلے میں 6.7% اضافہ دکھایا ہے۔

یہ کارکردگی منجمنٹ فیس اور دیگر تمام اخراجات کے بعد خالص ہے۔

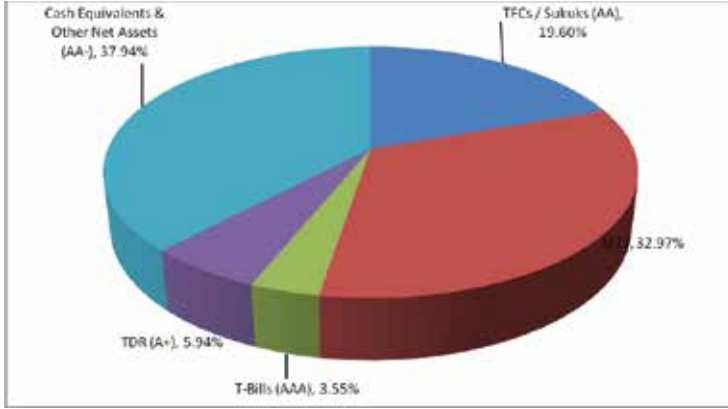
NIF کی درجہ بندی بطور ایک انکم اسکیم کی گئی ہے اور اسے PACRA کی طرف سے A(f) کی اسٹیٹیمینٹ ریٹنگ دی گئی ہے۔ اسٹیٹ بینک آف پاکستان (SBP) نے مذکورہ بالامدت کے دوران ڈسکاؤنٹ ریٹ اور پالیسی ریٹ بالترتیب 6.25% اور 5.75% برقرار رکھی۔ SBP کے منوقف کے متعلقہ مطابق مستحکم کلیاتی معیشت، لیکویڈٹی کی باسہولت صورت حال کے ساتھ زرمبادلہ کے ذخیرہ میں خاطر خواہ اضافہ، محدود افراط زر اور CPEC سے متعلقہ منصوبے بیرونی اکاؤنٹ اور عوامل کے پوشیدہ خطرات سے ہنزد آذما ہونے کے لئے برسرِ پیکار ہیں۔ تاہم بیرونی اکاؤنٹ کو عالمی تیل اور اشیاء صرف کی قیمتوں میں متوقع اضافہ، گرتی ہوئی تریسیلات، برآمدات سے متعلق چیلنجیں اور بڑھتی ہوئی بیرونی قرض کی سطح سے خطرات لاحق ہیں جو کہ ادائیگی کے توازن کو وسط مدتی دورانیہ میں متاثر کر سکتا ہے جس کے لئے منصوبہ سازی کی ضرورت ہوگی۔ طویل المیعاد خود مختار منافع میں تقریباً 50 بیس پوائنٹ کا اوسط اضافہ دیکھا گیا، جو افراط زر اور سود کی شرح میں معتدل اضافے کی عکاسی کرتا ہے۔

کارپوریٹ ڈپٹ سیکیورٹیز (TFCS) اور سلوک) میں ہونے والی تجارتی سرگرمیوں میں جھکاؤ دیکھنے میں آیا اور تقریباً 5 ملین روپے پر ریکارڈ کیا۔ اعلیٰ کریڈٹ معیاری کارپوریٹ بانڈ کی اجراء کے مطالبہ کا رجحان دوبارہ دیکھنے میں آیا۔ فنڈ میں تمام TFCS اور سلوک رواں شرح ہیں جو کہ KIBOR سے منسلک ہیں، جو سود کی شرح میں خطرے کی کمی کا باعث ہے۔

فنڈ نے اس مدت کے دوران 32.80 ملین روپے آمدنی کمائی ہے۔ 5.07 ملین روپے اخراجات منہا کرنے کے بعد خالص آمدنی 27.71 ملین روپے ہے۔

NAFA INCOME FUND

درج ذیل چارٹ NIF کی ایسیٹ ایلوکیشن اور اس کے ذیلی اثاثوں کے تمام درجوں کی پیمائش شدہ اوسط کریڈٹ ریٹنگ پیش کرتا ہے:-



اظہارِ تشکر

بورڈ اس موقع کا فائدہ اٹھاتے ہوئے منجمنت کمپنی پر اعتماد اور اعتبار اور خدمت کا موقع فراہم کرنے پر اپنے قابل قدر یونٹ ہولڈرز کا شکریہ ادا کرتا ہے۔ یہ سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور اسٹیٹ بینک آف پاکستان سے بھی ان کی سرپرستی اور رہنمائی کے لیے پُر خلوص اظہارِ تشکر کرتا ہے۔ بورڈ اپنے اسٹاف اور ٹرسٹی کی طرف سے محنت، لگن اور عزم کے مظاہرے پر اپنا خراجِ تحسین بھی ریکارڈ پر لانا چاہتا ہے۔

منجانب بورڈ آف ڈائریکٹرز

NBP فلرٹن ایسیٹ منجمنت لمیٹڈ

ڈائریکٹر

چیف ایگزیکٹو

بتاریخ

28 فروری 2017

مقام: کراچی

NAFA INCOME FUND

REPORT OF THE TRUSTEE TO THE UNIT HOLDERS NAFA INCOME FUND

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

NAFA Income Fund, an open-end Scheme established under a Trust Deed dated January 03, 2008 executed between NBP Fullerton Asset Management Limited, as the Management Company and Central Depository Company of Pakistan Limited (CDC), as the Trustee. The Scheme was authorized by Securities and Exchange Commission of Pakistan (Commission) on January 29, 2008.

CDC retired as the Trustee of the Fund and MCB Financial Services Limited (MCBFSL) was appointed as the new trustee with effect from November 22, 2011.

1. NBP Fullerton Asset Management Limited, the Management Company of NAFA Income Fund has in all material respects managed NAFA Income Fund during the period ended 31st December 2016 in accordance with the provisions of the following:
 - (i) Investment limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;
 - (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;
 - (iii) the creation and cancellation of units are carried out in accordance with the deed;
 - (iv) and any regulatory requirement

Karachi: February 21, 2017

Khawaja Anwar Hussain
Chief Executive Officer
MCB Financial Services Limited

NAFA INCOME FUND

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

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **NAFA Income Fund** (the Fund) as at December 31, 2016, 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, condensed interim cash flow statement and notes to the accounts for the half year ended December 31, 2016 (here-in-after referred to as the 'condensed interim financial information'). NBP Fullerton Asset Management Limited (the Management Company) is responsible for the preparation and presentation of this condensed interim financial information in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures in the condensed interim financial information for the quarter ended December 31, 2016 have not been reviewed by us, as we are required to review only the cumulative figures for the half year ended December 31, 2016.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2016 is not prepared, in all material respects, in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting.

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner
Naresh Kumar

Date: February 28, 2017
Place: Karachi

NAFA INCOME FUND

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2016

	Note	(Un-audited) December 31, 2016	(Audited) June 30, 2016
(Rupees in '000)			
ASSETS			
Balance with banks	4	321,778	169,976
Investments	5	245,038	319,277
Receivable against margin trading system	6	277,707	128,990
Mark-up accrued		5,765	5,287
Deposits, prepayments and other receivables		916	4,508
Total assets		851,204	628,038
LIABILITIES			
Payable to NBP Fullerton Asset Management Limited - Management Company	7	3,647	3,632
Payable to MCB Financial Services Limited - Trustee	8	75	62
Payable to the Securities and Exchange Commission of Pakistan	9	259	469
Accrued expenses and other liabilities	10	4,911	4,968
Total liabilities		8,892	9,131
NET ASSETS		842,312	618,907
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		842,312	618,907
Contingencies and commitments	11	-----Number of units-----	
Number of units in issue		<u>83,654,458</u>	<u>63,557,779</u>
-----Rupees-----			
Net asset value per unit		<u>10.0689</u>	<u>9.7377</u>

The annexed notes from 1 to 20 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME FUND

CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
INCOME	Note ----- Rupees in '000 -----			
Return / mark-up on:				
- bank balances and term deposits	14,350	10,087	7,845	4,359
- term finance certificates and sukuks	7,178	5,787	3,396	2,712
- government securities	1,019	4,726	458	2,358
- margin trading system	3,618	5,426	1,919	3,588
Net gain / (loss) on sale of investments	-	370	-	(421)
Net unrealised gain / (loss) on re-measurement of investments at fair value through profit or loss - held for trading	5.8 1,496	153	(573)	(421)
Reversal of provision in respect of non-performing investments	-	1,277	-	639
Total income	27,661	27,826	13,045	12,814
EXPENSES				
Remuneration of NBP Fullerton Asset Management Limited				
- Management Company	7.1 2,336	2,921	1,207	1,432
Sindh Sales Tax on remuneration of the Management Company	7.2 304	475	157	232
Federal Excise Duty on remuneration of the Management Company	7.3 -	467	-	229
Reimbursement of operational expenses to the Management Company	7.4 345	61	187	61
Remuneration of MCB Financial Services Limited - Trustee	8.1 345	302	187	153
Sindh Sales Tax on remuneration of the Trustee	8.2 45	42	24	29
Annual fee to the Securities and Exchange Commission of Pakistan	9.1 259	227	140	115
Securities transaction cost	-	7	-	1
Settlement and bank charges	888	892	451	526
Auditors' remuneration	323	304	185	154
Fund rating fee	150	139	58	69
Annual listing fee	28	20	18	12
Printing charges	50	11	37	(14)
Total expenses	5,073	5,868	2,651	2,999
Net income from operating activities	22,588	21,958	10,394	9,815
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	5,121	(268)	5,099	(668)
Net income for the period before taxation	27,709	21,690	15,493	9,147
Taxation	13 -	-	-	-
Net income for the period after taxation	27,709	21,690	15,493	9,147
Earnings per unit	14			

The annexed notes from 1 to 20 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME FUND

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	----- Rupees in '000 -----			
Net income for the period after taxation	27,709	21,690	15,493	9,147
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	<u>27,709</u>	<u>21,690</u>	<u>15,493</u>	<u>9,147</u>

The annexed notes from 1 to 20 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME FUND

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	----- Rupees in '000 -----			
Accumulated (loss) / income brought forward comprising of:				
- realized (loss) / income	(3,405)	(7,089)	6,774	8,144
- unrealized income	31	3,264	2,068	574
	(3,374)	(3,825)	8,842	8,718
Net income for the period	27,709	21,690	15,493	9,147
Undistributed income carried forward	<u>24,335</u>	<u>17,865</u>	<u>24,335</u>	<u>17,865</u>
Undistributed income carried forward comprising of:				
- realized income	22,839	17,712	24,908	18,286
- unrealized income / (loss)	1,496	153	(573)	(421)
	<u>24,335</u>	<u>17,865</u>	<u>24,335</u>	<u>17,865</u>

The annexed notes from 1 to 20 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME FUND

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	----- Rupees in '000 -----			
Net assets at the beginning of the period [Rs. 9.7377 per unit (June 30, 2015: Rs. 9.7306 per unit)]	618,907	583,494	635,960	619,176
Issuance of 33,556,588 units (December 31, 2015: 9,371,396 units)	335,385	93,098	324,606	36,011
Redemption of 13,459,909 units (December 31, 2015: 9,527,989 units)	(134,568)	(94,890)	(128,648)	(61,342)
	200,817	(1,792)	195,958	(25,331)
Net element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed	(5,121)	268	(5,099)	668
Total comprehensive income for the period	27,709	21,690	15,493	9,147
Net assets as at the end of the period [Rs. 10.0689 per unit (December 31, 2015: Rs. 10.0933 per unit)]	<u>842,312</u>	<u>603,660</u>	<u>842,312</u>	<u>603,660</u>

The annexed notes from 1 to 20 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME FUND

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

Note	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
----- Rupees in '000 -----				
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period before taxation	27,709	21,690	15,493	9,147
Adjustments:				
Return / mark-up on:				
- bank balances and term deposits	(14,350)	(10,087)	(7,845)	(4,359)
- term finance certificates and sukus	(7,178)	(5,787)	(3,396)	(2,712)
- government securities	(1,019)	(4,726)	(458)	(2,358)
- margin trading system	(3,618)	(5,426)	(1,919)	(3,588)
Net (gain) / loss on sale of investments	-	(370)	-	421
Net unrealised (gain) / loss on re-measurement of investments at fair value through profit or loss - held for trading	(1,496)	(153)	573	421
Net element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed	(5,121)	268	(5,099)	668
Reversal of provision in respect of non-performing investments	-	(1,277)	-	(639)
	(5,073)	(5,868)	(2,651)	(2,999)
(Increase) / decrease in assets				
Investments - net	75,735	26,963	52,421	(3,159)
Receivable against margin trading system	(148,717)	(190,594)	(167,462)	6,771
Deposits, prepayments and other receivables	(73)	(256)	(3,609)	(293)
	(73,055)	(163,887)	(118,650)	3,319
Increase / (decrease) in liabilities				
Payable to the Management Company	15	446	(138)	187
Payable to the Trustee	13	10	16	8
Payable to the Securities and Exchange Commission of Pakistan	(210)	(177)	140	115
Accrued expenses and other liabilities	(57)	(147,080)	(5,129)	(632)
	(239)	(146,801)	(5,111)	(322)
Mark-up on bank balances and term deposits received	15,104	10,767	6,461	4,486
Mark-up on term finance certificates and sukus received	6,034	6,283	4,777	3,918
Mark-up on government securities received	1,019	8,629	458	3,529
Mark-up on margin trading system received	3,530	4,773	1,444	3,484
Net cash (used in) / generated from operating activities	(52,680)	(286,104)	(113,272)	15,415
CASH FLOWS FROM INVESTING ACTIVITIES				
Net cash generated from investing activities	-	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES				
Amounts received on issuance of units	339,050	93,098	328,271	36,011
Amounts paid on redemption of units	(134,568)	(94,890)	(128,648)	(61,342)
Net cash generated from / (used in) financing activities	204,482	(1,792)	199,623	(25,331)
Net increase / (decrease) in cash and cash equivalents during the period	151,802	(287,896)	86,351	(9,916)
Cash and cash equivalents at the beginning of the period	169,976	483,554	235,427	205,574
Cash and cash equivalents as at the end of the period	4 321,778	195,658	321,778	195,658

The annexed notes from 1 to 20 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA INCOME FUND

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2016

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Income Fund (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited, as the Management Company and Central Depository Company of Pakistan Limited (CDC), as the Trustee. The Trust Deed was executed on January 03, 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on December 14, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules). Subsequently, CDC retired as the Trustee of the Fund and MCB Financial Services Limited (MCBFSL) was appointed as the new Trustee with effect from November 22, 2011. The SECP approved the appointment of MCBFSL as the Trustee in place of the CDC and further approved the amendments to the Trust Deed vide its letter number SCD/AMCWING/VS/NIF/458/2011 dated November 15, 2011. Accordingly, the Trust Deed of the Fund was revised through a supplemental Deed executed between the Management Company, CDC and MCBFSL.

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 No. 4, Scheme No. 5, Clifton, Karachi. The management company is a member of MUPAF.

The Fund is an open-ended mutual fund categorised as income scheme and its units are listed on Pakistan Stock Exchange Limited. Units of the Fund are offered for public subscription on a continuous basis. The units of the Fund are transferable and can be redeemed by surrendering them to the Fund.

The investment objective of the Fund is to earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets. The Fund comprises of investments of various investment horizons, with a significant amount invested in short term investments for the purpose of maintaining liquidity.

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

Title of the assets of the Fund is held in the name of MCBFSL as a 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 requirements of the International Accounting Standard 34 - Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of NBFC Rules, the NBFC Regulations or directives issued by SECP differ with the requirements of the IFRS, the requirements of NBFC Rules, the NBFC Regulations or the directives issued by SECP shall prevail.

The disclosures made in this condensed interim financial information have, however, been limited based on the requirements of International Accounting Standard 34: 'Interim Financial Reporting'. This condensed interim financial information does not include all the information and disclosures required in a full set of financial statements and should be read in conjunction with the annual financial statements of the Fund for the year ended June 30, 2016.

In compliance with Schedule V of the NBFC Regulations, the directors of the Management Company hereby declare that this condensed interim financial information give a true and fair view of the state of the Fund's affairs as at December 31, 2016.

2.2 Basis of measurement

This condensed interim financial information has been prepared under the historical cost convention, except for the investments which are stated at fair value.

2.3 Functional and presentation currency

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

NAFA INCOME FUND

2.4 Estimates and judgements

The preparation of this condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed interim financial information, significant judgments made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended June 30, 2016.

2.5 Financial risk management

The Fund's risk management objectives and policies are consistent with those objectives and policies which were disclosed in the financial statements of the Fund as at and for the year ended June 30, 2016.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied for the preparation of this condensed interim financial information are the same as those applied in the preparation of the financial statements of the Fund as at and for the year ended June 30, 2016.

	Note	(Un-audited) December 31, 2016	Audited June 30, 2016
----- Rupees in '000 -----			
4 BALANCE WITH BANKS			
Current accounts	4.1	443	443
Saving accounts	4.1 & 4.2	280,136	169,533
Term deposit	4.3	41,199	-
		<u>321,778</u>	<u>169,976</u>

4.1 This includes Rs. 0.87 million pertaining to amounts from other collective investment schemes being managed by the Management Company in respect of units issued to various unit holders based on their request for transfer of units from other collective investment scheme to the Fund which have been cleared subsequent to the period end.

4.2 These saving accounts carry mark-up at rates ranging from 5.30% to 7.50% per annum (June 30, 2016: 4.50% to 9.00% per annum).

4.3 This represents short term deposit having original maturity period of less than 3 months. This carries mark-up rate of 7.30% per annum (June 30, 2016: Nil).

	Note	(Un-audited) December 31, 2016	Audited June 30, 2016
----- Rupees in '000 -----			
5 INVESTMENTS			
At fair value through profit or loss - held for trading			
Term finance certificates - listed	5.1.1	115,704	86,796
Term finance certificates - unlisted	5.1.3	-	40,000
Sukuks	5.2	49,426	48,903
Government securities	5.3	29,908	41,578
		<u>195,038</u>	<u>217,277</u>
Available for sale			
Term finance certificates - listed	5.4	-	-
Sukuks	5.5	-	-
		<u>-</u>	<u>-</u>
Loans and receivables			
Term deposits	5.6	50,000	102,000
		<u>245,038</u>	<u>319,277</u>

NAFA INCOME FUND

5.1 Term finance certificates - at fair value through profit or loss - held for trading

5.1.1 Term finance certificates - listed - at fair value through profit or loss - held for trading

Name of Investee Company	Note	Number of certificates				Market Value as at December 31, 2016	Investment as percentage of		
		As at July 01, 2016	Purchases during the period	Sales during the period	As at December 31, 2016		Net assets	Market value of total investments	Issue size

Rupees in '000'

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

Saudi Pak Leasing Company Limited	5.1.2	15,000	-	-	15,000	-	-	-	10.00
Bank Alfalah Limited		2,000	-	-	2,000	6,719	0.80	2.74	0.20
Faysal Bank Limited		5,000	-	-	5,000	12,576	1.49	5.13	0.83
Askari Bank Limited		7,400	-	-	7,400	37,654	4.47	15.37	0.93
Jahangir Siddiqui and Company Limited (April 08, 2014)		5,000	-	-	5,000	17,510	2.08	7.15	3.33
Jahangir Siddiqui and Company Limited (June 24, 2016)		8,000	-	-	8,000	41,245	4.90	16.83	4.00

115,704 13.74 47.22

Carrying value before mark to market as at December 31, 2016

156,046

Accumulated impairment

41,321

5.1.2 This represents investment in listed term finance certificates with original term of five years. On October 13, 2011 the investee company defaulted on its obligation on account of principal and profit payment. The investee company rescheduled its term on December 26, 2011 with a new maturity in March 2017. The investee company again defaulted on its obligation on account of principal and profit payment and accordingly has been classified as non performing asset by MUFAP since April 31, 2014. The amount of provision as per circular no. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of said circulars.

5.1.3 Term finance certificates - unlisted - at fair value through profit or loss - held for trading

Name of Investee Company	Note	Number of certificates				Market Value as at December 31, 2016	Investment as percentage of		
		As at July 01, 2016	Purchases during the period	Sales during the period	As at December 31, 2016		Net assets	Market value of total investments	Issue size

Rupees in '000'

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

Agritech Limited II	5.1.4	30,000	-	-	30,000	-	-	-	-
Agritech Limited V	5.1.5	4,436	-	-	4,436	-	-	-	-

- - -

Carrying value as at December 31, 2016

172,057

Accumulated impairment

172,057

5.1.4 This represents investment in privately placed unlisted term finance certificates with a term of seven years. On July 14, 2010 the investee company defaulted on its obligation on account of principal and profit payment and accordingly has been classified as non performing asset by MUFAP since August 2, 2010. The amount of provision as per circular no. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circulars.

5.1.5 This represents investment in privately placed term finance certificates received against due markup of Agritech V. The investee company defaulted on its obligation on account of principal and profit payment and accordingly has been classified as non performing asset by MUFAP since January 17, 2012. The amount of provision as per circular no. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circulars.

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

NAFA INCOME FUND

5.2 Sukuks

- at fair value through profit or loss - held for trading

Name of Investee Company	Note	Number of certificates				Market Value as at December 31, 2016	Investment as percentage of		
		As at July 01, 2016	Purchases during the period	Sales during the period	As at December 31, 2016		Net assets	Market value of total investments	Issue size
Rupees in '000'									
All sukuks have a face value of Rs. 5,000 each.									
K-Electric AZM sukuk		9,800	-	-	9,800	49,426	5.87	20.17	1.31
New Allied Electronics Industries (Private) Limited	5.2.1	10,000	-	-	10,000	-	-	-	6.67
						<u>49,426</u>	<u>5.87</u>	<u>20.17</u>	
Carrying value before mark to market as at December 31, 2016						<u>97,957</u>			
Accumulated impairment						<u>49,054</u>			

5.2.1 This represents investment in privately placed sukuks with a term of five years. The investee company had defaulted on its obligation on account of principal and profit payment and accordingly has been classified as non performing asset by MUFAP since January 9, 2009. The amount of provision as per circular no. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circulars.

5.3 Government securities - at fair value through profit or loss - held for trading

Issue date	Note	Tenor	Face Value				Market value as at December 31, 2016	Investment as a percentage of	
			As at July 01, 2015	Purchases during the period	Sales/ matured during the period	As at December 31, 2016		Net Assets	Market Value of total investments
Rupees in '000									
-----%-----									
Market Treasury Bills									
September 3, 2015	5.3.1	12 Months	42,000	-	42,000	-	-	-	-
August 18, 2016		3 Months	-	30,000	30,000	-	-	-	-
October 27, 2016	5.3.1	3 Months	-	30,000	-	30,000	29,908	3.55	12.21
						<u>29,908</u>	<u>3.55</u>	<u>12.21</u>	
Carrying value before mark to market as at December 31, 2016						<u>29,914</u>			

5.3.1 The effective yield on market treasury bills is 5.90% per annum (June 30, 2016: 5.90% per annum).

5.3.2 Investments include treasury bills with market value of Rs. 29.91 million (June 30, 2016: Rs. 29.69 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with circular no. 11 dated October 23, 2007 issued by SECP.

5.4 Term finance certificates - available for sale

Name of Investee Company	Note	Number of certificates				Market Value as at December 31, 2016	Investment as percentage of		
		As at July 01, 2016	Purchases during the period	Sales during the period	As at December 31, 2016		Net assets	Market value of total investments	Issue size
Rupees in '000'									
All term finance certificates have a face value of Rs. 5,000 each.									
Worldcall Telecom Limited	5.4.1	<u>14,000</u>	-	-	<u>14,000</u>	-	-	-	<u>1.75</u>
Carrying value before mark to market as at December 31, 2016						<u>26,881</u>			
Accumulated impairment						<u>26,881</u>			

NAFA INCOME FUND

5.4.1 This represents investment in listed term finance certificates of Worldcall Telecom Limited. On April 07, 2012, the investee company defaulted on its obligation on account of principal and profit payment and accordingly has been classified as non performing asset by MUFAP. The amount of provision as per circular no. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circulars.

5.4.2 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.

5.5 Sukuks - available for sale

Name of Investee Company	Note	Number of certificates				Market Value as at December 31, 2016	Investment as percentage of		
		As at July 01, 2016	Purchases during the period	Sales during the period	As at December 31, 2016		Net assets	Market value of total investments	Issue size

Rupees in '000'

All sukuks have a face value of Rs. 5,000 each.

Eden Housing Limited	5.5.1	20,000	-	-	20,000	-	-	-	13.70
						<u>19,688</u>			
Carrying value as at December 31, 2016						<u>19,688</u>			
Accumulated impairment						<u>19,688</u>			

5.5.1 This represents investment in privately placed sukuks with a term of five years. On May 6, 2011, the investee company defaulted its principal and profit payment and therefore it was classified as non performing asset by MUFAP. The amount of provision as per circular no. 1 of 2009 and circular no. 33 of 2012 has been maintained by valuing the investment in terms of the said circulars.

5.5.2 The sukuks held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage of fixed assets of the issuer.

5.6 These represent term deposits having original maturity period of more than 3 months. These carry mark-up rate of 11.30% per annum (June 30, 2016: 7.75% to 11.10% per annum).

5.7 Other particulars of term finance certificates and sukuks outstanding as at December 31, 2016 are as follows:

Name of the investee company	Face value (unredeemed)	Mark-up rate per annum	Rating	Issue Date	Maturity Date
Bank Alfalah Limited	3,325	6 Month KIBOR ask rate plus 2.5%	AA-	2-Dec-09	2-Dec-17
Faysal Bank Limited	2,495	6 Month KIBOR ask rate plus 2.25%	AA-	2-Dec-10	27-Dec-17
Askari Bank Limited	4,996	6 Month KIBOR ask rate plus 1.20%	AA-	30-Sep-14	30-Sep-24
Jehangir Siddiqui and Company Limited (April 08, 2014)	3,500	6 Month KIBOR ask rate plus 1.75%	AA+	8-Apr-14	8-Apr-19
Jehangir Siddiqui and Company Limited (June 24, 2016)	5,000	6 Month KIBOR ask rate plus 1.65%	AA+	16-May-16	16-May-21
K- Electric AZM sukuk	5,000	3 Month KIBOR ask rate plus 2.25%	AA+	9-Mar-14	9-Mar-17
Saudi Pak Leasing Company Limited	2,755	6 Month KIBOR ask rate plus 1.50%	Not rated	13-Mar-08	13-Mar-13
Agritech Limited II	4,996	6 Month KIBOR ask rate plus 1.75%	Not rated	14-Jan-08	14-Jul-19
Agritech Limited V	5,000	11% Fixed rate	Not rated	1-Jul-11	1-Jan-17
New Allied Electronics Industries (Private) Limited	4,167	6 Month KIBOR ask rate plus 2.2%	Not rated	3-Dec-07	3-Dec-12
Worldcall Telecom Limited	2,141	6 Month KIBOR ask rate plus 1.6%	Not rated	7-Oct-08	7-Oct-13
Eden House Limited	984	6 Month KIBOR ask rate plus 2.5%	Not rated	31-Mar-08	31-Mar-13

Note	(Un-audited) December 31, 2016	Audited June 30, 2016
	----- Rupees in '000 -----	

5.8 Net unrealised gain on re-measurement of investments at fair value through profit or loss - held for trading

Market value of investments	5.1.1, 5.1.3, 5.2 & 5.3	195,038	217,277
Less: carrying value of investments		(455,974)	(479,678)
		(260,936)	(262,401)
Add: provision against non-performing term finance certificates and sukuks	5.1.1, 5.1.3, 5.2 & 5.3	<u>262,432</u>	<u>262,432</u>
		<u>1,496</u>	<u>31</u>

NAFA INCOME FUND

	Note	(Un-audited) December 31, 2016	Audited June 30, 2016
----- Rupees in '000 -----			
5.9	Net unrealised gain on re-measurement of investments classified as available for sale		
	Market value of investments	-	-
	Less: carrying value of investments	46,569	46,569
		(46,569)	(46,569)
	Add: provision against non-performing term finance certificates and sukus	<u>46,569</u>	<u>46,569</u>
		<u>-</u>	<u>-</u>
		(Un-audited) December 31, 2016	Audited June 30, 2016
		----- Rupees in '000 -----	
5.10	Movement in provision against non-performing term finance certificates and sukus		
	Opening balance	309,001	310,278
	Add: charge for the period / year	-	-
	Less: reversal of provision during the period / year	-	(1,277)
	Closing balance	<u>309,001</u>	<u>309,001</u>
	Provision related to investments classified at 'fair value through profit or loss - held for trading'	<u>262,432</u>	<u>262,432</u>
	Provision related to investments classified at 'available for sale'	<u>46,569</u>	<u>46,569</u>
	Closing balance	<u>309,001</u>	<u>309,001</u>

6 RECEIVABLE AGAINST MARGIN TRADING SYSTEM

This carry average mark-up at the rate of 7.56% (June 30, 2016: 8.20%) and are matured at the option of financee subject to maximum period of 60 days.

	Note	(Un-audited) December 31, 2016	Audited June 30, 2016
----- Rupees in '000 -----			
7	PAYABLE TO NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY		
	Remuneration of the Management Company	418	375
	Sindh Sales Tax on remuneration of the Management Company	54	61
	Federal Excise Duty on remuneration of the Management Company	2,808	2,808
	Operational expenses	345	383
	Sales load	20	5
	Sindh Sales Tax and Federal Excise Duty on sales load	<u>2</u>	<u>-</u>
		<u>3,647</u>	<u>3,632</u>

7.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), the Management Company of the Fund was entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets provided that Management Company may charge performance based or fixed fee or a combination of both which shall not exceed the limit prescribed in the NBFC Regulations and such fee structure shall be disclosed in the offering document.

On November 25, 2015, SECP has made certain amendments in the NBFC Regulations through S.R.O 1160(1)/2015. As per the provision of amended NBFC Regulations, the applicable rate has been changed from 2% to 1.5%.

NAFA INCOME FUND

The Management Company has charged management remuneration at the rate of 1% per annum until December 06, 2015. Thereafter from December 07, 2015, the Management Company has revised their policy for charging management remuneration as per table given below:

Management remuneration as % of net income *	Minimum management remuneration (as % of average net asset value)	Maximum management remuneration (as % of average net asset value)
--	---	---

10.00%

0.50%

1.00%

* Net income = Gross income - all expenses of the Fund excluding management remuneration and related Sales Tax and Federal Excise Duty thereon.

Management remuneration is paid on a monthly basis in arrears.

- 7.2 This represents amount payable in respect of Sindh Sales Tax at the rate of 13% (June 30, 2016: 14%) on remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011.
- 7.3 As per the requirement of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective from June 13, 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law, hence, a petition was collectively filed by the Mutual Funds Association of Pakistan with the Sindh High Court (SHC).

While disposing the above petition through order dated July 16, 2016, the SHC declared the said provisions to be ultra vires and as a result no FED is payable with effect from July 01, 2011. However, the tax authorities subsequently filed appeal against the decision of the SHC in the Supreme Court of Pakistan, which is pending for the decision.

Further, the Finance Act 2016, also introduced an amendment to the Federal Excise Act, 2005 whereby FED was withdrawn on services of different industries including Non-Banking Financial Institutions, which are already subject to provisional sales tax.

However, since the appeal is pending in the Supreme Court of Pakistan, the Management Company, as a matter of abundant caution, is carrying provision for FED aggregating to Rs. 2.808 million as at December 31, 2016.

Had the provision not being made, the net asset value per unit as at December 31, 2016 would have been higher by Rs.0.0336 per unit (June 30, 2016: Rs. 0.0442 per unit).

- 7.4 This represents reimbursement of certain expenses to the Management Company. As per regulation 60(3)(s) of the NBFC Regulations, fee and expenses pertaining to registrar services, accounting, operation and valuation services related to a Collective Investment Scheme (CIS) are chargeable to the scheme, maximum up to 0.1% of the average annual net assets or the actual cost whichever is lower. Accordingly, the Management Company has charged 0.1% of the average annual net assets, being the lower amount, to the Fund.

	Note	(Un-audited) December 31, 2016	Audited June 30, 2016
		----- Rupees in '000 -----	
8 PAYABLE TO MCB FINANCIAL SERVICES LIMITED - TRUSTEE			
Remuneration of the Trustee	8.1	66	54
Sindh Sales Tax on remuneration of the Trustee	8.2	9	8
		<u>75</u>	<u>62</u>

- 8.1 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 net assets of the Fund. The remuneration is payable to the Trustee monthly in arrears.

NAFA INCOME FUND

Tariff structure applicable to the Fund as at December 31, 2016 is as follows:

Net asset value 0.1% per annum of net asset value

8.2 The Sindh Provincial Government levied Sindh Sales Tax at the rate of 13% (June 30, 2016: 14%) on the remuneration of the trustee through Sindh Sales Tax on Services Act, 2011.

9 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

9.1 Under the provisions of the NBFC Regulations, a collective investment scheme categorised as "income scheme" is required to pay as annual fee to the Securities and Exchange Commission of Pakistan, an amount equal to 0.075 percent of the average annual net assets of the Fund. The fee is paid annually in arrears.

10 ACCRUED EXPENSES AND OTHER LIABILITIES	Note	(Un-audited) December 31, 2016	Audited June 30, 2016
----- Rupees in '000 -----			
Auditors' remuneration		361	390
Provision for Workers' Welfare Fund	12	4,095	4,095
Brokerage charges		6	6
Settlement charges		146	115
Withholding tax		15	132
Capital gain tax		95	95
Legal and professional charges		2	13
Bank charges		103	19
Printing charges		63	80
Others		25	23
		4,911	4,968

11 CONTINGENCIES AND COMMITMENTS

11.1 Contingencies

There are no contingencies as at December 31, 2016 and June 30, 2016.

11.2 Commitments

Margin trading system transactions entered into by the Fund in respect of which the release transactions have not been settled

38,908	6,567
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12 WORKERS' WELFARE FUND AND SINDH WORKERS' WELFARE FUND

The Finance Act, 2008 introduced amendments to the Workers' Welfare Fund Ordinance, 1971 whereby the definition of industrial establishment was extended. The amendments were challenged at various levels and conflicting judgments were rendered by the Lahore High Court, Sindh High Court and Peshawar High Court. The Honourable Supreme Court of Pakistan vide its judgment dated November 10, 2016, has upheld the view of Lahore High Court and decided that Workers Welfare Fund (WWF) is not a tax and hence the amendments introduced through Finance Act, 2008 are ultra-vires to the Constitution. The Federal Board of Revenue has filed Civil Review Petitions in respect of above judgment with the prayer that the judgment dated November 10, 2016 passed in the Civil Appeal may kindly be reviewed in the interest of justice.

Furthermore, the Sindh Revenue Board (SRB) had written to few mutual funds in January 2016 to register and pay Sindh Workers Welfare Fund (SWWF) for the accounting year closing on or after December 31, 2013. MUFAP reviewed the issue and based on an opinion decided that SWWF is not applicable on mutual funds as they are not financial institutions as required by SWWF Act, 2014. MUFAP wrote to SRB that mutual funds are not establishments and are pass through vehicles hence, they do not have any worker and no SWWF is payable by them. SRB responded back that as mutual funds are included in definition of financial institutions in the Financial Institutions (Recovery of Finance) Ordinance, 2001, therefore SWWF is applicable on mutual funds. MUFAP has taken up this matter before the Sindh Finance Ministry to exclude mutual funds from SWWF.

NAFA INCOME FUND

In view of the above developments regarding the applicability of WWF and SWWF on mutual funds and considering the legal opinion obtained on these matters, MUFAP has recommended the following to all its members on January 12, 2017:

- The entire provision against the Federal WWF held by the mutual funds till June 30, 2015, to be reversed on January 12, 2017; and
- The provision in respect of Sindh WWF should be made on a prudent basis on January 12, 2017 with effect from the date of enactment of the Sindh WWF Act, 2014 (i.e. starting from May 21, 2015).¹¹

Accordingly, the provision for Sindh WWF is being made on a daily basis going forward.

The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on January 12, 2017 and the SECP vide its letter dated February 01, 2017 has advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosures in the financial statements of the mutual funds. Accordingly, the Fund has recorded these adjustments in its books on January 12, 2017.

The net effect of the above two adjustments if these had been made on December 31, 2016 would have resulted in an increase in the net asset value per unit of the Fund by Rs. 0.0304.

13 TAXATION

The Fund's income is exempt from income tax as per clause 99 of Part I of the Second Schedule of 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 realized or unrealized is distributed amongst the unit holders (excluding distribution made by issuance of bonus units). Furthermore, as per regulation 63 of the NBFC Regulations, the Fund is required to distribute ninety percent of accounting income other than capital gains whether realized or unrealized to the unit holders. The Fund intends to distribute such accounting income for the year ending June 30, 2017 to its unit holders. Accordingly, no provision in respect of taxation has been made in the current period.

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

14 EARNINGS PER UNIT

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

15 DETAILS OF NON-COMPLIANT INVESTMENTS

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009, required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. The Board has approved the category of the fund as 'Income Scheme'.

The Securities and Exchange Commission of Pakistan vide its circular no. 16 dated July 7, 2010, prescribed specific disclosures for the schemes holding investments that are non-compliant either with the minimum investment criteria specified for the category assigned to such schemes or with the investment requirements of their constitutive documents.

The following are the details of non-compliant investments:

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Names of non-compliant investment	Non-compliance of clause	Type of Investment	Value of investment before provision	Provision held	Value of investment after provision	% of net assets	% of gross assets
----- Rupees in '000 -----							
Worldcall Telecom Limited	Rating is below investment grade as prescribed in clause 9 (v) of the annexure of circular no. 7 of 2009	Term finance certificates (15.1)	26,881	(26,881)	-	-	-
Saudi Pak Leasing Company Limited	Rating is below investment grade as prescribed in clause 9 (v) of the annexure of circular no. 7 of 2009	Term finance certificates (15.1)	41,322	(41,322)	-	-	-
Eden Housing Limited	Rating is below investment grade as prescribed in clause 9 (v) of the annexure of circular no. 7 of 2009	Sukus (15.1)	19,688	(19,688)	-	-	-
Agritech Limited II	Rating is below investment grade as prescribed in clause 9 (v) of the annexure of circular no. 7 of 2009	Term finance certificates (15.1)	149,876	(149,876)	-	-	-
Agritech Limited V	Rating is below investment grade as prescribed in clause 9 (v) of the annexure of circular no. 7 of 2009	Term finance certificates (15.1)	22,180	(22,180)	-	-	-
New Allied Electronics Industries (Private) Limited	Rating is below investment grade as prescribed in clause 9 (v) of the annexure of circular no. 7 of 2009	Sukus (15.1)	49,054	(49,054)	-	-	-
Total carrying value and accumulated impairment as at December 31, 2016			309,001	(309,001)			

15.1 At the time of purchase, these term finance certificates and sukus were in compliance with the aforementioned circular. However, they were subsequently defaulted or were downgraded to non investment grade.

16 TOTAL EXPENSE RATIO

Total expense ratio (all the expenses incurred during the period divided by average net assets for the period) is 1.48% per annum including 0.18% representing government levies on collective investment scheme such as sales tax and Securities and Exchange Commission of Pakistan fee for the period.

17 TRANSACTIONS WITH CONNECTED PERSONS AND RELATED PARTIES

17.1 Connected persons and related parties include NBP Fullerton Asset Management Limited being the Management Company, MCB Financial Services Limited being the Trustee, National Bank of Pakistan being the Parent of the Management Company and Alexandra Fund Management Pte. Limited being the sponsor of the Management Company. It also includes associated companies of Management Company due to common directorship, post-employment benefit funds of the Management Company, its parent and sponsor. It also includes subsidiaries and associated companies of the Parent of the Management Company and other collective investment schemes (CIS) managed by the Management Company, directors and key management personnel of the Management Company and any person or company beneficially owning directly or indirectly 10% or more of the units in issue / net assets of the Fund.

17.2 The transactions with connected persons and related parties are carried out in the normal course of business, at contracted rates and terms determined in accordance with the market norms.

17.3 Remuneration of the Management Company is determined in accordance with the provisions of the NBFC Regulations.

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17.4 Remuneration of the Trustee is determined in accordance with the provisions of the Trust Deed.

Details of transactions with connected persons and related parties are as follows:	(Unaudited)			
	Half year ended		Quarter ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	----- (Rupees in '000) -----			
NBP Fullerton Asset Management Limited (Management Company)				
Remuneration of the Management Company	2,336	2,921	1,207	1,432
Sindh Sales Tax on remuneration of the Management Company	304	475	157	232
Federal Excise Duty on remuneration of the Management Company	-	467	-	229
Reimbursement of operational expenses to the Management Company	345	61	187	61
Sales load and related Sindh Sales Tax and Federal Excise Duty	99	58	2	-
MCB Financial Services Limited (Trustee)				
Remuneration of the Trustee	345	302	187	153
Sindh Sales Tax on remuneration of the Trustee	45	42	24	29
Employees of the Management Company				
Units issued / transferred in: 681 units (2015: 41,506 units)	7	405	7	-
Units redeemed / transferred out: Nil (2015: 1,925 units)	-	19	-	-
National Bank of Pakistan (Parent of the Management Company)				
Purchase of Pakistan investment bond	-	44,101	-	-
Sindh Insurance Limited (Unit holder of 10% or more of units of the CIS)				
Units issued / transferred in: 14,433,318 units (2015: Nil)	145,000	-	145,000	-
NAFA Income Opportunity Fund (CIS managed by the Management Company)				
Sales of market treasury bills	-	45,738	-	-
			(Un-audited)	Audited
			December 31,	June 30,
			2016	2016
			----- Rupees in '000 -----	
17.6 Amounts outstanding as at period / year end are as follows:				
NBP Fullerton Asset Management Limited (Management Company)				
Remuneration of the Management Company			418	375
Sindh Sales Tax on remuneration of the Management Company			54	61
Federal Excise Duty on remuneration of the Management Company			2,808	2,808
Operational expenses			345	383
Sales load			20	5
Sindh Sales Tax and Federal Excise Duty on sales load			2	-
National Bank of Pakistan (Parent of the Management Company)				
Bank balance			443	443
Employees of the Management Company				
Investment held in the Fund: 42,626 units (2016: 6,338 units)			430	62
MCB Financial Services Limited (Trustee)				
Remuneration of the Trustee			66	54
Sindh Sales Tax on remuneration of the Trustee			9	8
Security deposit			100	100

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(Un-audited) Audited
December 31, June 30,
2016 2016
----- Rupees in '000 -----

NBP Employees Pension Fund (Pension Fund of the parent of the Management Company)

Investment held in the Fund: 55,607,983 units (2016: 55,607,983 units) 559,911 541,494

Sindh Insurance Limited (Unit holder of 10% or more of units of the CIS)

Investment held in the Fund: 14,433,318 units (2015: Nil) 145,328 -

Net amount receivable in respect of transfer of units from:

NAFA Financial Sector Income Fund - 3,665

18 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Fund's financial assets which are carried at fair value:

Assets	As at December 31, 2016			
	Level 1	Level 2	Level 3	Total
	-----Rupees in '000-----			
At fair value through profit or loss - held for trading				
Government securities	-	29,908	-	29,908
Term finance certificates	-	115,704	-	115,704
Sukuks	-	49,426	-	49,426

Assets	As at June 30, 2016			
	Level 1	Level 2	Level 3	Total
	-----Rupees in '000-----			
At fair value through profit or loss - held for trading				
Government securities	-	41,578	-	41,578
Term finance certificates	-	86,796	-	86,796
Sukuks	-	48,903	-	48,903

There were no transfers between above levels during the period.

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.

The Fund has not disclosed the fair values for other financial assets and financial liabilities, as these are either short term in nature or repriced periodically. Therefore, their carrying amounts are reasonable approximation of fair value.

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19 **DATE OF AUTHORISATION FOR ISSUE**

This condensed interim financial information was authorised for issue on February 28, 2017 by the Board of Directors of the Management Company.

20 **GENERAL**

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

20.2 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director



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

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