



NBP FUNDS

Managing Your Savings

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NAFA FINANCIAL SECTOR FUND

**ANNUAL
REPORT
2018**



MISSION STATEMENT

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

NAFA FINANCIAL SECTOR FUND

FUND'S INFORMATION

Management Company

NBP Fund Management Limited - Management Company

Board of Directors of the Management Company

Mr. Mudassir Husain Khan	Chairman
Dr. Amjad Waheed	Chief Executive Officer
Mr. Tariq Jamali	Director
Mr. Abdul Hadi Palekar	Director
Mr. Kamal Amir Chinoy	Director
Mr. Shehryar Faruque	Director
Dr. Foo Chiah Shiung (Kelvin Foo)	Director
Mr. Humayun Bashir	Director
Mr. Wajahat Rasul Khan	Director

Company Secretary & COO

Mr. Muhammad Murtaza Ali

Chief Financial Officer

Mr. Khalid Mehmood

Audit & Risk Committee

Mr. Shehryar Faruque	Chairman
Mr. Tariq Jamali	Member
Dr. Foo Chiah Shiung (Kelvin Foo)	Member
Mr. Humayun Bashir	Member

Human Resource and Remuneration Committee

Mr. Kamal Amir Chinoy	Chairman
Mr. Abdul Hadi Palekar	Member
Mr. Humayun Bashir	Member

Strategy & Business Planning Committee

Mr. Humayun Bashir	Chairman
Mr. Tariq Jamali	Member
Mr. Shehryar Faruque	Member
Dr. Foo Chiah Shiung (Kelvin Foo)	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

MCB Bank Limited
Summit Bank Limited
JS Bank Limited
Meezan Bank Limited
Bankislami Pakistan Limited
Habib Bank Limited
United Bank Limited

NAFA FINANCIAL SECTOR FUND

Auditors

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

Legal Advisor

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

Head Office:

7th Floor Clifton Diamond Building, Block No. 4,
Scheme No. 5, Clifton Karachi.
UAN: 021 (111-111-632),
(Toll Free): 0800-20002,
Fax: (021) 35825329
Website: www.nbpffunds.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
Fax: 091-5703202

Multan Office:

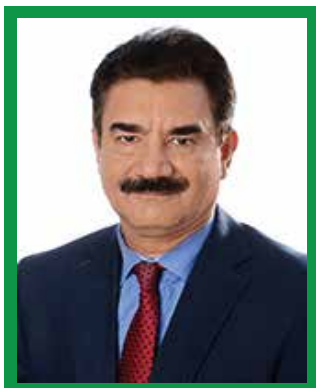
NBP City Branch, Hussain-a-Gahi, Multan.
Phone No: 061-4502204
Fax No: 061-4502203

NAFA FINANCIAL SECTOR FUND

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Board of Directors



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. Mudassir Husain Khan
Chairman



Mr. Kamal Amir Chinoy
Director



Mr. Humayun Bashir
Director



Mr. Tariq Jamali
Director



Mr. Shehryar Faruque
Director



Dr. Foo Chiah Shiung (Kelvin Foo)
Director



Mr. Abdul Hadi Palekar
Director



Mr. Wajahat Rasul Khan
Director

Senior Management



Mr. Sajjad Anwar, CFA
Chief Investment Officer



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. M. Murtaza Ali
Chief Operating Officer
& Company Secretary



Mr. Khalid Mehmood
Chief Financial Officer



Mr. Samiuddin Ahmed
Country Head Corporate
Marketing



Mr. Ozair Khan
Chief Technology Officer



Syed Rizwan Aziez
Country Head Sales Strategy



Mr. Muhammad Ali, CFA, FRM
Head of Fixed Income



Mr. Taha Khan Javed, CFA
Head of Equity



Mr. Hassan Raza, CFA
Head of Research



Syed Ali Azhar Hasani
Head of Internal Audit



Mr. Salman Ahmed, CFA
Head of Risk Management



Mr. Zaheer Iqbal - ACA, FPFA
Head Of Operations



Mr. Raheel Rehman, ACA
Head of Compliance



Mr. Shahbaz Umer
Head of Human Resource &
Administration

NAFA FINANCIAL SECTOR FUND

DIRECTORS' REPORT

The Board of Directors of NBP Fund Management Limited is pleased to present the First Annual Report for the period ended June 30, 2018, since launch of **NAFA Financial Sector Fund (NFSF)** on February 14, 2018.

The objective of NAFA Financial Sector Fund is to provide investors with long term capital growth from an actively managed portfolio of listed equities belonging to the Financial Sector.

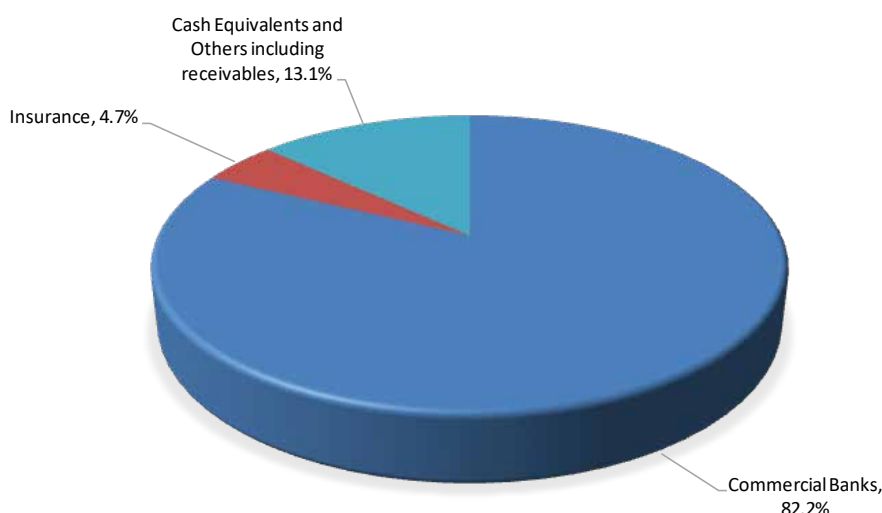
Fund's Performance

The size of NAFA Financial Sector Fund is Rs. 1035.89 million as at June 30, 2018. Since inception, the unit price of NAFA Financial Sector Fund has increased from Rs.10.0000 on February 14, 2018 to Rs.10.0006 on June 30, 2018. Since launch on February 14, 2018, the Fund has gradually built its position in Financial Sector stocks. Key holding of the fund belongs to Commercial Bank and Insurance sectors. Since inception (February 14, 2018), NAFA Financial Sector Fund has risen by 0.01%, whereas its benchmark KSE-30 index has decreased by 2.68%, thus to date outperformance is 2.67%. This outperformance is net of management fee and all other expenses.

FY2017-18 proved a challenging year for the stock market as the KSE-100 Index dropped by 10%. It was the first negative return for equity investors after eight years. A host of factors can be attributed to this lackluster performance of the stock market. Contrary to the market expectations, continued sell-off by the foreign investors in FY18 despite up-gradation of PSX into a widely followed MSCI Emerging Index from Frontier Market, shook investors' confidence. Adding to investors' angst was elevated uncertainty in the domestic politics linked to disqualification of elected PM in the historic judgments of Panama Leaks Case, who was later on barred from politics for lifetime. Sit-in by some religious parties in the federal capital and the uncertainty surrounding the elections also took its toll on the stock market. Much awaited Afghan Policy was unveiled by US President, Mr. Donald Trump, signaling tough stance of the US towards Pakistan also perturbed market participants. On the economic front, Current Account Deficit (CAD) sprang up to an unprecedented level of USD18bn during FY18 owing to rising crude oil prices and higher oil & LNG imports, rising imports of industrial raw material, transport vehicles, and machinery that remained a cause of grave concern for the market. To rein in aggregate demand pressures, series of steps were undertaken that included a measured PKR devaluation, deepening and broadening of duties on non-essential imported items, and hike in interest rates. In a bid to shore up the dwindling Foreign exchange reserves and documentation of economy, the government also announced a Foreign & Domestic Assets Declaration Schemes that fell below expectations.

In terms of sectoral performance, Oil & Gas Exploration, Fertilizer and Commercial Bank sectors out-performed the market during FY18, while Cement, Refinery, Engineering, and Automobile Parts & Accessories sectors lagged behind. Foreign investors remained net sellers with outflows of USD 289 million during the aforesaid period. Among local investors, Insurance and Companies remained major net buyers, taking fresh equity exposure worth USD 204 million and USD 100 million, respectively. Mutual Funds, on the other hand, remained net sellers, off-loading shares worth USD 35 million.

NAFA Financial Sector Fund has incurred a total loss of Rs. 16.64 million during the year. After deducting total expenses of Rs. 13.27 million, the net loss is Rs. 29.91 million. The asset allocation of NAFA Financial Sector Fund as on June 30, 2018 is as follows:



NAFA FINANCIAL SECTOR FUND

Income Distribution

Due to net loss for the year, no distribution has been made.

Taxation

On account of net loss, no provision for taxation was made in the financial statements of the Fund.

Auditors

The present auditors, Messrs A.F. Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ended June 30, 2019.

Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held four meetings during the period. The attendance of all directors is disclosed in the note 28 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 24 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 19 to these financial statements.
13. The Company encourages representation of independent non-executive directors on its Board. The Company, being an un-listed company, does not have any minority interest. As at June 30, 2018, the Board included:

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Category	Names
Independent Directors	1. Mr. Kamal Amir Chinoy 2. Mr. Shehryar Faruque 3. Mr. Humayun Bashir
Executive Directors	Dr. Amjad Waheed – Chief Executive Officer
Non-Executive Directors	1. Mr. Mudassir Husain Khan (Chairman) 2. Mr. Tariq Jamali 3. Mr. Abdul Hadi Palekar 4. Mr. Wajahat Rasul Khan 5. Dr. FOO Chiah Shiung (Kelvin Foo)

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 Fund Management Limited

Chief Executive
Date: September 05, 2018
Place: Karachi.

Director

NAFA FINANCIAL SECTOR FUND

ڈائریکٹرز رپورٹ

این بی پی فنڈ منجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز NAFA فنانشل سیکٹر فنڈ (NFSF) کی 14 فروری 2018 کے اجراء سے اب تک پہلی سالانہ رپورٹ برائے سال ختمہ 30 جون 2018ء پیش کرتے ہوئے مسرت محسوس کر رہے ہیں۔

NAFA فنانشل سیکٹر فنڈ کا مقصد سرمایہ کاروں کو لمبے عرصے کے لئے ایکویٹی مارکیٹ کے فنانشل سیکٹر میں سرمایہ کاری کے ذریعے اپنے سرمائے میں پرکشش منافع حاصل کرنے کا موقع فراہم کرنا ہے۔

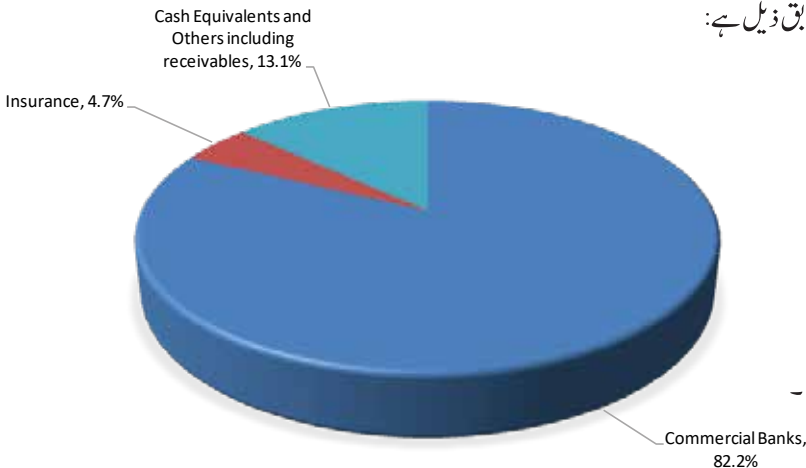
فنڈ کی کارکردگی

NAFA فنانشل سیکٹر فنڈ (NFSF) کا سائز 30 جون 2018 کو 1035.89 ملین روپے ہے۔ اپنے قیام سے فنڈ کے یونٹ کی قیمت 10.0000 روپے سے بڑھ کر 30 جون 2018 کو 10.0006 روپے ہو چکی ہے۔ اپنے اجراء 14 فروری 2018 سے فنڈ نے فنانشل سیکٹر اسٹاکس میں اپنا مقام قائم کر لیا ہے۔ فنڈ کی کی ہولڈنگ کا تعلق کمرشل بینکس اور انشورنس سیکٹرز سے ہے۔ اپنے قیام (14 فروری 2018) سے NAFA فنانشل سیکٹر فنڈ 0.01% سے بڑھا جبکہ بچ مارک KSE-30 انڈیکس 2.68% سے کم ہو گیا، لہذا اب تک 2.67% کی بہتر کارکردگی دکھائی۔ فنڈ کی یہ کارکردگی منجمنٹ فیس اور دیگر تمام اخراجات کے بعد خالص ہے۔

مالی سال 2017-2018 اسٹاک مارکیٹ کیلئے چیلنج کا سال ثابت ہوا جس میں KSE-100 انڈیکس 10% تک گر گیا۔ یہ آٹھ سال کے عرصے میں ایکویٹی سرمایہ کاروں کے منافع میں پہلی کمی تھی۔ اسٹاک مارکیٹ کی اس ناقص کارکردگی کا سبب کئی عوامل تھے۔ مارکیٹ کی توقعات کے برعکس، PSX کی فرنٹیر مارکیٹ کے MSCI ایمر جگ انڈیکس میں اپ گریڈنگ کے باوجود سرمایہ کاروں کے اعتماد کو دھچکا لگا اور مالی سال 18 میں غیر ملکی سرمایہ کاروں کی جانب سے فروخت کا سلسلہ جاری رہا۔ اس کے علاوہ سرمایہ کاروں کی تشویش میں ملکی سیاست کی بڑھتی ہوئی غیر یقینی کیفیت سے اور اضافہ ہوا جو پانامہ لیکس کیس میں منتخب وزیر اعظم کو نااہل قرار دینے کے تاریخی فیصلے سے پیدا ہوئی اور بعد میں ان کے عمر بھر کیلئے سیاست میں حصہ لینے پر پابندی کا باعث بنی۔ بعض مذہبی جماعتوں کی طرف سے وفاقی دار الحکومت میں دھرنے اور الیکشن کے قریب غیر یقینی کی فضا سے اسٹاک مارکیٹ پر مزید اثر پڑا۔ امریکی صدر مسٹر ڈونلڈ ٹرمپ نے بلاخر کا فی عرصہ سے متوقع افغان پالیسی کا اعلان کر دیا جس میں امریکہ کی جانب سے پاکستان پر مزید پابندیاں لگانے کا اشارہ دیا گیا تھا جو مارکیٹ کے شرکاء کے لئے مزید پریشانی کا باعث بنا۔ ادھر معاشی منظر نامہ میں، خام تیل کی بڑھتی ہوئی قیمتیں اور آئل اور ایل این جی کے ساتھ ساتھ صنعتی خام مال، ٹرانسپورٹ گاڑیوں اور مشینری کی بڑھتی ہوئی درآمدات کی بنا پر کرنٹ اکاؤنٹ کا خسارہ غیر روایتی سطح کی حد تک 18 ملین یو ایس ڈالر تک پہنچ گیا جو مارکیٹ میں تشویش کا بڑا سبب بنا۔ وسیع طلب کے دباؤ کو قابو کرنے کیلئے کئی اقدامات اٹھائے گئے جن میں پاکستانی روپے کی قدر میں کمی پر قابو، غیر ضروری درآمد شدہ اشیاء پر زیادہ اور وسیع حد تک ڈیوٹیز کا نفاذ اور شرح سود میں اضافہ شامل تھا۔ گرتے ہوئے غیر ملکی زرمبادلہ اور دستاویزی معیشت کو سہارا دینے کے لئے حکومت نے غیر ملکی اور ملکی اثاثہ جات ظاہر کرنے کی اسکیمیں متعارف کروائیں جو قابل توقع نتائج نہ دے سکیں۔

مالی سال میں 18 شعبہ جاتی کارکردگی کے لحاظ سے مارکیٹ میں آنل اینڈیگیس ایکسپلوریشن، فریٹلائز اور کمرشل بینک کے شعبہ جات کی کارکردگی بہت عمدہ رہی جب کہ سیمنٹ، ریفائنری، انجینئرنگ اور آٹوموبائل پارٹس اور ایسریز کے شعبہ بہت پیچھے رہے۔ غیر ملکی سرمایہ کار خالصتاً فروخت کنندہ رہے اور مذکورہ مدت میں 289 ملین یو ایس ڈالر کا سرمایہ ملک سے باہر گیا۔ مقامی سرمایہ کاروں میں انشورنس اور کمینیز بڑے خریدار رہے اور انہوں نے بالترتیب 204 ملین یو ایس ڈالر اور 100 ملین یو ایس ڈالر کے حصص حاصل کئے۔ دوسری طرف میوچل فنڈز خالص فروخت کنندہ رہے اور 35 ملین یو ایس ڈالر کے حصص فروخت ہوئے۔

NAFA فنانشل سیکٹر فنڈ کو اس سال کے دوران 16.64 ملین روپے کا مجموعی نقصان ہوا۔ 13.27 ملین روپے اخراجات منہا کرنے کے بعد خالص نقصان 29.91 ملین روپے رہا۔ NAFA فنانشل سیکٹر فنڈ (NFSF) کی ایسیٹ ایلوکیشن 30 جون 2018 کو بمطابق ذیل ہے:



آمدنی کی تقسیم

مذکورہ مالی سال میں فنڈ میں خالص نقصان کے سبب کوئی رقم تقسیم نہیں کی گئی۔

ٹیکسیشن

خالص نقصان کے سبب فنڈ کے مالیاتی گوشوارے میں ٹیکس کا کوئی پروویژن نہیں رکھا گیا۔

آڈیٹرز

موجودہ آڈیٹرز میسرز ایف فرگوسن اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس، ریشائر ہو گئے ہیں اور اہل ہونے کی بناء پر انہوں نے خود کو 30 جون 2019 کو ختم ہونے والے سال میں دوبارہ تقرر کیلئے

پیش کیا ہے۔

NAFA FINANCIAL SECTOR FUND

کوڈ آف کارپوریٹ گورننس پر عمل درآمد کے سلسلے میں ڈائریکٹرز کا اسٹیٹمنٹ

- 1- منجمنٹ کمپنی کی طرف سے تیار کردہ مالیاتی گوشوارے فنڈ کے معاملات کی کیفیت، اس کی کاروباری سرگرمیوں کے نتائج، کیش فلو اور یونٹ ہولڈرز فنڈ میں تبدیلی کی منصفانہ عکاسی کرتے ہیں۔
- 2- فنڈ کے اکاؤنٹس کے کھاتے درست انداز میں رکھے ہوئے ہیں۔
- 3- مالیاتی گوشواروں کی تیاری میں اکاؤنٹنگ کی مناسب پالیسیوں کی مسلسل پیروی کی گئی ہے۔ شماریاتی تخمینے مناسب اور معقول نظریات پر مبنی ہیں۔
- 4- ان مالیاتی گوشواروں کی تیاری میں مالیاتی رپورٹنگ کے بین الاقوامی معیاروں، جہاں تک وہ پاکستان میں قابل اطلاق ہیں، کی پیروی کی گئی ہے۔
- 5- انٹرنل کنٹرول کا نظام مستحکم اور مؤثر طریقے سے نافذ ہے اور اس کی مسلسل نگرانی کی جاتی ہے۔
- 6- فنڈ کی رواں دواں رہنے کی صلاحیت کے بارے میں کوئی شکوک و شبہات نہیں ہیں۔
- 7- لسٹنگ ریگولیشنز میں تفصیلاً درج کارپوریٹ گورننس کی اعلیٰ ترین روایات سے کوئی پہلو تہی نہیں کی گئی۔
- 8- پرفارمنس ٹیبل / اہم مالیاتی ڈیٹا اس سالانہ رپورٹ میں شامل ہے۔
- 9- ٹیکسوں، ڈیویڈنڈ، محصولات اور چارجز کی مد میں واجب الادا سرکاری ادائیگیاں مالیاتی گوشواروں میں پوری طرح ظاہر کر دی گئی ہیں۔
- 10- اس مدت کے دوران منجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز کے چار اجلاس منعقد ہوئے۔ تمام ڈائریکٹرز کی حاضری ان مالیاتی گوشواروں کے نوٹ 28 میں ظاہر کی گئی ہے۔
- 11- یونٹ ہولڈنگ کا تفصیلی پیٹرن مالیاتی گوشواروں کے نوٹ 24 میں ظاہر کیا گیا ہے۔
- 12- ڈائریکٹرز، CEO، CFO، کمپنی سیکرٹری اور ان کی شریک حیات اور کم عمر بچوں کی طرف سے کی جانے والی فنڈ کے یونٹس کی تمام خرید و فروخت ان مالیاتی گوشواروں کے نوٹ 19 میں ظاہر کی گئی ہے۔
- 13- کمپنی اپنے بورڈ آف ڈائریکٹرز میں غیر جانبدارانہ ایگزیکٹو ڈائریکٹرز کی نمائندگی کی حوصلہ افزائی کرتی ہے۔ کمپنی ایک غیر فہرست شدہ کمپنی ہونے کے ناطہ کوئی مائٹرائی انٹر سٹ نہیں رکھتی۔ 30 جون 2018 کو بورڈ آف ڈائریکٹرز درج ذیل ارکان پر مشتمل ہیں۔

نام	کیٹیگری
1- جناب کمال عامر چٹائے 2- جناب شہریار فاروق 3- جناب ہمایوں بشیر	غیر جانبدار ڈائریکٹرز
ڈاکٹر امجد وحید (چیف ایگزیکٹو آفیسر)	ایگزیکٹو ڈائریکٹرز
1- جناب مدر حسین خان (چیئر مین) 2- جناب طارق جمالی 3- جناب عبدالہادی بابیکر 4- جناب وجاہت رسول خان 5- ڈاکٹر فوشیہ شیونگ (کیلون فو)	نان ایگزیکٹو ڈائریکٹرز

اعتراف

بورڈ اس موقع کا فائدہ اٹھاتے ہوئے منجمنٹ کمپنی پر اعتماد، 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 اظہار تشکر کرتا ہے۔

بورڈ اپنے اسٹاف اور رٹسٹی کی طرف سے محنت، لگن اور عزم کے مظاہرے پر اپنا خراج تحسین بھی ریکارڈ پر لانا چاہتا ہے۔

منجانب بورڈ آف ڈائریکٹرز

NBP فنڈ منجمنٹ لمیٹڈ

ڈائریکٹر

چیف ایگزیکٹو

بتاریخ

05 ستمبر 2018ء

مقام: کراچی

NAFA FINANCIAL SECTOR FUND

TRUSTEE REPORT TO THE UNIT HOLDERS

Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V 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 Fund (the Fund) are of the opinion that NBP Fund Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the period from February 07, 2018 to June 30, 2018 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.

Aftab Ahmed Diwan
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi, September 13, 2018

NAFA FINANCIAL SECTOR FUND

FUND MANAGER REPORT

NAFA Financial Sector Fund is an Open-ended Equity Fund.

Investment Objective of the Fund

The objective of NAFA Financial Sector Fund is to provide investors with long term capital growth from an actively managed portfolio of listed equities belonging to the Financial Sector.

Benchmark

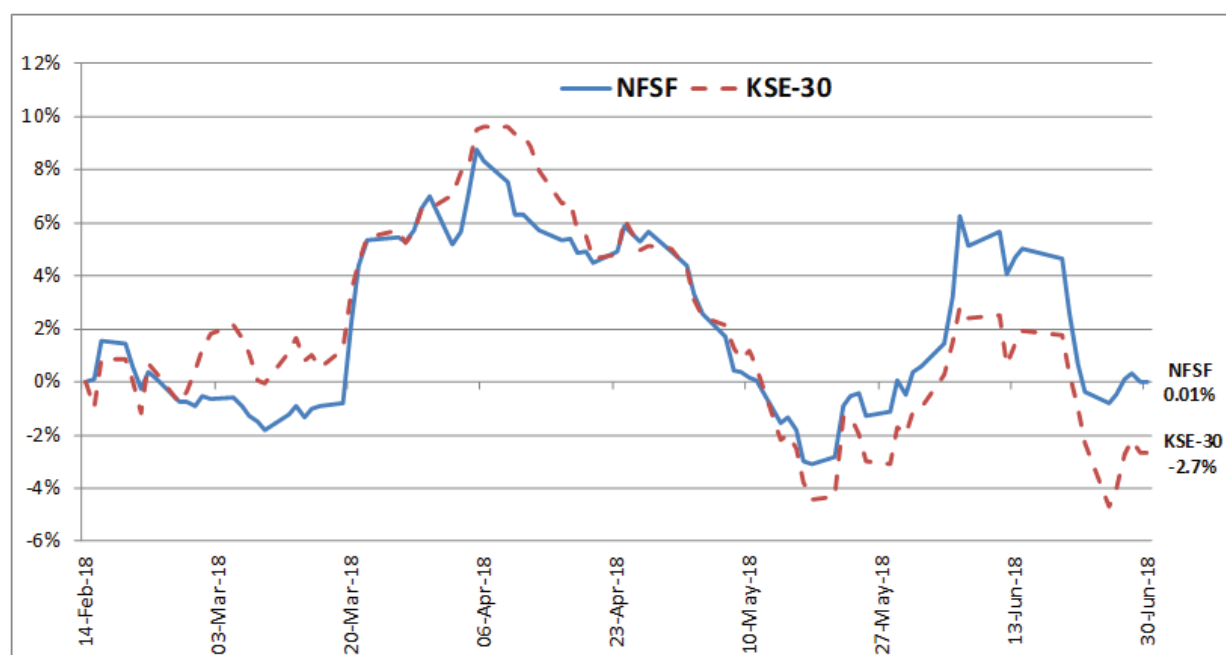
The Benchmark of the Fund is KSE-30 Index.

Fund Performance Review

This is the first annual report NAFA Financial Sector Fund since its launch on February 14, 2018. During the period NAFA Financial Sector Fund delivered 0.01% return as against KSE-30 index decreased by 2.68%, outperformed the market by 2.69% during the period. This performance is net of management fee and all other expenses. The size of NAFA Financial Sector Fund is Rs.1,036 million as of June 30, 2018.

NFSF outperformed during the year as the Fund was overweight in select Commercial Banks and Insurance sectors stocks which outperformed the market. The chart below shows the performance of NFSF against the Benchmark for the year.

NFSF Performance vs. Benchmark during FY18



FY2017-18 turned out to be a challenging year for the stock market with first negative return since 2009, as the benchmark KSE-100 Index dropped by 10% on a yearly basis. This lackluster performance, in sharp contrast to FY2010-17 period, in which market surged at a CAGR of 26.3%, is attributable to a host of factors. The upgrade of Pakistan's market to a widely followed MSCI Emerging Index from Frontier Market status failed to live up to expectations and unabated sell-off by the foreign investors during the year shook investors' confidence. Amplified uncertainty in the domestic politics linked to disqualification of elected PM in the historic judgments surrounding Panama Leaks Case, who was later on barred from politics for lifetime also unnerved the investors. Sit-in by some religious parties in the federal capital and uncertainty surrounding the elections also took its toll on the stock market. Market participants were also perturbed by the US Policy toward Afghanistan, signaling challenges for Pakistan.

NAFA FINANCIAL SECTOR FUND

On the economic front, twin deficits remained a challenge for the government. Current Account Deficit (CAD) sprang up to an unprecedented level of USD18bn during FY18 owing to rising crude oil prices and higher oil & LNG imports, rising imports of industrial raw material, transport vehicles, and machinery that remained a cause of grave concern for the market. To rein in aggregate demand pressures, series of steps were undertaken of late that included exchange rate adjustment, deepening and broadening of duties on non-essential imported items, and hike in interest rates. In a bid to shore up the dwindling Foreign exchange reserves and documentation of economy, the government also announced a much awaited Foreign & Domestic Assets Declaration Schemes that however, failed to live up to the expectations.

Asset Allocation of the Fund (% of NAV)

Particulars	30-Jun-18
Equities / Stocks	86.8%
Cash Equivalents	14.4%
Other Net Liabilities	-1.2%
Total	100.0%

Distribution for the Financial Year 2018

Due to net loss for the year, no distribution has been made.

Unit Holding Pattern of NAFA FINANCIAL SECTOR FUND as on June 30, 2018

Size of Unit Holding (Units)	# of Unit Holders
1-1000	16
1001-5000	35
5001-10000	26
10001-50000	65
50001-100000	33
100001-500000	58
500001-1000000	8
1000001-5000000	14
5000001-10000000	6
	261

During the period there has been no significant change in the state of affairs of the Fund, other than stated above. During the year there were no circumstances that materially affected any interests of the unit holders. The Fund does not have any soft commission arrangement with any broker in the industry.

Sindh Workers' Welfare Funds (SWWF)

Due to net loss for the year, no provision in respect of Sindh Worker's Welfare Fund has been made.

NAFA FINANCIAL SECTOR FUND

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of NAFA Financial Sector Fund (the Fund), which comprise the statement of assets and liabilities as at June 30, 2018, and the income statement, statement of comprehensive income, statement of movement in unit holders' fund and cash flow statement for the period from February 14, 2018 to June 30, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at June 30, 2018, and of its financial performance, its cash flows and transactions for the period from February 14, 2018 to June 30, 2018 in accordance with the accounting and reporting standards as applicable in Pakistan.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following are the key audit matters:

S. No.	Key Audit Matters	How the matter was addressed in our audit
1	<p>Amendments to NBFC Regulations, 2008</p> <p>(Refer note 3.11 to the annexed financial statements)</p> <p>During the current period, the Securities and Exchange Commission of Pakistan (the SECP) through its notification [SRO 756 (I) / 2017] dated August 3, 2017 has prescribed a new definition of element of income. As per the notification, the element of income is considered as a "capital contribution" and taken to the Statement of Movement in Unit Holders' Fund. Element of income is explained in note 3.11.</p> <p>The SECP notification also stipulates that the accounting income available for distribution as appearing in the "Income Statement" excludes income already paid on units redeemed during the period.</p> <p>The above matters are significant accounting and regulatory developments / events for the mutual fund industry affecting the financial statements for the current period and therefore we considered these developments as key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">understood the requirements of the SECP notification and made inquiries from the management in respect of their methodology for implementing the requirements with respect to recording of element of income.verified transactions on a test basis with the underlying records of the reports provided by the management to assess their compliance with the regulations.verified disclosures to ensure that these are in compliance with the applicable accounting and reporting framework.

NAFA FINANCIAL SECTOR FUND

S. No.	Key Audit Matters	How the matter was addressed in our audit
2	<p>Net Asset Value</p> <p>(Refer notes 4 and 5 to the annexed financial statements)</p> <p>The investments and bank balances constitute the most significant component of the net asset value (NAV). The investments of the Fund as at June 30, 2018 amounted to Rs 899.52 million and bank balances aggregated to Rs 142.33 million.</p> <p>The proper valuation of investments and bank balances for the determination of NAV of the Fund as at June 30, 2018 was considered a significant area and therefore we considered this as a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▪ tested the design and operating effectiveness of the key controls for valuation of investments. ▪ obtained independent confirmations for verifying the existence of the investment portfolio and bank balances as at June 30, 2018 and reconciled it with the books and records of the Fund. Where such confirmations were not available, alternate audit procedures were performed. ▪ re-performed valuation to assess that investments are carried as per the valuation methodology specified in the accounting policies. ▪ obtained approval of the Board of Directors of the management company in relation to opening of bank accounts. ▪ obtained bank reconciliation statements and tested reconciling items on a sample basis.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors of the Management Company for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting and reporting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Board of directors of the management company is responsible for overseeing the Fund's financial reporting process.

NAFA FINANCIAL SECTOR FUND

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with board of directors of the management company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide board of directors of the management company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with board of directors of the management company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion the financial statements have been prepared in all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The engagement partner on the audit resulting in this independent auditor's report is **Noman Abbas Sheikh**.

A.F. Ferguson & Co.
Chartered Accountants
Karachi
Date September 26, 2018:

NAFA FINANCIAL SECTOR FUND

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2018

	Note	June 30, 2018 Rupees in '000
Assets		
Bank balances	4	142,327
Investments	5	899,524
Interest receivable	6	486
Deposits and other receivable	7	2,948
Preliminary expenses and floatation costs	8	3,095
Total assets		1,048,380
Liabilities		
Payable to NBP Fund Management Limited - Management Company	10	11,200
Payable to the Central Depository Company of Pakistan Limited - Trustee	11	197
Payable to the Securities and Exchange Commission of Pakistan	12	333
Accrued expenses and other liabilities	13	760
Total liabilities		12,490
NET ASSETS		1,035,890
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		1,035,890
CONTINGENCIES AND COMMITMENTS	14	
NUMBER OF UNITS IN ISSUE	9	103,582,997
NET ASSET VALUE PER UNIT		--- Rupees --- 10.0006

The annexed notes from 1 to 30 form an integral part of these financial statements.

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA FINANCIAL SECTOR FUND

INCOME STATEMENT FOR THE PERIOD ENDED JUNE 30, 2018

For the period
from February
14, 2018 to June
30, 2018
Rupees in '000

Income	Note	
Interest income		3,018
Dividend income		18,913
Loss on sale of investments - net		(5,845)
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	5.2	(32,725)
		(38,570)
Total loss		(16,639)
Expenses		
Remuneration of NBP Fund Management Limited - Management Company	10.1	7,005
Sindh Sales Tax on remuneration of the Management Company	10.2	911
Accounting and operational expenses	10.3	350
Selling and marketing expenses	10.4	1,401
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	11.1	674
Sindh Sales Tax on remuneration of the Trustee	11.2	88
Annual fees to the Securities and Exchange Commission of Pakistan	12.1	333
Securities transaction cost		1,483
Auditors' remuneration	15	314
Amortisation of preliminary expenses and floatation costs	8	249
Annual listing fee		25
Printing charges		68
Legal and professional charges		47
Settlement and bank charges		323
Total operating expenses		13,271
Net loss from operating activities		(29,910)
Net loss for the period before taxation		(29,910)
Taxation	17	-
Net loss for the period after taxation		(29,910)
Earnings / (loss) per unit	18	
Allocation of net income for the period		
Net income for the period after taxation		-
Income already paid on units redeemed		-
		-
Accounting income available for distribution		
- Relating to capital gains		-
- Excluding capital gains		-
		-

The annexed notes from 1 to 30 form an integral part of these financial statements.

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA FINANCIAL SECTOR FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2018

**For the period
from February
14, 2018 to June
30, 2018
Rupees in '000**

Net loss for the period after taxation	(29,910)
Other comprehensive income / (loss) for the period	-
Total comprehensive loss for the period	<u><u>(29,910)</u></u>

The annexed notes from 1 to 30 form an integral part of these financial statements.

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA FINANCIAL SECTOR FUND

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS FOR THE PERIOD ENDED JUNE 30, 2018

For the period from February 14, 2018 to June 30, 2018

Rupees in '000

Issue of 144,300,888 units
 - Capital value (at net asset value per unit at the beginning of the period)
 - Element of income
 Total proceeds on issuance of units

Capital Value	Undistributed income / (loss)	Unrealised appreciation / (diminution) on 'available for sale' investments	Total
---------------	-------------------------------	--	-------

1,443,009	-	-	1,443,009
40,549	-	-	40,549
1,483,558	-	-	1,483,558

Redemption of 40,717,891 units
 - Capital value (at net asset value per unit at the beginning of the period)
 - Element of loss
 Total payments on redemption of units

(407,179)	-	-	(407,179)
(10,579)	-	-	(10,579)
(417,758)	-	-	(417,758)

Total comprehensive loss for the period
 Distribution during the period
 Net loss for the period less distribution

-	(29,910)	-	(29,910)
-	-	-	-
-	(29,910)	-	(29,910)

Net assets at end of the period

1,065,800	(29,910)	-	1,035,890
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Accounting income available for distribution
 - Relating to capital gains
 - Excluding capital gains

-
-

Net loss for the period after taxation

(29,910)

Distribution for the period

-

Undistributed loss carried forward

(29,910)

Undistributed loss carried forward

- Realised income
 - Unrealised loss

2,815
(32,725)
(29,910)

(Rupees)

Net assets value per unit at end of the period

10.0006

The annexed notes from 1 to 30 form an integral part of these financial statements.

For NBP Fund Management Limited
 (Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA FINANCIAL SECTOR FUND

CASH FLOW STATEMENT FOR THE PERIOD ENDED JUNE 30, 2018

		For the period from February 14, 2018 to June 30, 2018 Rupees in '000
CASH FLOWS FROM OPERATING ACTIVITIES	Note	
Net loss for the period before taxation		(29,910)
Adjustments for:		
Interest income		(3,018)
Amortisation of preliminary expenses and floatation costs	8	249
Dividend income		(18,913)
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'		32,725
		11,043
(Increase) in assets		
Investments		(932,249)
Deposits and other receivable		(2,948)
		(935,197)
Increase in liabilities		
Payable to NBP Fund Management Limited - Management Company		11,200
Payable to the Central Depository Company of Pakistan Limited - Trustee		197
Payable to the Securities and Exchange Commission of Pakistan		333
Accrued expenses and other liabilities		760
		12,490
		(941,574)
Floataction cost paid during the period		(3,344)
Dividend received		18,913
Interest received		2,532
Net cash used in operating activities		(923,473)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts from issuance of units		1,483,558
Net payments against redemption of units		(417,758)
Net cash generated from financing activities		1,065,800
Net increase in cash and cash equivalents		142,327
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period	4	142,327

The annexed notes from 1 to 30 form an integral part of these financial statements.

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA FINANCIAL SECTOR FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM FEBRUARY 14, 2018 TO JUNE 30, 2018

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Financial Sector Fund (the Fund) is an open ended mutual fund constituted under a Trust Deed entered into on January 10, 2018 between NBP Fund Management Limited as the Management Company and the Central Depository Company of Pakistan Limited (CDC) as the Trustee.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 7th floor, Clifton Diamond Building, Block 4, Scheme No. 5, Clifton, Karachi. The Management Company is a member of the Mutual Funds Association of Pakistan (MUFAP).

The Fund has been categorised as an open ended equity scheme by the Board of Directors of the Management Company pursuant to the provisions contained in Circular 7 of 2009 and is listed on the Pakistan Stock Exchange Limited. The units of the Fund were initially offered for public subscription at a par value of Rs 10 per unit. Thereafter, the units are being offered for public subscription on a continuous basis from February 7, 2018 and are transferable and redeemable by surrendering them to the Fund.

The objective of NAFA Financial Sector Fund is to provide investors with long term capital growth from an actively managed portfolio of listed equities belonging to the Financial Sector. The investment objectives and policies are explained in the Fund's offering document.

The Pakistan Credit Rating Agency (PACRA) has assigned an Asset Manager Rating of AM 1 as at June 30, 2018 (2017: AM1) to the Management Company. The Fund has not yet been rated.

The title to the assets of the Fund is held in the name of the Central Depository Company of Pakistan Limited (CDC) as the Trustee of the Fund.

As per the offering document approved by the SECP, the accounting period, in case of the first such period, shall commence from the date on which the trust property is first paid or transferred to the Trustee. Accordingly, these financial statements have been prepared from February 14, 2018 to June 30, 2018.

This is the first accounting period of the Fund and hence there are no comparative figures.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in conformity with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Provisions of and directives issued under the Companies Act, 2017 along with part VIIIA of the repealed Companies Ordinance, 1984; and
- 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 the requirements of the Trust Deed.

NAFA FINANCIAL SECTOR FUND

Where provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance 1984, the NBFC Rules, the NBFC Regulations and the requirements of the Trust Deed differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance 1984, the NBFC Rules, the NBFC Regulations and the requirements of the Trust Deed have been followed.

2.2 Standards, interpretations and amendments to published accounting and reporting standards that are effective in the current period

There are certain amended standards and interpretations that are mandatory for the Fund's accounting period beginning on or after July 1, 2017 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are, therefore, not disclosed in these financial statements.

2.3 Standards, interpretations and amendments to published accounting and reporting standards that are not yet effective

The following standards have been adopted in Pakistan and would be effective from the dates mentioned below against the respective standards:

Standard	Effective date (accounting periods beginning on or after)
- IFRS 9 - Financial Instruments	01 July 2018
- IFRS 15 - Revenue from Contracts with Customers	01 July 2018
- IFRS 16 - Leases	01 January 2019

These standards may impact the financial statements of the Fund on adoption. The Management is currently in the process of assessing the full impact of these standards on the financial statements of the Fund.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the accounting and reporting standards requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates, judgments and associated assumptions are based on historical experience and various other factors including expectations of future events that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The estimates and judgments that have a significant effect on the financial statements of the Fund relate to classification, valuation and impairment of financial assets (notes 3.3 and 5) and provision for taxation (notes 3.14 and 17).

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except that investments have been carried at fair values.

2.6 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates. These financial statements are presented in Pakistan Rupee, which is the Fund's functional and presentation currency.

NAFA FINANCIAL SECTOR FUND

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.2 Cash and cash equivalents

These comprise balances with banks in savings and current accounts, cheques in hand and other short-term highly liquid investments with original maturities of three months or less.

3.3 Financial assets

3.3.1 Classification

The management determines the appropriate classification of the financial assets of the Fund in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement' at the time of the purchase of the financial assets and re-evaluates this classification on a regular basis. The classification depends on the purpose for which the financial assets are acquired. The financial assets of the Fund are categorised as follows:

a) Financial assets at fair value through profit or loss

These are acquired principally for the purpose of generating profits from short-term fluctuations in prices.

b) Loans and receivables

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

c) Available-for-sale

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

3.3.2 Regular way contracts

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date on which the Fund commits to purchase or sell the asset. Regular way purchases / sales of assets require delivery of securities within two days from the transaction date as per the stock exchange regulations.

3.3.3 Initial recognition and measurement

Financial assets are recognised at the time the Fund becomes a party to the contractual provisions of the instruments. These 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 recognised in the Income Statement.

3.3.4 Subsequent measurement

Subsequent to initial recognition, financial assets are valued as follows:

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

NAFA FINANCIAL SECTOR FUND

Basis of valuation of equity securities

The investments of the Fund in equity securities are valued on the basis of closing quoted market prices available at the stock exchange. A security listed on the stock exchange is valued at the closing price determined by such exchange in accordance with its regulations.

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

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

b) Loans and receivables

These are carried at amortised cost using the effective interest method.

Gains or losses are recognised in the Income Statement through the amortisation process or when the financial assets carried at amortised cost are derecognised or impaired.

3.3.5 Impairment

The Fund assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 the recoverable amount.

a) Available-for-sale financial assets

Impairment loss on equity securities

A significant or prolonged decline in the fair value of the security below its cost is considered as an objective evidence of impairment. In case of impairment of available for sale securities, the cumulative loss previously recognised in other comprehensive income is removed therefrom and included in the Income Statement. Impairment losses recognised in the income statement on equity securities are only reversed when the equity securities are derecognised.

b) Loans and receivables

For financial assets classified as 'loans and receivables', a provision for impairment is established when there is an 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.

3.3.6 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. Any gain or loss on derecognition of financial assets is taken to the Income Statement.

3.4 Financial liabilities

Financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instruments. These are initially recognised at fair values and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Any gain or loss on derecognition of financial liabilities is taken to the Income Statement.

NAFA FINANCIAL SECTOR FUND

3.5 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the 'Statement of Assets and Liabilities' when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.6 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of the operations of the Fund. These costs are amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund.

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.

3.8 Net asset value per unit

The Net Asset Value (NAV) per unit as disclosed in the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the period end.

3.9 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the Management Company / distributors during business hours on that day. The offer price represents the Net Asset Value (NAV) per unit as of the close of the business day, plus the allowable sales load and provision of any duties and charges if applicable. The sales load is payable to the Management Company / distributors.

Units redeemed are recorded at the redemption price applicable to units for which the Management Company / distributors receive redemption application during business hours of that day. The redemption price is equal to NAV as of the close of the business day, less an amount as the Management Company may consider to be an appropriate provision of duties and charges.

3.10 Distributions to unit holders

Distributions to the unit holders are recognised upon declaration and approval by the Board of Directors of the Management Company. Based on the Mutual Funds Association of Pakistan's (MUFAP) guidelines duly consented by the SECP, distribution for the period also includes a portion of income already paid on units redeemed during the period.

Distributions declared subsequent to the period end reporting date are considered as non-adjusting events and are recognised in the financial statements of the period in which such distributions are declared and approved by the Board of Directors of the Management Company.

3.11 Element of income

Element of income represents the difference between net assets value per unit on the issuance or redemption date, as the case may be, of units and the net assets value per unit at the beginning of the relevant accounting period. The element of income is a transaction of capital nature and the receipt and payment of element of income is taken to unit holders' fund. However, to maintain the same ex-dividend net asset value of all units outstanding on the accounting date, net element of income contributed on issue of units lying in unit holders fund is refunded on units in the same proportion as dividend bears to accounting income available for distribution. MUFAP, in consultation with the SECP, has specified the methodology of determination of income paid on units redeemed during the year under which such income is paid on gross element received and is calculated from the latest date at which the Fund achieved net profitability during the year. Furthermore, the revised regulations also require certain additional disclosures with respect to 'Income Statement' (relating to allocation of net income for the year) and 'Statement of Movement in Unit Holders' Fund', whereas disclosure with respect to 'Distribution Statement' has been deleted in the revised regulations.

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3.12 Revenue recognition

- Gains / (losses) arising on sale of investments are recorded at the date at which the transaction takes place.
- Unrealised gains / (losses) arising on re-measurement of investments classified as 'financial assets at fair value through profit or loss' are recorded in the period in which these arise.
- Interest income on bank balances is recognised on an accrual basis.
- Dividend income is recognised when the right to receive the dividend is established.

3.13 Expenses

All expenses including management fee and trustee fee are recognised in the Income Statement on an accrual basis.

3.14 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 period, as reduced by capital gains, whether realised or unrealised, is distributed as cash dividend to 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.

3.15 Earnings / (loss) per unit

Loss per unit is calculated by dividing the net income / loss of the period before taxation of the Fund by the weighted average number of units outstanding during the period.

3.16 Foreign currency translation

Transactions denominated in foreign currencies are accounted for in Pakistan Rupees at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates for monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement.

			June 30, 2018 Rupees in '000
4	BANK BALANCES	Note	
	Balances with banks in:		
	Savings accounts	4.1	141,475
	Current accounts	4.2	852
			<u>142,327</u>
4.1	This includes balance of Rs 131.746 million maintained with BankIslami Pakistan Limited (a related party) that carries profit at 6.00% to 6.50% per annum. Other profit and loss sharing accounts of the Fund carry profit rates ranging from 2.75% to 6.60% per annum.		
4.2	This balance of Rs 0.852 million is maintained with Summit Bank Limited (a related party).		
5	INVESTMENTS	Note	June 30, 2018 Rupees in '000
	At fair value through profit or loss - held for trading		
	Quoted equity securities	5.1	899,524
			<u>899,524</u>

NAFA FINANCIAL SECTOR FUND

5.1 Investments in equity securities - listed

Shares of listed companies - fully paid up ordinary shares with a face value of Rs. 10 each unless stated other wise.

Name of the Investee Company	As at February 14, 2018	Acquired during the period	Bonus / Right shares during the period	Sold during the period	As at June 30, 2018	Market value as at June 30, 2018	Market value as a percentage of total investments	Market value as a percentage of net assets	Paid-up value of shares held as a percentage of total paid-up capital of
----- Number of shares held -----					pees in '00		----- Percentage -----		
COMMERCIAL BANKS									
Allied Bank Limited	-	731,000	-	-	731,000	75,403	8.38	7.28	0.06
Askari Bank Limited	-	2,155,000	-	112,500	2,042,500	44,669	4.97	4.31	0.16
Bank Alfalah Limited	-	2,821,000	-	589,500	2,231,500	116,685	12.97	11.26	0.14
Bank Al Habib Limited	-	1,585,500	-	385,500	1,200,000	94,596	10.52	9.13	0.11
Bank of Punjab	-	2,646,000	-	-	2,646,000	31,937	3.55	3.08	0.10
Faysal Bank Limited (Note 5.1.3)	-	2,750,500	289,875	765,500	2,274,875	59,147	6.58	5.71	0.15
Habib Bank Limited	-	1,030,300	-	185,100	845,200	140,675	15.63	13.58	0.06
Habib Metropolitan Bank Limited	-	1,921,500	-	251,500	1,670,000	72,395	8.05	6.99	0.16
MCB Bank Limited	-	656,900	-	234,600	422,300	83,518	9.28	8.06	0.04
National Bank of Pakistan	-	1,279,500	-	221,500	1,058,000	50,117	5.57	4.84	0.05
United Bank Limited	-	782,500	-	296,700	485,800	82,091	9.13	7.92	0.04
					-	851,233	94.63	82.16	
INSURANCE									
					-				
Adamjee Insurance Company Limited	-	991,000	-	-	991,000	48,291	5.37	4.66	0.28
						48,291	5.37	4.66	
Total as at June 30, 2018						899,524	100	87	
Carrying Value as at June 30, 2018						932,249			

5.1.2 Investments include shares with market value of Rs 206.996 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 the SECP.

5.1.3 The Finance Act, 2014 introduced amendments to the Income Tax Ordinance 2001 as a result of which companies are liable to withhold five percent of the bonus shares to be issued. The shares so withheld shall only be released if the fund deposits tax equivalent to five percent of the value of the bonus shares issued to the Fund including bonus shares withheld, determined on the basis of day-end price on the first day of closure of books of the issuing company.

In this regard, a constitutional petition has been filed by Collective Investment Schemes (CISs) through their Trustees in the High Court of Sindh, challenging the applicability of withholding tax provisions on bonus shares received by CISs, which is pending adjudication. The petition is based on the fact that because CISs are exempt from deduction of income tax under Clause 99 Part I of the Second Schedule to the Income Tax Ordinance 2001, the withholding tax provision should not be applicable on bonus shares received by CISs. A stay order has been granted by the High Court of Sindh in favour of CISs.

As at June 30, 2018, the following bonus shares of the Fund have been withheld by the investee company at the time of declaration of bonus shares. The Fund has included these shares in its portfolio as the management believes that the decision of the constitutional petition will be in favour of the CISs.

Name of the Company	2018	
	Bonus Shares	
	Number of shares withheld	Market value as at June 30, 2018
Rupees in '000		
Faysal Bank Limited	14,494	377
		377

NAFA FINANCIAL SECTOR FUND

		June 30, 2018 Rupees in '000
5.2	Unrealised diminution on re-measurement of investments classified as Financial assets at fair value through profit or loss	Note
	Market value of investments	5.1 899,524
	Carrying value of investments	5.1 (932,249)
		<u>(32,725)</u>

		June 30, 2018 Rupees in '000
6	INTEREST RECEIVABLE	
	Interest accrued on bank balances	<u>486</u>

7	DEPOSITS AND OTHER RECEIVABLE	
	Security deposit with Central Depository Company of Pakistan Limited	100
	Security deposit with National Clearing Company of Pakistan Limited	2,500
	Advance tax	7.1 348
		<u>2,948</u>

- 7.1** As per clause 47(B) of part IV of the Second Schedule to the Income Tax Ordinance, 2001, payments made to collective investment schemes (CISs) are exempt from withholding tax under section 151 and 150. However, during the period ended June 30, 2018, withholding tax on dividend and profit on bank deposits paid to the Fund was deducted by various withholding agents based on the interpretation issued by FBR vide letter C. no. 1(43) DG (WHT)/2008-VOL.II-66417-R dated 12 May 2015 which requires every withholding agent to withhold income tax at applicable rates in case a valid exemption certificate under section 159(1) issued by the concerned Commissioner of Inland Revenue (CIR) is not produced before him by the withholder. The tax withheld on dividends and profit on bank deposits amounts to Rs 0.348 million.

For this purpose, the Mutual Funds Association of Pakistan (MUFAP) on behalf of various mutual funds (including the Funds being managed by the Management Company) had filed a petition in the Honourable Sindh High Court (SHC) challenging the above mentioned interpretation of the Federal Board of Revenue (FBR) which was decided by the SHC in favour of FBR. On January 28, 2016, the Board of Directors of the Management Company passed a resolution by circulation, authorising all CISs to file an appeal in the Honourable Supreme Court through their Trustees, to direct all persons being withholding agents, including share registrars and banks to observe the provisions of clause 47B of Part IV of the Second Schedule to the Income Tax Ordinance, 2001 without imposing any conditions at the time of making any payment to the CISs being managed by the Management Company. Accordingly, a petition was filed in the Supreme Court of Pakistan by the Funds together with other CISs (managed by the Management Company and other Asset Management Companies) whereby the Supreme Court granted the petitioners leave to appeal from the initial judgement of the SHC. Pending resolution of the matter, the amount of withholding tax deducted on profit received by the Fund on dividends and profit on debt has been shown as other receivables as at June 30, 2018 as, in the opinion of the management, the amount of tax deducted at source will be refunded.

		June 30, 2018 Rupees in '000
8	PRELIMINARY EXPENSES AND FLOATATION COSTS	
	Preliminary expenses and floatation costs incurred	3,344
	Less: amortisation during the period	249
	At the end of the period	8.1 <u>3,095</u>

- 8.1** Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund and the Non-Banking Finance companies and Notified Entities Regulation, 2008.

NAFA FINANCIAL SECTOR FUND

		June 30, 2018
		Number of Units
9	NUMBER OF UNITS IN ISSUE	
	Units issued during the period	144,300,888
	Less: units redeemed during the period	40,717,891
	Total units in issue at the end of the period	<u>103,582,997</u>
		June 30, 2018
		Rupees in '000
10	PAYABLE TO NBP FUND MANAGEMENT LIMITED - MANAGEMENT COMPANY	Note
	Management fee payable	10.1 1,843
	Sindh Sales Tax payable on remuneration of the Management Company	10.2 240
	Accounting and operational charges payable	10.3 350
	Selling and marketing expenses payable	10.4 1,401
	Sales load and transfer load payable	1,210
	Sindh Sales Tax payable on sales load and transfer load	157
	Other payable	5,999
		<u>11,200</u>
10.1	As per the amendments made in the NBFC Regulations, 2008 vide SRO 1160(1)/2015 dated 25 November 2015, the Management Company is entitled to a remuneration equal to an amount not exceeding 2% of the average annual net assets in case of equity schemes. Keeping in view the maximum allowable threshold, the Management Company has charged its remuneration at the rate of 2% per annum of the average net assets of the Fund during the period ended 30 June 2018. The remuneration is payable to the Management Company monthly in arrears.	
10.2	During the period, an amount of Rs. 0.911 million was charged on account of sales tax on management fee levied through Sindh Sales Tax on Services Act, 2011, and an amount of Rs. 0.671 million has been paid to the Management Company which acts as a collecting agent.	
10.3	In accordance with Regulation 60 of the NBFC Regulations, the Management Company has charged expenses at the rate of 0.1% of the average net assets of the Fund being lower than actual expenses chargeable to the Fund for the period.	
10.4	The SECP vide circular 40 of 2016 dated December 30, 2016 (later amended vide circular 05 of 2017 dated February 13, 2017 and circular 5 of 2018 dated June 4, 2018) has allowed the Asset Management Companies to charge selling and marketing expenses to all categories of open-end mutual funds (except fund of funds and money market funds) initially for three years (from January 1, 2017 till December 31, 2019). The maximum cap of selling and marketing expenses shall be 0.4% per annum of the net assets of the fund or actual expenses whichever is lower. Accordingly, the Management Company has charged selling and marketing expenses amounting to Rs. 1.401 million at the rate of 0.4% of the net assets of the Fund being lower than actual expenses chargeable to the Fund for the period.	
11	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	Note
	Trustee fee payable	11.1 174
	Sindh Sales Tax payable on trustee fee	11.2 23
		<u>197</u>
11.1	The Trustee is entitled to monthly remuneration for services rendered to the Fund under the provisions of the trust deed as follows:	

NAFA FINANCIAL SECTOR FUND

On net assets:

- up to Rs 1,000 million
- over Rs 1,000 million

Rs 0.7 million or 0.2% per annum of net assets, whichever is higher.

Rs 2 million plus 0.1% per annum of net assets exceeding Rs 1,000 million.

- 11.2** During the period, an amount of Rs 0.088 million was charged on account of sales tax on remuneration of the Trustee levied through the Sindh Sales Tax on Services Act, 2011 and an amount of Rs. 0.065 million was paid to the Trustee which acts as a collecting agent.

12	PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	Note	June 30, 2018 Rupees in '000
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Annual fee payable	12.1	<u>333</u>
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- 12.1** In accordance with the NBFC Regulations, 2008, a collective investment scheme classified as an equity scheme is required to pay to the Securities and Exchange Commission of Pakistan an amount equal to 0.095% of the average annual net assets of the Fund as annual fee.

13	ACCRUED EXPENSES AND OTHER LIABILITIES		June 30, 2018 Rupees in '000
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Auditors' remuneration payable		260
Printing charges payable		71
Brokerage payable		147
Legal and professional charges payable		40
Withholding tax payable		17
Capital gain tax payable		63
Bank charges payable		50
Settlement charges payable		<u>112</u>
		<u>760</u>

14 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2018.

15 AUDITORS' REMUNERATION

Annual audit fee		108
Fee for other certifications		129
Out of pocket expenses		<u>77</u>
		<u>314</u>

16 TOTAL EXPENSE RATIO

The Total Expense Ratio (TER) of the Fund as at June 30, 2018 is 1.41% which includes 0.14% representing government levies on the Fund such as provision for sales taxes, federal excise duties, annual fee to the SECP, etc. This ratio is within the maximum limit of 4% prescribed under the NBFC Regulations for a collective investment scheme categorised as an equity scheme.

17 TAXATION

The income of the Fund is exempt from income tax under clause (99) of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the period as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders as cash dividend. Furthermore, as per Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute not less than 90% of its accounting income for the period derived from sources other than capital gains as reduced by such expenses as are chargeable thereon to the unitholders. The Fund has not recorded any tax liability as the Fund has incurred a net loss during the period.

NAFA FINANCIAL SECTOR FUND

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.

18 EARNINGS / (LOSS) PER UNIT

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

19 TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

19.1 Connected persons include NBP Fund Management Limited being the Management Company, the Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan (NBP) and other collective investment schemes managed by the Management Company, any entity in which the Management Company, its CISs or their connected persons have material interest, any person or company beneficially owning directly or indirectly ten percent or more of the capital of the Management Company or the net assets of the Fund, directors and their close family members and key management personnel of the Management Company.

19.2 Transactions with connected persons are executed on an arm's length basis and essentially comprise sale and redemption of units, fee on account of managing the affairs of the Fund, sales load, other charges and distribution payments to connected persons. The transactions with connected persons are in the normal course of business, at contracted rates and at terms determined in accordance with market rates.

19.3 Remuneration to the Management Company of the Fund is determined in accordance with the provisions of the NBFC Regulations, 2008 and the Trust Deed.

19.4 Remuneration to the Trustee of the Fund is determined in accordance with the provisions of the NBFC Regulations, 2008 and the Trust Deed.

19.5 Details of the transactions with related parties / connected persons during the period are as follows:

**For the
period from
February 14,
2018 to June
30, 2018
Rupees in '000**

NBP Fund Management Limited - Management Company

Remuneration for the period	7,005
Sindh Sales Tax on remuneration of Management Company	911
Units issued during the year 5,082,172 units	54,385
Units redeemed during the year 702,748 units	7,000
Expense paid by the Management Company on behalf of the Fund	
- Preliminary expenses and floatation costs	3,344
- Initial deposit on opening of bank accounts	30
- Listing fee	25
- Security deposit paid to National Clearing Company of Pakistan Limited	2,500
- Security deposit paid to Central Depository Company of Pakistan Limited	100
Preliminary expenses and floatation costs - amortisation	249
Selling and marketing expense	1,401
Accounting and operational charges	350

Central Depository Company of Pakistan Limited - Trustee

Remuneration for the period	674
Sindh Sales Tax on remuneration	88

NAFA FINANCIAL SECTOR FUND

For the
period from
February 14,
2018 to June
30, 2018
Rupees in '000

Employees of the Management Company

Units issued during the period 898,487 units	9,072
Units redeemed during the period 259,566 units	2,683

Humayun Bashir - Director

Units issued during the period 2,647,103 units	26,659
Units redeemed during the period 2,135,180 units	21,500

National Bank of Pakistan - Parent Company

Shares purchased - 1,279,500 shares	64,853
Shares sold - 221,500 shares	10,446

Common Directorship

Summit Bank Limited

Units issued during the period 1,997,483 units	20,000
Units redeemed during the period 1,997,483 units	20,052

Gul Ahmed Textile Mills Limited Employee Provident Fund Trust

Units issued during the period 2,329,810 units	23,311
Units redeemed during the period 1,164,905 units	11,651

Service Sales Corporation Provident Fund Trust

Units issued during the period 237,980 units	2,500
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Taurus Securities Limited

Brokerage expense	86
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BankIslami Pakistan Limited

Profit income	2,784
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19.6 Amounts / balances outstanding as at period end

NBP Fullerton Asset Management Limited - Management Company

Remuneration payable to the Management Company	1,843
Sindh Sales Tax on remuneration of Management Company	240
Sales load payable	1,210
Sindh Sales Tax payable on sales load and transfer load	157
Selling and marketing expenses payable	1,401
Other payable	
- Preliminary expenses and floatation costs	3,344
- Initial deposit on opening of bank accounts	30
- Listing fee	25
- Security deposit paid to National Clearing Company of Pakistan Limited	2,500
- Security deposit paid to Central Depository Company of Pakistan Limited	100
Accounting and operational charges payable	350
Units held 4,379,424 units	43,797

NAFA FINANCIAL SECTOR FUND

For the
period from
February 14,
2018 to June
30, 2018
Rupees in '000

Central Depository Company of Pakistan Limited - Trustee

Trustee fee payable	174
Sindh Sales Tax payable on trustee fee	23

Employees of the Management Company

Units held 638,921 units	6,390
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Humayun Bashir - Director

Units held 511,923 units	5,120
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National Bank of Pakistan - Parent Company

Shares held - 1,058,000 shares	50,117
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Common Directorship

Gul Ahmed Textile Mills Limited Employee Provident Fund Trust

Units held 1,164,905 units	11,650
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Service Sales Corp. Provident Fund Trust

Units held 237,980 units	2,380
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BankIslami Pakistan Limited

Bank balances	131,746
Profit receivable	459

Summit Bank Limited

Bank balances	852
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Taurus Securities Limited - Subsidiary of Parent Company

Brokerage payable	28
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19.7 Other balances due to / from related parties / connected persons are included in the respective notes to the financial statements.

20 FINANCIAL INSTRUMENTS BY CATEGORY

	June 30, 2018			
	Loans and receivables	At fair value through profit or loss	Available-for- sale	Total
	Rupees in '000			
Financial assets				
Bank balances	142,327	-	-	142,327
Investments	-	899,524	-	899,524
Interest receivable	486	-	-	486
Deposits and other receivable	2,600	-	-	2,600
	<u>145,413</u>	<u>899,524</u>	<u>-</u>	<u>1,044,937</u>

NAFA FINANCIAL SECTOR FUND

	----- June 30, 2018 -----		
	At fair value through profit or loss	At amortised cost	Total
	----- Rupees in '000 -----		
Financial liabilities			
Payable to NBP Fund Management Limited - Management Company	-	11,200	11,200
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	197	197
Accrued expenses and other liabilities	-	568	568
	<u>-</u>	<u>11,965</u>	<u>11,965</u>

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up to be performed based on limits established by the Management Company, the constitutive documents of the Fund and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that the Fund is willing to accept. The Board of Directors of the Management Company supervises the overall risk management approach within the Fund. The Fund is exposed to market risk, liquidity risk and credit risk arising from the financial instruments it holds.

21.1 Market risk

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

The Management Company manages the market risk through diversification of the investment portfolio and by following the internal guidelines established by the Investment Committee.

Market risk comprises of three types of risks: yield / profit rate risk, currency risk, and price risk.

(i) Yield / interest rate risk

Yield / interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. As of June 30, 2018, the Fund is exposed to such risk on its balances held with banks. The Investment Committee of the Fund reviews the portfolio of the Fund on a regular basis to ensure that the risk is managed within the acceptable limits.

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds balances with banks which expose the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in applicable rates on the last repricing date with all other variables held constant, the net loss for the year and net assets of the Fund would have been higher / lower by Rs. 0.005 million.

b) Sensitivity analysis for fixed rate instruments

As at 30 June 2018, the Fund does not hold any fixed rate instrument that may expose the Fund to fair value interest rate risk.

The composition of the Fund's investment portfolio, KIBOR rates and the rates announced by the Financial Markets Association of Pakistan are expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2018 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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

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The Fund's interest rate sensitivity related to financial assets and financial liabilities as at June 30, 2018 can be determined as follows:

----- June 30, 2018 -----						
Effective interest rate (%)	Exposed to yield / interest rate risk			Not exposed to yield / interest rate risk	Total	
	Up to three months	More than three months and up to one year	More than one year			
----- Rupees in '000 -----						
Financial assets						
Bank balances	2.75% - 6.60%	141,475	-	-	852	142,327
Investments		-	-	-	899,524	899,524
Interest receivable		-	-	-	486	486
Deposits and other receivable		-	-	-	2,600	2,600
		141,475	-	-	903,462	1,044,937
Financial liabilities						
Payable to NBP Fund Management Limited - Management Company		-	-	-	11,200	11,200
Payable to the Central Depository Company of Pakistan Limited - Trustee		-	-	-	197	197
Accrued expenses and other liabilities		-	-	-	568	568
		-	-	-	11,965	11,965
On-balance sheet gap		141,475	-	-	891,497	1,032,972
Total interest rate sensitivity gap		141,475	-	-		
Cumulative interest rate sensitivity gap		141,475	-	-		

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Fund does not have any financial instruments in foreign currencies and hence is not exposed to such risk.

(iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund is exposed to equity price risk on investments held by the Fund and classified as 'at fair value through profit or loss'. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks prescribed in the Trust Deed. The NBFC Regulations also limit individual equity securities to no more than 20% of net assets. There is no sector exposure limit on sector specific fund under NBFC Regulations.

In case of 5% increase / decrease in KSE 30 index on June 30, 2018, with all other variables held constant, the total comprehensive income of the Fund for the year would increase / decrease by Rs. 44.98 million and the net assets of the Fund would increase / decrease by the same amount as a result of gains / losses on equity securities classified as financial assets at fair value through profit or loss.

NAFA FINANCIAL SECTOR FUND

The analysis is based on the assumption that equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 30 Index, having regard to the historical volatility of the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE 30 Index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2018 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of the KSE 30 Index.

21.2 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous to the Fund.

The Fund is exposed to daily settlement of equity securities and daily redemptions at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions. The Fund's policy is, therefore, to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

As per the NBFC Regulations, 2008, the Fund can borrow in the short-term to ensure settlement the maximum limit of which is fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund.

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any redemptions during the period.

The table below summaries the maturity profile of the Fund's financial instruments. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates. However, the assets and liabilities that are receivable / payable on demand including bank balances have been included in the maturity grouping of one month:

	June 30, 2018						
	Within 1 month	More than one month and upto three months	More than three months and upto one year	More than one year and upto five years	More than 5 years	Financial instruments with no fixed maturity	Total
	Rupees in '000						
Financial assets							
Bank balances	142,327	-	-	-	-	-	142,327
Investments	899,524	-	-	-	-	-	899,524
Interest receivable	486	-	-	-	-	-	486
Deposits and other receivable	2,600	-	-	-	-	-	2,600
	1,044,937	-	-	-	-	-	1,044,937
Financial liabilities							
Payable to NBP Fund Management Limited - Management Company	11,200	-	-	-	-	-	11,200
Payable to the Central Depository Company of Pakistan - Trustee	197	-	-	-	-	-	197
Accrued expenses and other liabilities	568	-	-	-	-	-	568
	11,965	-	-	-	-	-	11,965
Net assets	1,032,972	-	-	-	-	-	1,032,972

NAFA FINANCIAL SECTOR FUND

21.3 Credit risk

21.3.1 There is a possibility of default by participants or failure of the financial market / stock exchanges, the depositories, the settlements or clearing systems, etc. Settlement risk on equity securities is considered minimal because of inherent controls established in the settlement process. The Fund's policy is to enter into financial contracts in accordance with internal risk management policies and instruments guidelines approved by the Investment Committee.

21.3.2 Credit quality of financial assets

The Fund's significant credit risk (excluding credit risk relating to settlement of equity securities) arises mainly on account of its placements in banks and mark-up accrued thereon. The credit rating profile of balances with banks are as follows:

Rating	% of financial assets exposed to credit risk 2018
AAA	0.26
AA+	0.32
AA-	0.35
A+	12.61
A-	0.08
	<u>14.00</u>

22 FAIR VALUE MEASUREMENT

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.

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

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the statement of assets and liabilities date. The estimated fair value of all other financial assets and liabilities is considered not to be significantly different from the respective book values.

Fair value hierarchy

International Financial Reporting Standard 13, 'Fair Value Measurement' requires the Fund to classify assets using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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 (i.e. as prices) or indirectly (i.e. derived from prices); and

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

As at June 30, 2018, the Fund held the following financial instruments measured at fair values:

NAFA FINANCIAL SECTOR FUND

Financial assets

At fair value through profit or loss

June 30, 2018		
Level 1	Level 2	Level 3
Rupees in '000		
899,524	-	-
899,524	-	-

23 UNIT HOLDERS' FUND RISK MANAGEMENT

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

The Fund has no restriction on the subscription and redemption of units. As required under the NBFC Regulations, 2008 every open end scheme shall maintain fund size (i.e. net assets of the Fund) of Rs 100 million at all times during the life of the scheme. The Fund has historically maintained and complied with the requirement of minimum fund size at all times.

The Fund's objectives when managing unit holders' funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns to the unit holders and to maintain a strong base of assets to meet unexpected losses or opportunities.

In accordance with the risk management policies as stated in note 21, the Fund endeavours to invest the subscriptions received in appropriate investment avenues while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by disposal of investments or short-term borrowings, where necessary.

24 UNIT HOLDING PATTERN OF THE FUND

Category

Associated companies
Directors
Individuals
Retirement funds
Others

June 30, 2018		
Number of unit holders	Investment amount (Rupees)	Percentage of total
1	43,797	4.23
1	5,120	0.49
234	458,465	44.26
7	112,226	10.83
18	416,282	40.19
261	1,035,890	100

25 LIST OF TOP TEN BROKERS BY PERCENTAGE OF COMMISSION PAID

Name of broker

Taurus Securities Limited
Arif Habib Securities Limited
Topline Securities Private Limited
BIPL Securities Limited
EFG Hermes Securities Private Limited
Alfalsh Securities Private Limited
Optimus Capital Management Limited
Elixir Securities Pakistan Private Limited
Next Capital Limited
J.S. Global Capital Limited

2018
Percentage of commission paid
7.11
6.08
4.72
4.14
4.11
4.03
3.79
3.61
3.58
3.47

NAFA FINANCIAL SECTOR FUND

26 DETAILS OF MEMBERS OF THE INVESTMENT COMMITTEE

Following are the details in respect of members of the Investment Committee of the Fund:

Name	Designation	Qualification	Overall experience
Dr. Amjad Waheed	Chief Executive Officer	MBA / Doctorate in Business Administration / CFA	30
Sajjad Anwar	Chief Investment Officer	CFA / MBA	18
Muhammad Ali Bhaba	Head of Fixed Income	CFA / MBA / FRM / MS	23
Hassan Raza	Head of Research	ACCA / BSC / CFA	7
Taha Khan Javed	Fund Manager	MBA / CFA	12

27 NAME AND QUALIFICATION OF THE FUND MANAGER

Name	Designation	Qualification	Other Funds managed by the Fund Manager
Taha Khan Javed	Fund Manager	MBA / CFA	NAAF, NMAF, NSF, NIEF, NIAAF, NIAAEF

28 MEETINGS OF BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

The 66th and 67th Board meetings were held on February 22, 2018 and April 30, 2018, respectively. Information in respect of attendance by directors in the meetings is given below:

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
Mudassir Husain Khan	2	2	-	-
Tariq Jamali	2	1	1	67th
Abdul Hadi Palekar	2	2	-	-
FOO Chiah Shiung (Kelvin Foo)	2	2	-	-
Kamal Amir Chinoy	2	2	-	-
Shehryar Faruque	2	2	-	-
Humayun Bashir	2	2	-	-
Wajahat Rasul Khan [note 28.1]	-	-	-	-
Dr. Amjad Waheed	2	2	-	-

28.1 Wajahat Rasul Khan appointed as director on the Board in 67th Board meeting with effect from April 30, 2018.

29 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 05, 2018.

30 GENERAL

Figures have been rounded off to the nearest thousand Rupee unless otherwise stated.

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

NAFA FINANCIAL SECTOR FUND

PERFORMANCE TABLE

Particulars	For the period from February 14, 2018 to June 30, 2018
Net assets at the year / period ended (Rs '000)	1,035,890
Net income for the year / period ended (Rs '000)	(29,910)
Net Asset Value per unit at the year / period ended (Rs)	10.0006
Offer Price per unit	10.3397
Redemption Price per unit	10.0006
Ex - Highest offer price per unit (Rs.)	11.2451
Ex - Lowest offer price per unit (Rs.)	10.0000
Ex - Highest redemption price per unit (Rs.)	10.8764
Ex - Lowest redemption price per unit (Rs.)	9.6907
Opening Nav of Fiscal Year	10.0000
Total return of the fund	0.01%
Capital growth	0.01%
Income distribution as a % of e x nav	
Income distribution as a % of par value	
Distribution	
Interim distribution per unit	-
Final distribution per unit	-
Distrubution Dates	
Interim	
Final	
Average annual return of the fund (launch date February 14, 2018) (Since inception to June 30, 2018)	0.02%
Portfolio Composition (Please see Fund Manager Report)	
<i>Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up</i>	

NAFA FINANCIAL SECTOR FUND

PROXY ISSUED BY THE FUND

The proxy voting policy of **NAFA Financial Sector Fund**, duly approved by Board of Directors of the Management Company, is available on the website of NBP Fund Management Limited i.e. www.nbpfunds.com. A detailed information regarding actual proxies voted by the Management Company in respect of the fund is also available without charge, upon request, to all unit holders.

The details of summarized proxies voted are as follows:

NAFA FINANCIAL SECTOR FUND				
	Resolutions	For	Against	Abstain*








Number	3	3	Nil	N/A
(%)	100%	100%	-	-



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