



**NBP FUNDS**

Managing Your Savings

Islamic Savings

Aitemaad اعتماد



اسلامک سیونگز

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND-II

**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 ISLAMIC PRINCIPAL PROTECTED FUND - II

## 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 Shahr-e-Faisal, Karachi.

### Bankers to the Fund

Bank Alfalah Limited  
Habib Bank Limited  
United Bank Limited  
Meezan Bank Limited  
Sindh Bank Limited  
Bank Al Habib Limited  
Soneri Bank Limited  
Allied Bank Limited  
JS Bank Limited

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## **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](http://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

## Contents

DIRECTORS' REPORT	05
TRUSTEE REPORT TO THE UNIT HOLDERS	10
FUND MANAGER REPORT	11
STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES	13
REPORT OF THE SHARIAH ADVISOR	14
INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS	16
STATEMENT OF ASSETS AND LIABILITIES	19
INCOME STATEMENT	20
STATEMENT OF COMPREHENSIVE INCOME	21
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND	22
CASH FLOW STATEMENT	23
NOTES TO THE FINANCIAL STATEMENTS	24
PERFORMANCE TABLE	43
PROXY ISSUED BY THE FUND	44

# Board of Directors



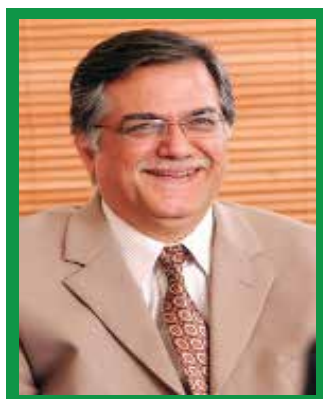
Dr. Amjad Waheed, CFA  
Chief Executive Officer



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 ISLAMIC PRINCIPAL PROTECTED FUND - II

## DIRECTORS' REPORT

The Board of Directors of NBP Fund Management Limited is pleased to present the Fifth Annual Report of **NAFA Islamic Principal Protected Fund - II (NIPPF-II)** for the year ended June 30, 2018.

NAFA launched its second open-end Islamic capital protected fund on June 27, 2014, namely NAFA Islamic Principal Protected Fund (NIPPF-II). The aim of the Fund is to provide growth to the investment of Unit holders over the long-term in approved Shariah compliant equities and money market instruments while protecting initial investment value at Initial Maturity date, which is two years from launch date. The Fund is presently closed for new subscription.

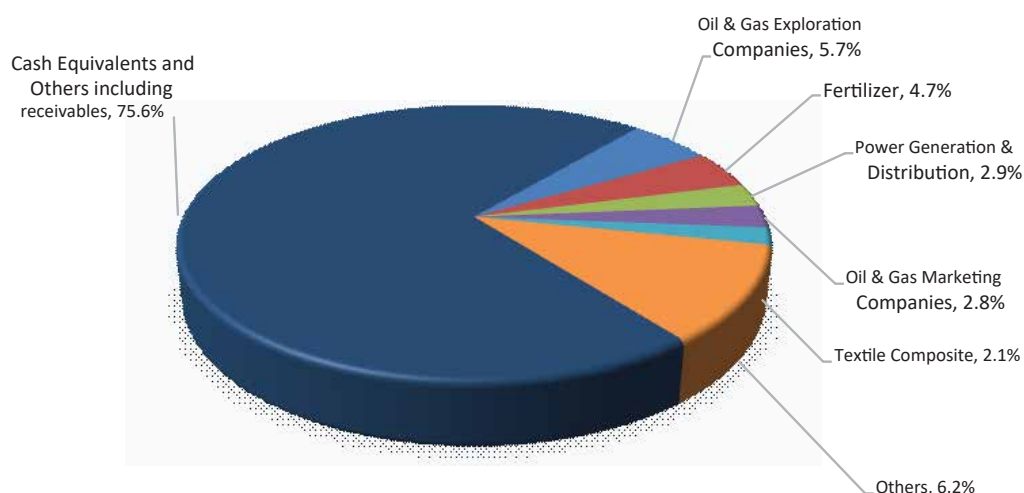
### Fund's Performance

The size of NAFA Islamic Principal Protected Fund - II has decreased from 142 million on June 30, 2017 to Rs. 127 million on June 30, 2018. During the period, the unit price of NAFA Islamic Principal Protected Fund - II has increased from Rs. 101.5691 (Ex-Div) on June 30, 2017 to Rs. 102.3781 on June 30, 2018, thus showing an increase of 0.8%. The Benchmark return during the same period was 1.57%. Thus, the Fund has underperformed its Benchmark by 0.77% during the period under review. Since inception (June 27, 2014), NIPPF-II has risen by 58.82%, whereas the Benchmark has increased by 44.54%, thus to date out-performance is 14.28%. This performance is net of management fee and all other expenses.

FY2017-18 proved a challenging year for the stock market as the benchmark KMI-30 Index dropped by 9.6%. 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 USD35 million.

The Fund has earned a total income of Rs. 8.25 million during the year. After deducting total expenses of Rs. 7.27 million, the net income is Rs.0.98 million. The asset allocation of the Fund as on June 30, 2018 is as follows:





# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## Income Distribution

The Management Company has approved cash dividend of 0.80% of opening ex-NAV (0.81% of the par value) subsequent to the year end.

## Taxation

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

## Auditors

The present auditors Messrs A.F. Ferguson & Co. Chartered Accountants, has completed their -five year tenure in the capacity of Auditor of the Fund. As per the requirement of Regulation 38(2)(h) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, their replacement would be required. The Board has approved the appointment of Messrs KPMG Taseer Hadi, Chartered Accountant, for the year ending 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.

A performance table/ key financial data is given in this annual report.

- 8.
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 27 to these financial statements.

The detailed pattern of unit holding is disclosed in the note 23 to these financial statements.

- 11.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 18 to these financial statements.
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:

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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

## ڈائریکٹرز رپورٹ

این بی پی فنڈ منجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز NAFA اسلامک پرنسپل پروٹیکٹڈ فنڈ II- (NIPPF-II) کی پانچویں سالانہ رپورٹ برائے سال ختمہ 30 جون 2018ء پیش کرتے ہوئے مسرت محسوس کر رہے ہیں۔

NAFA نے 27 جون 2014 کو اسلامک پرنسپل پروٹیکٹڈ فنڈ II- (NIPPF-II) کے نام سے اپنا دوسرا اوپن اینڈ اسلامک کیپیٹل پروٹیکٹڈ فنڈ لانچ کیا۔ اس فنڈ کا مقصد یونٹ ہولڈر کی سرمایہ کاری کو منظور شدہ شریعہ کمپلائنسٹ ایکویٹی شیئر اور منی مارکیٹ ایسٹریٹجی میں طویل مدتی مواقع فراہم کرنا، جب کہ ان کی ابتدائی سرمایہ کاری کو ابتدائی میچورٹی کی تاریخ تک تحفظ فراہم کرنا ہے، جو لانچ کی تاریخ سے دو سال ہے۔ یہ فنڈ فی الوقت نئے اندراج کے لیے بند ہے۔

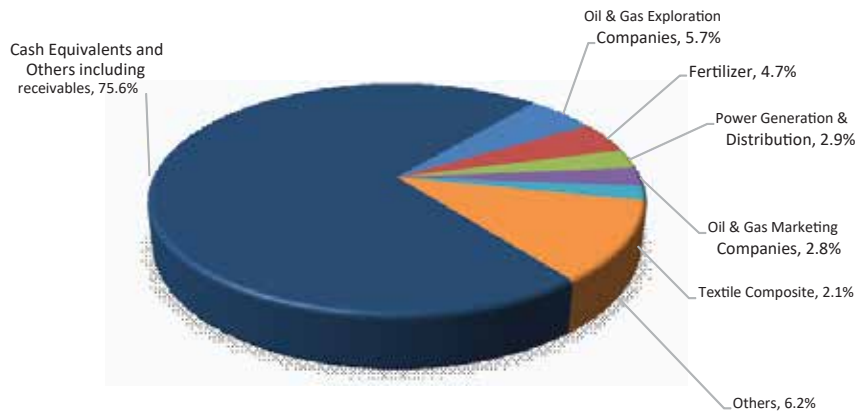
### فنڈ کی کارکردگی

NAFA اسلامک پرنسپل پروٹیکٹڈ فنڈ II- (NIPPF-II) کا سائز 30 جون 2017 کو 142 ملین روپے سے کم ہو کر 30 جون 2018 کو 127 ملین روپے ہو گیا ہے۔ اس سال کے دوران فنڈ کے یونٹ کی قیمت 30 جون 2017 کو 101.5691 روپے سے بڑھ کر 30 جون 2018 کو 102.3781 روپے ہو چکی ہے، لہذا 0.8% کا اضافہ ہوا۔ اسی مدت میں بیج مارک منافع 1.57% تھا۔ لہذا زیر جائزہ مدت کے دوران فنڈ نے اپنے بیج مارک منافع سے 0.77% اہتر کارکردگی دکھائی۔ اپنے قیام (27 جون 2014) سے اب تک NIPPF-II 58.82% سے بڑھا، جبکہ بیج مارک نے 44.54% کا اضافہ دکھایا، اب تک فنڈ نے 14.28% کی بہتر کارکردگی دکھائی۔ 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 KMI-30 انڈیکس 9.6% 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 فریڈیز مارکیٹ کے MSCI ایمرجنگ 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 وزیراعظم 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 دارالحکومت میں دھرنے اور انکیشن کے قریب غیر یقینی کی فضا سے اسٹاک مارکیٹ پر مزید اثر پڑا۔ امریکی صدر مسٹر ڈونلڈ ٹرمپ نے بلاخرکانی 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 آئل اینڈ گیس ایکسپلوریشن، فریڈیز اور کرشٹل بینک کے شعبہ جات کی کارکردگی بہت عمدہ رہی جب کہ سیمنٹ، ریفائنری، انجینئرنگ اور آٹوموبائل پارٹس اور ایسیریز 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 اوپریٹرز 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 اسلامک پرنسپل پروٹیکٹڈ فنڈ II- (NIPPF-II) اس سال کے دوران 8.25 ملین روپے کی مجموعی آمدنی کمائی ہے۔ 7.27 ملین روپے کے اخراجات منہا کرنے کے بعد خالص آمدنی 0.98 ملین روپے رہی۔ فنڈ کی ایسیٹ ایلیکشن 30 جون 2018 کو بمطابق ذیل ہے:



### آمدنی کی تقسیم

منجمنٹ کمپنی نے سال کے اختتام کے بعد اویپنگ ex-NAV کا 0.8% (بنیادی قدر کا 0.81%) نقد ڈیویڈنڈ کی منظوری دی ہے۔

### ٹیکسیشن

درج بالا نقد منافع، سال کے دوران میں حاصل ہونے والی آمدنی میں سے سرمایہ کاری پر حاصل ہونے والے محصول شدہ اور غیر محصول شدہ کیپیٹل گین منہا کرنے کے بعد 90% ہے، اس لئے فنڈ پرائم ٹیکس آرڈیننس 2001 کے سیکشن 10 کی شق 99 کے تحت ٹیکس لاگو نہیں ہے۔

## آڈیٹرز

موجودہ آڈیٹرز میسرز اے ایف فرگوسن اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس، نے اپنی پانچ سالہ مدت کو بطور فنڈ کے آڈیٹر مکمل کی۔ غیر بینکنگ فنانس کمپنیوں اور نوٹیفائیڈ اینڈ ریگولیشن کے ریگولیشن (h) (2) 38 2008، کی ضرورت کے مطابق، انکی تبدیلی کی ضرورت تھی۔ بورڈ نے میسرز کے پی ایم جی تاثیر ہادی، چارٹرڈ اکاؤنٹنٹس، کو 30 جون 2019 کو ختم ہونے والے سال کے لیے تقرر کرنے کی منظوری دی۔

## کوڈ آف کارپوریٹ گورننس کی پیروی میں ڈائریکٹرز اسٹیٹمنٹ

- 1- منجنت کمپنی کی طرف سے تیار کردہ مالیاتی گوشوارے فنڈ کے معاملات کی کیفیت، اس کی کاروباری سرگرمیوں کے نتائج، کیش فلو ز اور پونٹ 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 موثر 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 منجنت کمپنی کے بورڈ آف ڈائریکٹرز کے چار اجلاس منعقد ہوئے۔ تمام ڈائریکٹرز کی حاضری ان مالیاتی گوشواروں کے نوٹ 27 میں ظاہر کی گئی ہے۔
- 11- پونٹ ہولڈنگ کا تفصیلی پیٹرن مالیاتی گوشواروں کے نوٹ 23 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 18 میں ظاہر کی گئی ہے۔
- 13- کمپنی اپنے بورڈ آف ڈائریکٹرز میں غیر جانبدار نان ایگزیکٹو ڈائریکٹرز کی نمائندگی کی حوصلہ افزائی کرتی ہے۔ کمپنی ایک غیر فہرست شدہ کمپنی ہونے کے ناطہ کوئی مائٹنری انٹرسٹ نہیں رکھتی۔ 30 جون 2018 کو بورڈ آف ڈائریکٹرز درج ذیل ارکان پر مشتمل ہیں۔

نام	کیٹگری
1- جناب کمال عامر چنائے 2- جناب شہریار فاروق 3- جناب ہمایوں بشیر	غیر جانبدار ڈائریکٹرز
ڈاکٹر امجد وحید (چیف ایگزیکٹو آفیسر)	ایگزیکٹو ڈائریکٹرز
1- جناب مدثر حسین خان (چیرمین) 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 منجنت کمپنی پر اعتماد، اعتبار اور خدمت کا موقع فراہم کرنے پر اپنے قابل قدر پونٹ 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 آرٹسٹ 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 منجنت لمیٹڈ

ڈائریکٹر

چیف ایگزیکٹو

بتاریخ

05 ستمبر 2018ء

مقام: کراچی

## 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 Islamic Principal Protected Fund - II (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 year ended 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 12, 2018



# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## FUND MANAGER REPORT

NAFA Islamic Principal Protected Fund-II is an Open-ended Shariah Compliant Capital Protected Fund.

### Investment Objective of the Fund

The objective of NAFA Islamic Principal Protected Fund-II is to earn a potentially high return through dynamic asset allocation between Shariah compliant Equities and Money Market investment avenues, while providing principal protection.

### Benchmark

The Benchmark of the Fund is Daily weighted return of KMI-30 index & Islamic Bank Deposits based on Funds's actual allocation.

### Fund performance review

This is the fifth annual report of the Fund. During the period, NAFA Islamic Principal Protected Fund - II increased by 0.80%. The Benchmark return during the same period was increased by 1.57%. Thus, the Fund has underperformed its Benchmark by 0.77% during the period under review. Since inception (June 27, 2014), NIPPF-II has risen by 58.82%, whereas the Benchmark has increased by 44.54%, thus to date outperformance is 14.28%. This performance is net of management fee and all other expenses. The size of NAFA Islamic Principal Protected Fund-II is Rs.127 million as of June 30, 2018.

The Fund current stock exposure stands at around 24.4%. Key holdings of the Fund belong to Oil & Gas Exploration Companies, Fertilizer, Power Generation & Distribution, Oil & Gas Marketing and Textile Composite sectors.

FY2017-18 turned out to be a challenging year for the stock market with first negative return since 2009, as the benchmark KMI-30 Index dropped by 9.6% on a yearly basis. This lackluster performance, in sharp contrast to FY2010-17 period, in which market surged at a CAGR of 28.4%, 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.

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.

The primary market for Corporate Sukuks remained under-supplied against the large and growing demand. In the secondary market, the trading activity in the Corporate Sukuks remained skewed towards high quality debt issues with cumulative trade value of Rs. 9.6 billion in FY18 compared to Rs. 2.7 billion during the last year. However, the scarcity of primary issuance versus elevated demand squeezed the spread and kept the yields on the high credit quality corporate bonds depressed. During the first half of FY18, the SBP maintained the policy rate at 5.75% owing to strong likelihood of continued growth momentum; contained inflation; and anticipation of gain in exports due to improvement in domestic energy supplies and incentives given to exports industry. However, in the latter half, in response to growing pressures on the external front driven by ballooning Current Account Deficit (CAD) and rein in inflationary pressures, the SBP cumulatively increased the policy rate by 75 basis points from 5.75% to 6.5%. Sovereign yields responded to increase in the policy rate whereby 3-month, 6-month, and 12-month T-Bills yields went up by 79 bps, 90 bps, and 116 bps, respectively.

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.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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

Particulars	30-Jun-18	30-Jun-17
Equities / Stocks	24.4%	8.5%
Cash Equivalents	86.0%	100.5%
Other Net Liabilities	10.4%	9.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## Distribution for the Financial Year 2018

Interim Period/Quarter	Dividend as % of Par Value (Rs.100)	Cumulative Div. Price/Unit	Ex- Div. Price
Final	0.81%	0.8090	10.5691

## Unit Holding Pattern of NAFA Islamic Principal Protection Fund-II as on June 30, 2018

Size of Unit Holding (Units)	# of Unit Holders
1-1000	27
1001-5000	22
5001-10000	15
10001-50000	5
50001-100000	1
100001-500000	4
<b>Total</b>	<b>74</b>

## Sindh Workers' Welfare Fund (SWWF)

The scheme has maintained provisions against Sindh Workers' Welfare Fund's liability to the tune of Rs. 3.612 million. If the same were not made the NAV per unit/FY18 return of scheme would be higher by Rs. 2.9186/ 2.87%. For details investors are advised to read note 12.1 of the Financial Statement of the Scheme for the year ended June 30, 2018.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

**NAFA Islamic Principal Protected Fund-II** (the Fund) has fully complied with the Shari'ah principles specified in the Trust Deed and in the guidelines issued by the Shari'ah Advisor for its operations, investments and placements made during the year ended June 30, 2018. This has been duly confirmed by the Shari'ah Supervisory Board of the Fund.

For and behalf of the board

Date: September 05, 2018  
Karachi

Dr. Amjad Waheed, CFA  
Chief Executive Officer

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## Report of the Shari'ah Supervisory Board

September 04, 2018/ Dhu Al-Hijjah 23, 1439

**Alhamdulillah**, the period from July 1, 2017 to June 30, 2018 was the fifth year of operations of NAFA Islamic Principal Protected Fund-II (NIPPF- II). This report is being issued in accordance with clause 4.7.1 of the Offering Document of the Fund. The scope of the report is to express an opinion on fulfillment of the Shariah Compliance requirements for launching of the fund.

In the capacity of Shari'ah Supervisory Board, we have prescribed criteria and procedure to be followed in ensuring Shari'ah Compliance in every investment.

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure Shari'ah compliance with the Shari'ah policies & guidelines. Our responsibility is to express an opinion, based on our review, to the extent where such compliance can be objectively verified. A review is limited primarily to inquiries of the management company's personnel and review of various documents prepared by the management company to comply with the prescribed criteria.

In light of the above, we hereby certify that:

- We have reviewed and approved the modes of investments of NIPPF – II in light of Shari'ah guidelines.
- All the provisions of the scheme and investments made on account of NIPPF – II by NBP Funds are Shari'ah Compliant and are in accordance with the criteria established.

	(i)	(ii)	(iii)	(iv)	(v)	(vi)	
Company Name	Nature of Business	Debt to Assets (<37%)	Non-Compliant Investments (<33%)	Non-Compliant Income to Gross Revenue (<5%)	Illiquid Assets to Total Assets (>25%)	Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Engro Corporation Ltd	Fertilizer	29.53%	21.57%	3.03%	65%	(75.29)	
Engro Fertilizer	Fertilizer	29.63%	7.32%	0.12%	77%	(32.84)	
The Hub Power Co.	Power Generation & Distribution	29.62%	0%	0.10%	35%	(24.16)	165.35
Nishat Mills	Textile	21.03%	15.89%	2.30%	69%	(0.42)	
Oil & Gas Development Company	Oil & Gas Exploration Companies	0.00%	25.46%	4.60%	39%	63.81	162.79
Pakistan State Oil*	Oil & Gas Marketing Companies	20.44%	0.57%	0.33%	19%	119.42	293.11
Pakistan Petroleum Ltd.	Oil & Gas Exploration Companies	0.06%	20.86%	3.79%	43%	39.29	205.91

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

On the basis of information provided by the management, nothing has come to our attention that causes us to believe that all the operations of NIPPF – II for the year ended June 30, 2018 are not in compliance with the Shari’ah principles.

During the year a provision of Rupees 24,764/- was created and an amount of Rupees 32,357/- was available for disbursement into charity as of June 30, 2018, which is inclusive of Rupees 22,821/- provisional amount of previous year adjusted after availability of the respective financial statements. However, the provisional amount of the financial year ended June 30, 2018 will be adjusted after the availability of the respective annual financial statements.

May Allah bless us with best Tawfeeq to accomplish His cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes.

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**For and on behalf of Meezan Bank Limited**  
*Shari’ah Technical Services and Support Provider*

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**Mufti Muhammad Naveed Alam**  
*Member*  
*Shariah Supervisory Board*

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**Mufti Ehsan Waquar**  
*Shariah Advisor & Member*  
*Shariah Supervisory Board*

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**Dr. Imran Ashraf Usmani**  
*Chairman*  
*Shariah Supervisory Board*



# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS *Report on the Audit of the Financial Statements*

### Opinion

We have audited the financial statements of NAFA Islamic Principal Protected Fund- II (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 year then ended, 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 year then ended 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><b>Amendments to NBFC Regulations, 2008</b> (Refer note 3.10 to the annexed financial statements)</p> <p>The Securities and Exchange Commission of Pakistan (the SECP) through its notification [SRO 756(I) / 2017] dated August 3, 2017 made certain amendments in the Non-Banking Finance Companies and Notified Entities Regulations, 2008. The impacts of these amendments have been incorporated in the financial statements of the Fund for the year ended June 30, 2018. These amendments mainly include changes with respect to recognition, measurement and presentation of "element of income", addition of certain disclosures with respect to 'Income Statement' (relating to allocation of net income for the year) and 'Statement of Movement in Unit Holders' Fund'.</p> <p>The Fund has changed its accounting policy during the current year in respect of accounting for "element of income" consequent to the issuance of the above mentioned notification. The change in accounting policy has been applied prospectively from July 1, 2017 based on the clarification issued by the SECP. With this change in accounting policy the element of income which was previously recognized as part of the income for the year in the Income Statement is now considered as a "capital contribution" and taken to the Statement of Movement in Unit Holders' Fund. Element of income is explained in note 3.10.</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 year. Accordingly, the net amount appearing on the "Income Statement" after deducting the income already paid on units redeemed is to be considered as the distributable amount.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>understood the requirements of the SECP notification and made inquiries from the management in respect of their methodology for implementing the changes with respect to recording of element of income.</li> <li>performed walkthrough tests for ensuring compliance with the revised requirements and in this respect obtained reports of distribution of income and refund of capital by the Fund.</li> <li>verified transactions on a test basis with the underlying records of the reports provided by the management to assess their compliance with the revised regulations.</li> <li>recalculated the profit available for distribution taking into account amount already distributed at the time of redemption.</li> <li>verified the accuracy of the management report for allocation of distributable amount between "distribution out of income" and "refund of capital". This included testing the parameters of the report.</li> <li>verified disclosures relating to change in accounting policy to ensure that these are in compliance with the applicable accounting and reporting framework.</li> </ul>

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

S. No.	Key Audit Matters	How the matter was addressed in our audit
	<p>In order to avail tax exemption, the Fund has to distribute 90 percent of its accounting income (excluding realised and unrealised capital gains). However, at the time of distribution of income, the element of income contributed on issue of units recognized in the equity during the year is required to be refunded on the units in the same proportion in which income is distributed from the Income Statement i.e. after taking into account the amount of income already paid on units redeemed. Management has developed a system for carrying out the calculations for such distributions.</p> <p>These calculations are important from the point of view of ensuring compliance with the applicable requirements. The above matters are significant accounting and regulatory developments / events for the mutual fund industry affecting the financial statements for the current year and therefore we considered these developments as key audit matter.</p>	
2	<p><b>Net Asset Value</b></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 30.89 million and bank balances aggregated to Rs 108.91 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"> <li>tested the design and operating effectiveness of the key controls for valuation of investments.</li> <li>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.</li> <li>re-performed valuation to assess that investments are carried as per the valuation methodology specified in the accounting policies.</li> </ul> <p>obtained bank reconciliation statements and tested reconciling items on a sample basis.</p>

## 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.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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

## **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 ISLAMIC PRINCIPAL PROTECTED FUND - II

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2018

	Note	2018	2017
		----- Rupees in '000 -----	
<b>Assets</b>			
Bank balances	4	108,910	144,702
Investments	5	30,891	12,097
Dividend and profit receivable	6	965	622
Security deposits	7	2,600	2,600
<b>Total assets</b>		143,366	160,021
<b>Liabilities</b>			
Payable to NBP Fund Management Limited - Management Company	9	11,234	11,759
Payable to the Central Depository Company of Pakistan Limited - Trustee	10	16	17
Payable to the Securities and Exchange Commission of Pakistan	11	100	457
Accrued expenses and other liabilities	12	5,311	5,755
<b>Total liabilities</b>		16,661	17,988
<b>NET ASSETS</b>		<u>126,705</u>	<u>142,033</u>
<b>UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>		<u>126,705</u>	<u>142,033</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	13		
		----- Number of units -----	
<b>NUMBER OF UNITS IN ISSUE</b>	8	<u>1,237,623</u>	<u>1,398,392</u>
		----- Rupees -----	
<b>NET ASSET VALUE PER UNIT</b>		<u>102.3781</u>	<u>101.5691</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 ISLAMIC PRINCIPAL PROTECTED FUND - II

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2018

	Note	2,018 ----- Rupees in '000 -----	2,017
<b>Income</b>			
Profit on bank deposits		7,166	14,759
Dividend income		1,080	22,105
(Loss) / gain on sale of investments - net		(2,138)	187,323
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	5.2	(1,949)	2,347
		(4,087)	189,670
<b>Total income</b>		4,159	226,534
<b>Expenses</b>			
Remuneration of NBP Fund Management Limited - Management Company	9.1	1,238	10,779
Sindh Sales Tax on remuneration of the Management Company	9.2	161	1,401
Accounting and operational expenses	9.4	133	609
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	10.1	173	793
Sindh Sales Tax on remuneration of the Trustee	10.2	22	103
Annual fees to the Securities and Exchange Commission of Pakistan	11.1	100	457
Auditors' remuneration	14	195	409
Annual listing fee		22	55
Printing charges		69	100
Shariah advisor fee		498	420
Securities transaction cost		50	666
Settlement and Bank charges		450	575
Legal and professional charges		49	125
<b>Total operating expenses</b>		3,160	16,492
<b>Net income from operating activities</b>		999	210,042
Element of loss and capital gains included in the prices of units issued less those in units redeemed - net	3.10	-	(140,399)
Provision for Sindh Workers' Welfare Fund	12.1	(20)	(3,592)
Reversal of provision for Workers' Welfare Fund		-	5,070
<b>Net income for the year before taxation</b>		979	71,121
Taxation	16	-	-
<b>Net income for the year after taxation</b>		979	71,121
<b>Earnings per unit</b>	17		
<b>Allocation of net income for the year</b>			
Net income for the year after taxation		979	
Income already paid on units redeemed		(6)	
		973	
<b>Accounting income available for distribution</b>			
- Relating to capital gains		-	
- Excluding capital gains		973	
		973	

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 ISLAMIC PRINCIPAL PROTECTED FUND - II

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2018

	2,018	2,017
	----- Rupees in '000 -----	
Net income for the year after taxation	979	71,121
Other comprehensive income / (loss) for the year	-	-
<b>Total comprehensive income for the year</b>	<u>979</u>	<u>71,121</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 ISLAMIC PRINCIPAL PROTECTED FUND - II

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

[illegible]

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 ISLAMIC PRINCIPAL PROTECTED FUND - II

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2018

	Note	2,018 ----- Rupees in '000 -----	2,017 -----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year before taxation		979	71,121
<b>Adjustments for:</b>			
Profit on bank deposits		(7,166)	(14,759)
Dividend income		(1,080)	(22,105)
Net unrealised diminution / (appreciation) on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	5.2	1,949	(2,347)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net		-	140,399
Provision for Sindh Workers' Welfare Fund		20	3,592
Reversal of provision for Workers' Welfare Fund	12.1	-	(5,070)
		(6,277)	99,710
<b>(Increase) / decrease in assets</b>			
Investments		(20,743)	585,831
Deposits and other receivable		-	-
		(20,743)	585,831
<b>Decrease in liabilities</b>			
Payable to NBP Fund Management Limited - Management Company		(525)	(2,228)
Payable to the Central Depository Company of Pakistan - Trustee		(1)	(124)
Payable to the Securities and Exchange Commission of Pakistan		(357)	(470)
Accrued expenses and other liabilities		(464)	(2,211)
		(1,347)	(5,033)
		(27,388)	751,629
Dividend received		994	23,021
Profit received on balances with banks		6,909	16,172
Withholding tax paid on distribution during the year			(4,299)
<b>Net cash (used in) / generated from operating activities</b>		(19,485)	786,523
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Amount paid on redemption of units		(16,307)	(1,165,271)
<b>Net cash used in financing activities</b>		(16,307)	(1,165,271)
<b>Net decrease in cash and cash equivalents</b>		(35,792)	(378,748)
Cash and cash equivalents at the beginning of the year		144,702	523,450
<b>Cash and cash equivalents at the end of the year</b>	4	<u>108,910</u>	<u>144,702</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 ISLAMIC PRINCIPAL PROTECTED FUND - II

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Islamic Principal Protected Fund - II (the Fund) is an open ended mutual fund constituted under a Trust Deed executed between NBP Fund Management Limited as the Management Company and the Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on May 7, 2014 and has not been revised.

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 "Shariah Compliant Capital Protected Fund" 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 100 per unit. Thereafter, the units are being offered for public subscription on a continuous basis from June 28, 2017 and are transferable and redeemable by surrendering them to the Fund.

The objective of the Fund is to earn a potentially high return through dynamic asset allocation between Shari'ah compliant Equities and Money Market investment avenues, while providing principal protection. 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.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance 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.

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 year

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.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 2.3 Standards, interpretations and amendments to published approved accounting 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

Standard	Effective date (accounting periods beginning on or after)
- IFRS 9 - Financial Instruments	July 01, 2018
- IFRS 15 - Revenue from Contracts with Customers	July 01, 2018
- IFRS 16 - Leases	January 01, 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 year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

The estimates and judgements 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 3.13 and 16).

## 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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years except for the change in accounting policy as explained in note 3.10 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'**

##### **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 other comprehensive income until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised directly in the other 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.

### **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 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.

### **3.7 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 year end.

### **3.8 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 applications 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.

### **3.9 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 Mutual Funds Association of Pakistan's (MUFAP) guidelines duly consented by the SECP, distribution for the year also includes a portion of income already paid on units redeemed during the year.

Distributions declared subsequent to the year 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.

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

The Securities and Exchange Commission of Pakistan through its SRO 756(I)/2017 dated August 3, 2017 has made certain amendments in the NBFC Regulations. The notification includes a definition and explanation relating to "element of income" and excludes the element of income from the expression "accounting income" as described in regulation 63 (amount distributable to unit holders) of the NBFC Regulations. As per the notification, 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. Further, the revised regulations also specify that element of income is a transaction of capital nature and the receipt and payment of element of income shall be 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 will be 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.

Previously, an equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' was created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption. The net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during the accounting period which pertained to unrealised appreciation / (diminution) held in the Unit Holder's Fund was recorded in a separate account and any amount remaining in this reserve account at the end of the accounting period (whether gain or loss) was included in the amount available for distribution to the unitholders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period was recognised in the Income Statement.

As required by IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors', a change in accounting policy requires retrospective application as if that policy had always been applied. However, the Management Company has applied the above changes in accounting policy, including the additional disclosure requirements in the 'Income Statement' and 'Statement of Movement in Unit Holders' Fund', prospectively from July 1, 2017 based on a clarification issued by the SECP. Accordingly, corresponding figures have not been restated. The 'Distribution Statement' for the comparative period has not been presented as it has been deleted as a result of the amendments made in the NBFC Regulations through the aforementioned SRO issued by the SECP.

Had the element of income been recognised as per the previous accounting policy, the income of the Fund would have been higher by Rs 0.022 million in respect of element of income with no effect on the 'net assets attributable to the unit holders' and NAV per unit of the Fund as disclosed in the 'Statement of Assets and Liabilities' and 'Statement of Movement in Unit Holders' Fund' respectively. However, the change in accounting policy does not have any impact on the 'Cash Flow Statement'. The change has resulted in inclusion of certain additional disclosures / new presentation requirements in the 'Income Statement' and 'Statement of Movement in Unit Holders' Fund which have been incorporated in these statements.

## 3.11 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.
- Profit on bank balances is recognised on an accrual basis.
- Dividend income is recognised when the right to receive the dividend is established.

## 3.12 Expenses

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

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 3.13 Taxation

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed 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.

## 3.14 Earnings / (loss) per unit

Earnings / (loss) per unit is calculated by dividing the net income of the year before taxation of the Fund by the weighted average number of units outstanding during the year.

## 3.15 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.

4	BANK BALANCES	Note	2018 ----- Rupees in '000 -----	2017
	Balances with banks in:			
	Savings accounts	4.1	107,988	141,787
	Current Account		<u>922</u>	<u>2,915</u>
			<u>108,910</u>	<u>144,702</u>

4.1 These carry profits at rates ranging from 2.4% to 6.45% (2017: 2.4% to 6.05%) per annum.

5	INVESTMENTS	Note	2018 ----- Rupees in '000 -----	2017
	At fair value through profit or loss - held for trading			
	Quoted equity securities	5.1	<u>30,891</u>	<u>12,097</u>

## 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 July 01, 2017	Acquired during the year	Bonus / Right shares during the year	Sold during the year	As at June 30, 2018	Market value as at June 30, 2018	Market value as a percentage of net assets	Market value as a percentage of Total investments	Paid-up value of shares held as a percentage of total paid-up capital of the Investee Company
----- Number of shares held -----						Rupees in '000		Percentage	-----
<b>AUTOMOBILE ASSEMBLER</b>									
Millat Tractors Limited	-	300	-	-	300	<u>356</u>	<u>0.28</u>	<u>1.15</u>	0.00*
						356	0.28	1.15	
<b>CEMENT</b>									
D.G. Khan Cement Company Limited	5,200	8,100	-	9,900	3,400	<u>389</u>	<u>0.31</u>	<u>1.26</u>	0.00*
Kohat Cement Company Limited	-	8,600	-	4,500	4,100	<u>505</u>	<u>0.40</u>	<u>1.63</u>	0.00*
Fauji Cement Company Limited	32,600	-	-	12,000	20,600	<u>471</u>	<u>0.37</u>	<u>1.52</u>	0.00*
Lucky Cement Limited	-	3,300	-	1,900	1,400	<u>711</u>	<u>0.56</u>	<u>2.30</u>	0.00*
Pioneer Cement Limited	15,200	-	-	6,000	9,200	<u>431</u>	<u>0.34</u>	<u>1.40</u>	0.00*
						2,507	1.98	8.11	
<b>CHEMICAL</b>									
Engro Polymer & Chemicals Limited	-	19,000	-	-	19,000	<u>596</u>	<u>0.47</u>	<u>1.93</u>	0.00*
Engro Polymer & Chemicals Limited-Lor	-	-	7,029	-	7,029	<u>62</u>	<u>0.05</u>	<u>0.20</u>	0.00*
						658	0.52	2.13	
<b>COMMERCIAL BANKS</b>									
Meezan Bank Limited	100	22,000	6	6,000	16,106	<u>1,316</u>	<u>1.04</u>	<u>4.26</u>	0.00*
						1,316	1.04	4.26	

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

Name of the Investee Company	As at July 01, 2017	Acquired during the year	Bonus / Right shares during the year	Sold during the year	As at June 30, 2018	Market value as at June 30, 2018	Market value as a percentage of net assets	Market value as a percentage of Total investments	Paid-up value of shares held as a percentage of total paid-up capital of the Investee Company
----- Number of shares held -----						Rupees in '000	----- Percentage -----		
<b>ENGINEERING</b>									
International Steels Limited	-	7,500	-	-	7,500	763	0.60	2.47	0.00*
Ittefaq Iron Industries Limited	-	25,500	-	20,000	5,500	77	0.06	0.25	0.00*
Mughal Iron And Steel Industries Limited [note 5.1.1]	22,226	2,500	-	20,500	4,226	260	0.20	0.84	0.00*
						1,099	0.86	3.56	
<b>FERTILIZER</b>									
Engro Fertilizers Limited	-	41,500	-	6,500	35,000	2,622	2.07	8.49	0.00*
Engro Corporation Limited	3,000	9,000	-	1,600	10,400	3,264	2.58	10.57	0.00*
						5,886	4.65	19.06	
<b>OIL &amp; GAS EXPLORATION COMPANIES</b>									
Mari Petroleum Company Limited	1,100	400	-	300	1,200	1,807	1.43	5.85	0.00*
Oil & Gas Development Company Limited	-	17,000	-	3,300	13,700	2,132	1.68	6.90	0.00*
Pakistan Oilfields Limited	-	2,600	-	600	2,000	1,344	1.06	4.35	0.00*
Pakistan Petroleum Limited	-	10,900	-	1,800	9,100	1,956	1.54	6.33	0.00*
						7,239	5.71	23.43	
<b>OIL &amp; GAS MARKETING COMPANIES</b>									
Hascol Petroleum Limited [note 5.1.1]	876	2,300	12	-	3,188	1,000	0.79	3.24	0.00*
Pakistan State Oil Company Limited	-	7,400	-	1,200	6,200	1,974	1.56	6.39	0.00*
Sui Northern Gas Pipelines Limited	-	5,500	-	-	5,500	551	0.44	1.78	0.00*
						3,525	2.79	11.41	
<b>PHARMACEUTICALS</b>									
Abbott Laboratories (Pakistan) Limited	-	900	-	-	900	617	0.49	2.00	0.00*
The Searle Company Limited [note 5.1.1]	251	3,700	50	1,900	2,101	713	0.56	2.31	0.00*
						1,330	1.05	4.31	
<b>POWER GENERATION &amp; DISTRIBUTION</b>									
The Hub Power Company Limited	-	34,000	-	6,500	27,500	2,534	2.00	8.20	0.00*
Kot Addu Power Company Limited	17,400	-	-	7,500	9,900	534	0.42	1.73	0.00*
K-Electric Limited	-	95,500	-	-	95,500	542	0.43	1.76	0.00*
						3,611	2.85	11.69	
<b>TECHNOLOGY &amp; COMMUNICATION</b>									
Systems Limited	-	7,000	-	-	7,000	709	0.56	2.29	0.01
						709	0.56	2.29	
<b>TEXTILE COMPOSITE</b>									
Kohinoor Textile Mills Limited [note 5.1.1]	4,737	-	-	-	4,737	260	0.21	0.84	0.00*
Nishat Mills Limited	6,200	23,800	-	13,000	17,000	2,396	1.89	7.76	0.00*
						2,656	2.10	9	
<b>Total as at June 30, 2018</b>						<b>30,891</b>	<b>24.00</b>	<b>100</b>	
<b>Carrying value as at June 30, 2018</b>						<b>32,840</b>			
<b>Total as at June 30, 2017</b>						<b>12,097</b>			
<b>Carrying value as at June 30, 2017</b>						<b>9,750</b>			

\* Nil value due to rounding off difference.

**5.1.1** Investments include shares with market value of Rs. 5.778 million (2017: Rs. 5.393 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.

**5.1.2** 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 certain companies 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.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

Name of the Company	2018		2017	
	Bonus Shares			
	Number of shares withheld	Market value as at June 30, 2018	Number of shares withheld	Market value as at June 30, 2017
	Rupees in '000'		Rupees in '000'	
Hascol Petroleum Limited	813	255	813	277
Mughal Iron and Steel Industries Limited	1,324	81	1,324	107
Kohinoor Textile Mills Limited	4,736	260	4,736	498
The Searle Company Limited	298	101	248	127
		697		1,009

## 5.2 Unrealised appreciation diminution on re-measurement of investments classified as Financial assets at fair value through profit or loss

	Note	2018 ----- Rupees in '000 -----	2017 ----- Rupees in '000 -----
Market value of investments	5.1	30,891	12,097
Carrying value of investments	5.1	<u>(32,840)</u>	<u>(9,750)</u>
		<u>(1,949)</u>	<u>2,347</u>

## 6 DIVIDEND AND PROFIT RECEIVABLE

Profit receivable	864	607
Dividend receivable	<u>101</u>	<u>15</u>
	<u>965</u>	<u>622</u>

## 7 SECURITY DEPOSITS

Security deposit with Central Depository Company of Pakistan Limited	100	100
Security deposit with National Clearing Company of Pakistan Limited	<u>2,500</u>	<u>2,500</u>
	<u>2,600</u>	<u>2,600</u>

## 8 NUMBER OF UNITS IN ISSUE

	2018 Number of Units	2017 Number of Units
Total units in issue at the beginning of the year	1,398,392	9,657,301
Add: bonus units issued during the year	-	815,391
Less: units redeemed during the year	<u>160,769</u>	<u>9,074,300</u>
Total units in issue at the end of the year	<u>1,237,623</u>	<u>1,398,392</u>

## 9 PAYABLE TO NBP FUND MANAGEMENT LIMITED - MANAGEMENT COMPANY

	Note	2018 ----- Rupees in '000 -----	2017 ----- Rupees in '000 -----
Management fee payable	9.1	106	88
Sindh Sales Tax payable on remuneration of the Management Company	9.2	14	12
Federal Excise Duty payable on remuneration of the Management Company	9.3	8,151	8,151
Federal Excise Duty on front end load		2,899	2,899
Accounting and operational charges	9.4	<u>64</u>	<u>609</u>
		<u>11,234</u>	<u>11,759</u>



# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

**9.1** 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, with effect from January 1, 2017, the Management Company started charging remuneration at a rate of 2% on equity component and 12% of net income excluding equity component, subject to a minimum of 0.5% of net assets and maximum of 1% of net assets of the Fund. The remuneration is payable to the Management Company monthly in arrears.

**9.2** During the year, an amount of Rs. 0.161 million (2017: Rs 1.401 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. 0.159 million (2017: Rs. 1.7 million) has been paid to the Management Company which acts as a collecting agent.

**9.3** The Finance Act, 2013 enlarged the scope of Federal Excise Duty (FED) on financial services to include Asset Management Companies (AMCs) as a result of which FED at the rate of 16 percent on the remuneration of the Management Company and sales load was applicable with effect from June 13, 2013. The Management Company was of the view that since the remuneration was already subject to provincial sales tax, further levy of FED would result in double taxation which did not appear to be the spirit of the law. Hence, on September 4, 2013 a constitutional petition was filed with the Sindh High Court (SHC) by the Management Company together with various other asset management companies challenging the levy of FED.

During the year ended 30 June 2017, the SHC passed an order whereby all notices, proceedings taken or pending, orders made, duty recovered or actions taken under the Federal Excise Act, 2005 in respect of the rendering or providing of services (to the extent as challenged in any relevant petition) were set aside. In response to this, the Deputy Commissioner Inland Revenue has filed a Civil Petition for leave to appeal in the Supreme Court of Pakistan which is pending adjudication.

With effect from July 01, 2016, FED on services provided or rendered by non-banking financial institutions dealing in services which are subject to provincial sales tax has been withdrawn by the Finance Act, 2016.

In view of the above, the Fund has discontinued making further provision in respect of FED on remuneration of the Management Company with effect from July 01, 2016. However, as a matter of abundant caution the provision for FED made for the period from June 13, 2013 till June 30, 2016 amounting to Rs. 8.151 million is being retained in these financial statements of the Fund as the matter is pending before the Supreme Court of Pakistan. Had the provision for FED not been made, the Net Asset Value of the Fund as at June 30, 2018 would have been higher by Re. 6.586 (2017: Re. 5.829) per unit.

**9.4** 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 year.

10	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	Note	2018	2017
			----- Rupees in '000 -----	-----
	Trustee fee payable	10.1	14	15
	Sindh Sales Tax payable on trustee fee	10.2	2	2
			<u>16</u>	<u>17</u>

**10.1** The Trustee is entitled to monthly remuneration for services rendered to the Fund under the provisions of the trust deed as per the tariff structure specified therein, based on the daily net assets of the Fund. The fee is paid on a monthly basis in arrears at the rate of 0.13% (2017: 0.13%) of the net assets. There is no change in the tariff structure in the current year.

**10.2** During the year, an amount of Rs 0.022 million (2017: Rs. 0.103 million) was charged on account of sales tax on remuneration of the Trustee levied through Sindh Sales Tax on Services Act, 2011 and an amount of Rs. 0.022 million (2017: Rs. 0.118 million) was paid to the Trustee which acts as a collecting agent.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

	Note	2018 ----- Rupees in '000 -----	2017
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## 11 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Annual fee payable	11.1	100	457
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**11.1** In accordance with the NBFC Regulations, 2008, a collective investment scheme classified as a Shariah Compliant Capital Protected Scheme is required to pay to the Securities and Exchange Commission of Pakistan an amount equal to 0.075% of the average annual net assets of the Fund as annual fee.

	Note	2018 ----- Rupees in '000 -----	2017
--	------	------------------------------------	------

## 12 ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration payable		214	289
Printing charges payable		152	155
Brokerage payable		7	-
Settlement and bank charges		35	114
Charity payable		553	894
Legal and professional charges payable		237	210
Shariah advisor fee payable		488	409
Withholding tax and capital gain tax payable		13	92
Provision for Sindh Workers' Welfare Fund	12.1	3,612	3,592
		<u>5,311</u>	<u>5,755</u>

**12.1** As a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) had been passed by the Government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.50 million, was required to pay Sindh Workers' Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income. The matter was taken up by the MUFAP with the Sindh Revenue Board (SRB) collectively on behalf of various asset management companies and their CISs whereby it was contested that mutual funds should be excluded from the ambit of the SWWF Act as these were not industrial establishments but were pass through investment vehicles and did not employ workers. The SRB held that mutual funds were included in the definition of financial institutions as per the Financial Institution (Recovery of Finances) Ordinance, 2001 and were, hence, required to register and pay SWWF under the SWWF Act. Thereafter, MUFAP had taken up the matter with the Sindh Finance Ministry to have CISs / mutual funds excluded from the applicability of SWWF. In view of the above developments regarding the applicability of SWWF on CISs/mutual funds, the MUFAP recommended that as a matter of abundant caution provision in respect of SWWF should be made on a prudent basis with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from May 21, 2015).

In the repealed Companies Ordinance, 1984 and the now applicable Companies Act, 2017, mutual funds have not been included in the definition of "financial institutions". The MUFAP has held the view that SWWF is applicable on asset management companies and not on mutual funds.

Had the provision for SWWF not been recorded in the financial statements of the Fund for the period from May 21, 2015 to June 30, 2018, the net asset value of the Fund as at June 30, 2018 would have been higher by Re. 2.919 per unit (2017: Re. 2.569 per unit).

## 13 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2018 and June 30, 2017.

## 14 AUDITORS' REMUNERATION

	2018 ----- Rupees in '000 -----	2017
Annual audit fee and Other Certifications	125	258
Half yearly review of condensed interim financial information	33	83
Out of pocket expenses	37	68
	<u>195</u>	<u>409</u>

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 15 TOTAL EXPENSE RATIO

The Total Expense Ratio (TER) of the Fund as at June 30, 2018 is 2.39% which includes 0.23% representing government levies on the Fund such as 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.

## 16 TAXATION

The income of the Fund is exempt from income tax under clause (99) of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year 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 year derived from sources other than capital gains as reduced by such expenses as are chargeable thereon to the unitholders. Since the management intends to distribute the required minimum percentage of income earned by the Fund for the year ended June 30, 2018 to the unit holders in the manner as explained above, no provision for taxation has been made in these financial statements during the year.

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.

## 17 EARNINGS PER UNIT

Earnings 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.

## 18 TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

**18.1** Connected persons include NBP Fund Management Limited being the Management Company, the Central Depository Company of Pakistan Limited being the Trustee and National Bank of Pakistan (NBP), 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.

**18.2** 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.

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

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

**18.5** Details of the transactions with related parties / connected persons during the year are as follows:

	2018	2017
	----- Rupees in '000 -----	
<b>NBP Fund Management Limited - Management Company</b>		
Remuneration for the year	1,238	10,779
Sindh Sales Tax on remuneration of Management Company	161	1,401
Accounting and operational charges	133	609

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

	2018	2017
	----- Rupees in '000 -----	
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration for the year	173	793
Sindh Sales Tax on remuneration	22	103
Settlement charges	366	300

<b>Employees of the Management Company</b>		
Issue of Nil bonus units (2017: 618)	-	62

<b>Taurus Securities Limited (Common Directorship)</b>		
Brokerage expense	2	32

## 18.6 Amounts / balances outstanding as at year end

<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Remuneration payable to the Management Company	106	88
Sindh Sales Tax on remuneration of Management Company	14	12
Federal Excise Duty on remuneration of the Management Company	8,151	8,151
Federal Excise Duty on front end load	2,899	2,899
Accounting and operational charges to the Management Company	64	609

<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Trustee fee	14	15
Sindh Sales Tax on the remuneration of trustee	2	2
Security deposit	100	100
Settlement charges	31	64

<b>Employees of the Management Company</b>		
Units held 2,287 units (2017: 2,287 units)	234	232

## Persons holding directly or indirectly 10% or more of the units in issue / net assets of the Fund

<b>Mehreen Dawood</b>		
Units held 208,293 units (2017: 208,293 units)	21,325	21,156

<b>City School Provident Fund Trust</b>		
Units held 458,218 units (2017: 458,218 units)	46,911	46,541

## 19 FINANCIAL INSTRUMENTS BY CATEGORY

	----- 2018 -----			
	Loans and receivables	At fair value through profit or loss	Available-for-sale	Total
	----- Rupees in '000 -----			
<b>Financial assets</b>				
Bank balances	108,910	-	-	108,910
Investments	-	30,891	-	30,891
Dividend and profit receivable	965	-	-	965
Security deposits	2,600	-	-	2,600
	<u>112,475</u>	<u>30,891</u>	<u>-</u>	<u>143,366</u>

	----- 2018 -----		
	At fair value through profit or loss	At amortised cost	Total
	----- Rupees in '000 -----		
<b>Financial liabilities</b>			
Payable to NBP Fund Management Limited - Management Company	-	11,234	11,234
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	16	16
Accrued expenses and other liabilities	-	1,686	1,686
	<u>-</u>	<u>12,936</u>	<u>12,936</u>

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

	----- 2017 -----		
	Loans and receivables	At fair value through profit or loss	Available-for- sale
	----- Rupees in '000 -----		
<b>Financial assets</b>			
Bank balances	144,702	-	-
Investments	-	12,097	-
Dividend and profit receivable	622	-	-
Security deposits	2,600	-	-
	<u>147,924</u>	<u>12,097</u>	<u>-</u>
			<u>160,021</u>

	----- 2017 -----		
	At fair value through profit or loss	At amortised cost	Total
	----- Rupees in '000 -----		
<b>Financial liabilities</b>			
Payable to NBP Fund Management Limited - Management Company	-	11,759	11,759
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	17	17
Accrued expenses and other liabilities	-	2,071	2,071
	<u>-</u>	<u>13,847</u>	<u>13,847</u>

## 20 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.

### 20.1 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 / profit rate risk

Yield / profit 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 profit 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 profit 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 income / loss for the year and net assets of the Fund would have been higher / lower by Rs. 0.009 million (2017: Rs. 0.006 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 profit rate risk.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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 profit rates.

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

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

----- 2018 -----						
Effective profit rate (%)	Exposed to yield / profit rate risk			Not exposed to yield / profit rate risk	Total	
	Up to three months	More than three months and up to one year	More than one year			
----- Rupees in '000 -----						
<b>Financial assets</b>						
Bank balances	2.75% - 6.45%	107,988	-	-	922	108,910
Investments		-	-	-	30,891	30,891
Dividend and profit receivable		-	-	-	965	965
Security deposits		-	-	-	2,600	2,600
		107,988	-	-	35,378	143,366
<b>Financial liabilities</b>						
Payable to NBP Fund Management Limited - Management Company		-	-	-	11,234	11,234
Payable to the Central Depository Company of Pakistan Limited - Trustee		-	-	-	16	16
Accrued expenses and other liabilities		-	-	-	1,686	1,686
		-	-	-	12,936	12,936
<b>On-balance sheet gap</b>		107,988	-	-	22,442	130,430
<b>Total profit rate sensitivity gap</b>		107,988	-	-		
<b>Cumulative profit rate sensitivity gap</b>		107,988	-	-		

----- 2017 -----						
Effective profit rate (%)	Exposed to yield / profit rate risk			Not exposed to yield / profit rate risk	Total	
	Up to three months	More than three months and up to one year	More than one year			
----- Rupees in '000 -----						
<b>Financial assets</b>						
Bank balances	2.40% - 6.05%	141,787	-	-	2,915	144,702
Investments		-	-	-	12,097	12,097
Dividend and profit receivable		-	-	-	622	622
Security deposits		-	-	-	2,600	2,600
		141,787	-	-	18,234	160,021
<b>Financial liabilities</b>						
Payable to NBP Fund Management Limited - Management Company		-	-	-	11,759	11,759
Payable to the Central Depository Company of Pakistan Limited - Trustee		-	-	-	17	17
Accrued expenses and other liabilities		-	-	-	2,071	2,071
		-	-	-	13,847	13,847
<b>On-balance sheet gap</b>		141,787	-	-	4,387	146,174
<b>Total profit rate sensitivity gap</b>		141,787	-	-		
<b>Cumulative profit rate sensitivity gap</b>		141,787	-	-		



# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## (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.

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 profit 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 has exposure to equity price risk arising from the Fund's investments in equity securities. The Fund manages its price risk arising from investments in equity securities by diversifying its portfolio within the eligible limits prescribed in the Fund's Constitutive Documents, the NBFC Regulations and circulars issued by SECP from time to time.

In case of 5% increase / decrease in KMI 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. 1.545 million (2017: Rs. 0.605 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.

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 KMI 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 KMI 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 KMI 30 Index.

## 20.2 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.

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 year.

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:

	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
Rupees in '000						
<b>Financial assets</b>						
Bank balances	108,910	-	-	-	-	108,910
Investments	30,891	-	-	-	-	30,891
Dividend and profit receivable	965	-	-	-	-	965
Security deposits	2,600	-	-	-	-	2,600
	143,366	-	-	-	-	143,366
<b>Financial liabilities</b>						
Payable to NBP Fund Management Limited - Management Company	11,234	-	-	-	-	11,234
Payable to the Central Depository Company of Pakistan - Trustee	16	-	-	-	-	16
Accrued expenses and other liabilities	1,686	-	-	-	-	1,686
	12,936	-	-	-	-	12,936
<b>Net assets</b>	130,430	-	-	-	-	130,430

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

2017						
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 instrument s with no fixed maturity	Total
Rupees in '000						
<b>Financial assets</b>						
Balances with banks	144,702	-	-	-	-	144,702
Investments	12,097	-	-	-	-	12,097
Dividend and profit receivable	622	-	-	-	-	622
Security deposits	2,600	-	-	-	-	2,600
	160,021	-	-	-	-	160,021
<b>Financial liabilities</b>						
Payable to NBP Fund Management Limited - Management Company	11,759	-	-	-	-	11,759
Payable to the Central Depository Company of Pakistan - Trustee	17	-	-	-	-	17
Accrued expenses and other liabilities	2,071	-	-	-	-	2,071
	13,847	-	-	-	-	13,847
<b>Net assets</b>	146,174	-	-	-	-	146,174

## 20.3 Credit risk

**20.3.1** 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.

### 20.3.2 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, cheques in hand, dividend receivable and receivable against sale of units and against investments. The credit rating profile of balances with banks is as follows:

Rating	% of financial assets exposed to credit risk	
	2018	2017
AA+	1.43	4.51
AA-	63.45	1.54
AAA	11.72	84.75
AA	0.04	0.01
	<u>76.64</u>	<u>90.82</u>

## 21 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:

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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:

	2018		
	Level 1	Level 2	Level 3
	Rupees in '000		
<b>Financial assets</b>			
At fair value through profit or loss	30,891	-	-
	2017		
	Level 1	Level 2	Level 3
	Rupees in '000		
<b>Financial assets</b>			
At fair value through profit or loss	12,097	-	-

## 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 20, 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.

## 23 UNIT HOLDING PATTERN OF THE FUND

	2018			2017		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage of total	Number of unit holders	Investment amount (Rupees in '000)	Percentage of total
Category						
Individuals	67	62,592	49.40	86	78,426	55.22
Retirement funds	4	62,667	49.46	4	62,172	43.77
Others	3	1,446	1.14	3	1,435	1.01
	74	126,705	100.00%	93	142,033	100.00%

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 24 LIST OF TOP TEN BROKERS BY PERCENTAGE OF COMMISSION PAID

----- 2018 -----		----- 2017 -----	
Name of broker	Percentage of commission paid	Name of broker	Percentage of commission paid
Concordaia Securities (Private) Limited	9.10%	EFG Hermes Pakistan Limited (formerly Invest	14.48%
Aqeel Karim Dehdi Securities (Private) Limited	7.47%	& Finance Securities (Private) Limited)	
Taurus Securities Limited	6.66%	Arif Habib Securities Limited	9.15%
Arif Habib Securities Limited	5.97%	Aqeel Karim Dehdi Securities (Private) Limited	6.59%
Alfalalah Securities (Private) Limited	5.54%	IGI Finex Securities Limited	6.43%
Pearl Securities (Private) Limited	5.35%	Next Capital Limited	5.93%
EFG Hermes Pakistan Limited (formerly Invest		Taurus Securities Limited	5.54%
& Finance Securities (Private) Limited)	5.04%	J. S. Global Capital Limited	4.09%
D.J.M Securities (Private) Limited	4.78%	BIPL Securities Limited	4.06%
Topline Securities (Private) Limited	4.19%	Insight Securities (Private) Limited	4.03%
Foundation Securities (Private) Limited	3.95%	First Capital Equities Limited	3.83%

## 25 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

## 26 NAME AND QUALIFICATION OF THE FUND MANAGER

Name	Designation	Qualification	Other Funds managed by the Fund Manager
Sajjad Anwar	Fund Manager	MBA / CFA	NPF, NIPE, NISF, NIAAF I, NIAAF II and NIAAF III

## 27 MEETINGS OF BOARD OF DIRECTORS OF THE MANAGEMENT COMPANY

The 64th, 65th, 66th and 67th Board meetings were held on September 15, 2017, October 27, 2017, 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	4	4	-	-
Tariq Jamali	4	3	1	67th
Abdul Hadi Palekar	4	4	-	-
Lui Mang Yin (Martin Lui) [note 27.1]	2	2	-	-
FOO Chiah Shiung (Kelvin Foo)	4	3	1	65th
Kamal Amir Chinoy	4	4	-	-
Shehryar Faruque	4	4	-	-
Humayun Bashir	4	4	-	-
Wajahat Rasul Khan [note 27.2]	-	-	-	-
Dr. Amjad Waheed	4	4	-	-

**27.1** Lui Mang Yin (Martin Lui) resigned as director on the Board with effect from December 21, 2017.

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

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 28 CORRESPONDING FIGURES

Corresponding figures have been re-classified and re-arranged in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year. No significant rearrangements or reclassifications have been made in these financial statements during the current year.

## 28 NON-ADJUSTING EVENTS AFTER REPORTING PERIOD

Subsequent to the year end, the Management Company of the fund has declared cash dividend of Rs 0.8090 per unit on the face value of Rs 100 each (i.e. 0.81%) amounting to Rs. 1.001 million. The financial statements of the Fund for the period ended June 30, 2018 do not include the effect of this distribution which will be accounted for in the financial statements of the Fund for the year ending June 30, 2019.

## 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 ISLAMIC PRINCIPAL PROTECTED FUND - II

## PERFORMANCE TABLE

Particulars	For the year ended June 30, 2018	For the year ended June 30, 2017	For the year ended June 30, 2016	For the year ended June 30, 2015	For the period from June 28, 2014 to June 30, 2014
Net assets at the year / period ended (Rs '000)	126,705	142,033	1,083,504	1,308,075	792,371
Net income for the year / period ended (Rs '000)	979	71,121	35,924	247,532	876
Net Asset Value per unit at the year / period ended (Rs)	102.3781	101.5691	112.1953	119.0069	100.1223
Offer Price per unit at year end	N/A	N/A	N/A	N/A	104.164
Redemption Price per unit at year end	102.3781	101.5691	112.1953	119.0069	100.1223
Ex - Highest offer price per unit (Rs.)	N/A	N/A	N/A	102.3029	104.164
Ex - Lowest offer price per unit (Rs.)	N/A	N/A	N/A	101.9044	104.0630
Ex - Highest redemption price per unit (Rs.)	102.2684	102.2684	114.1762	120.8775	100.1223
Ex - Lowest redemption price per unit (Rs.)	81.1320	81.1320	101.7554	95.6336	100.0252
Ex- Fiscal Year Opening Nav	80.7235	80.7235	108.5848	98.1398	-
Total return of the fund	25.82%	25.82%	3.33%	21.05%	0.12%
Capital growth	25.82%	-22.56%	-5.81%	18.66%	0.12%
Income distribution % of Ex NAV	0.00%	48.38%	9.13%	2.44%	0.00%
Income distribution % of Par Value	0.00%	39.06%	10.32%	2.39%	0.00%
Distribution					
Interim distribution per unit	-	39.0554	10.3205	2.1727	0.0000
Final distribution per unit	0.8090	-	-	0.2192	-
Distribution Dates					
Interim	-	20-Jan-17	28-Apr-16 & 30-Jun-16	30-Jun-15	-
Final	04-Jul-18	-	-	16-Jul-15	-
Average annual return of the fund (launch date June 28, 2014)					
(Since inception to June 30, 2018)	12.20%				
(Since inception to June 30, 2017)		16.30%			
(Since inception to June 30, 2016)			25.22%		-
(Since inception to June 30, 2015)				21.00%	-
(Since inception to June 30, 2014)					0.12%
Portfolio Composition ( Please see Fund Manager Report)					

Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up



# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## PROXY ISSUED BY THE FUND

The proxy voting policy of **NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II**, duly approved by Board of Directors of the Management Company, is available on the website of NBP Fund Management Limited i.e. [www.nbpfund.com](http://www.nbpfund.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:

	Resolutions	For	Against	Abstain
--	-------------	-----	---------	---------








Number	1	1	Nil	N/A
(%)	100%	100%	-	-



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