

**AM1**  
Rated by PACRA



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

# NAFA FINANCIAL SECTOR INCOME FUND

## ANNUAL REPORT 2017



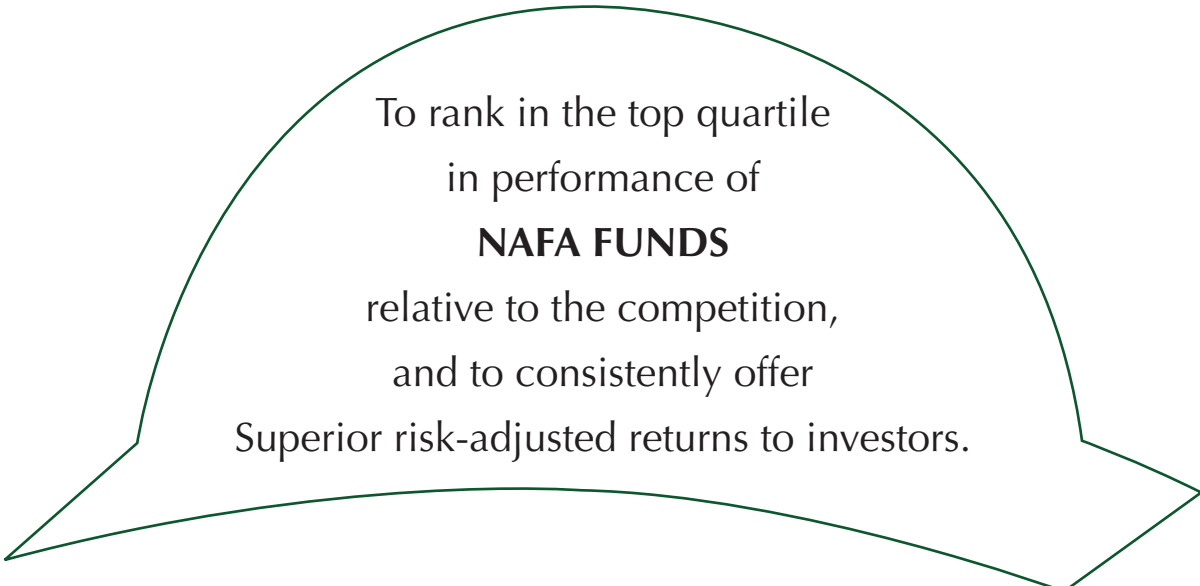
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**FULLERTON FUND  
MANAGEMENT**

*Joint - Venture Partners*

## MISSION STATEMENT



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

# NAFA FINANCIAL SECTOR INCOME FUND

## FUND'S INFORMATION

### Management Company

NBP Fullerton Asset Management Limited – Management Company

### Board of Directors of the Management Company

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

### Company Secretary & COO

Mr. Muhammad Murtaza Ali

### Chief Financial Officer

Mr. Khalid Mehmood

### Audit & Risk Committee

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

### Human Resource and Remuneration Committee

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

### Trustee

Central Depository Company of Pakistan Limited (CDC)  
CDC House, 99-B, Block "B" S.M.C.H.S.,  
Main Shakra-e-Faisal, Karachi.

### Bankers to the Fund

Askari Bank Limited  
Bank Alfalah Limited  
NIB Bank Limited  
National Bank of Pakistan  
Allied Bank Limited  
Faysal Bank Limited  
MCB Bank Limited  
Bank Al Habib Limited  
Habib Bank Limited  
Al Baraka Islamic Bank Limited  
The Bank of Punjab Limited  
Summit Bank Limited  
Sindh Bank Limited  
United Bank Limited  
JS Bank Limited  
Khushhali Bank Limited  
Samba Bank Limited  
Dubai Islamic Bank Pakistan Limited  
Zarai Taraqiyati Bank Limited  
Habib Metropolitan Bank Pakistan Limited

# NAFA FINANCIAL SECTOR INCOME FUND

## **Auditors**

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sheikh Sultan Trust Building No.02  
Beaumont Road,  
Karachi - 75530, Pakistan.

## **Legal Advisor**

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

## **Head Office:**

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

## **Lahore Office:**

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

## **Islamabad Office:**

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

## **Peshawar Office:**

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

## **Multan Office:**

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

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# Board of Directors



Dr. Amjad Waheed, CFA  
Chief Executive Officer



Mr. Mudassir Husain Khan  
Chairman



Mr. Kamal Amir Chinoy  
Director



Mr. Lui Mang Yin (Martin Lui)  
Director



Mr. Tariq Jamali  
Director



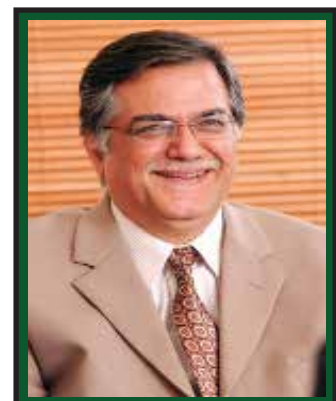
Mr. Shehryar Faruque  
Director



Dr. Foo Chiah Shiung (Kelvin Foo)  
Director



Mr. Abdul Hadi Palekar  
Director



Mr. Humayun Bashir  
Director

# Senior Management



**Dr. Amjad Waheed, CFA**  
**Chief Executive Officer**



**Mr. Sajjad Anwar, CFA**  
**Chief Investment 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**



**Mr. Hassan Raza, CFA**  
**Head of Research**



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



**Mr. Taha Khan Javed, CFA**  
**Head of Equity**



**Syed Ali Azhar Hasani**  
**Head of Internal Audit**



**Mr. Salman Ahmed**  
**Head of Risk Management**



**Mr. Raheel Rehman, ACA**  
**Senior Manager Compliance**



**Mr. Shahbaz Umer**  
**Head of Human Resource &**  
**Administration**

# NAFA FINANCIAL SECTOR INCOME FUND

## DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Sixth Annual Report of **NAFA Financial Sector Income Fund** for the year ended June 30, 2017.

### Fund's Performance

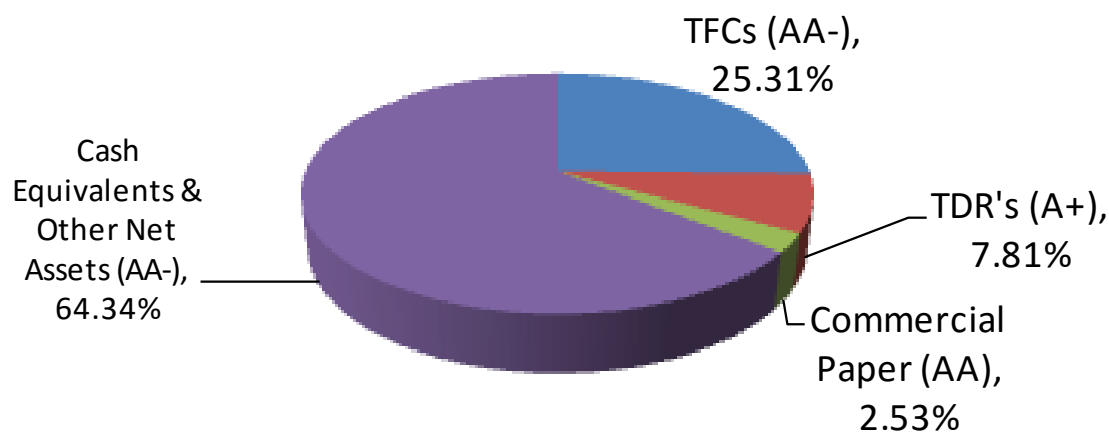
The size of NAFA Financial Sector Income Fund has decreased by 8.2% from Rs.1,255 million to Rs. 1,152 million. However, during the period, the unit price of the Fund has increased from Rs. 9.6844 (Ex - Div) on June 30, 2016 to Rs. 10.4933 on June 30, 2017 thus posting a return of 8.35% as compared to its Benchmark return of 6.01% for the same period. The return of the Fund is net of management fee and all other expenses.

The Fund is unique as it invests a minimum of 70% of its assets in financial sector (mainly banks) debt securities, instruments or deposits. Minimum entity/instrument rating of debt securities are AA-. This minimizes credit risk and at the same time enhances the liquidity of the Fund. Duration of the Fund cannot be more than one year. This minimizes interest rate or pricing risk. The Fund invests 25% of its assets in less than 90 days T-Bills or saving accounts with banks, which further enhances the liquidity profile of the Fund.

Helped by the lower food prices, inflation as measured by the CPI averaged 4.2% for FY17. During the year, State Bank of Pakistan (SBP) maintained the policy rate at 5.75%. SBP cited improving economic prospects amid investment activity in the context of CPEC gathering pace; but also highlighted its concerns on surge in imports, which along with a marginal decline in exports and workers' remittances widened the current account deficit. SBP's prudent monetary policy stance translated into low and stable market interest rates; encouraging the private sector to undertake capacity expansions. Sovereign yield curve slightly steepened as the short end of the curve inched up by 5-10 basis points whereas long-term yields increased by 40-60 basis points.

Trading activity in corporate TFCs / Sukuks slightly improved with cumulative trade value of Rs 9.1 billion in FY17 compared to Rs 7.7 billion last year. The trades remained skewed towards high quality debt issues, mainly concentrated towards the Banking sector with 71% contribution. Dearth of primary issuance and rising demand kept the yield spread tightened in the secondary market.

The Fund has earned a total income of Rs.71.14 million during the year. After deducting total expenses of Rs.14.23 million, the net income is Rs.56.91 million. The asset allocation of NAFA Financial Sector Income Fund as on June 30, 2017 is as follows:





# NAFA FINANCIAL SECTOR INCOME FUND

## Income Distribution

The Board of Directors of the Management Company has approved cash dividend of 8.14% of opening ex-NAV (8.52% of the par value) during the year.

## 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 KPMG Taseer Hadi & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2018.

## Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held four meetings during the period. The attendance of all directors is disclosed in the note 23 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 22 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 19 to these financial statements.

# NAFA FINANCIAL SECTOR INCOME FUND

## Acknowledgement

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

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

On behalf of the Board of  
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: September 15, 2017  
Place: Karachi.

# NAFA FINANCIAL SECTOR INCOME FUND

## ڈائریکٹرز رپورٹ

این بی پی فلٹرن ایسیٹ منیجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز NAFA فنانشل سیکٹرز انکم فنڈ (NFSIF) کی ساتویں سالانہ رپورٹ برائے سال ختمہ 30 جون 2017ء پیش کرتے ہوئے خوشی محسوس کر رہے ہیں۔

### فنڈ کی کارکردگی

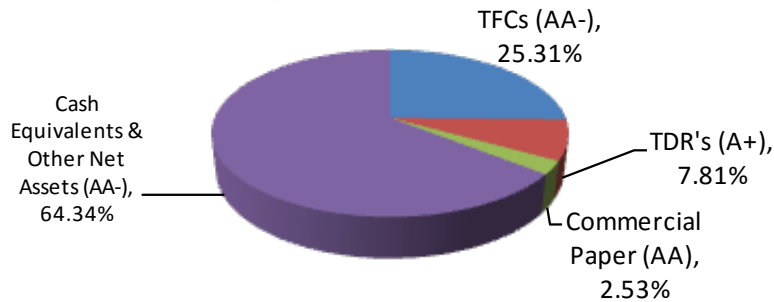
NAFA فنانشل سیکٹرز انکم فنڈ (NFSIF) کا سائز 8.2% سے کم یعنی 1,255 ملین روپے سے 1,152 ملین روپے ہو گیا ہے۔ زیر جائز مدت کے دوران فنڈ کے یونٹ کی قیمت 30 جون 2016 کو 9.6844 روپے (Ex-Div) سے بڑھ کر 30 جون 2017 کو 10.4933 روپے ہو چکی ہے اور اس طرح فنڈ نے اپنے بیچ مارک منافع 6.01% کے مقابلے میں 8.35% کا اضافہ دکھایا ہے۔ فنڈ کی یہ کارکردگی منیجمنٹ فیس اور دیگر تمام اخراجات کے بعد خالص ہے۔

یہ فنڈ منفرد ہے کیوں کہ یہ اپنے اثاثوں کا کم از کم 70% فنانشل سیکٹرز (بنیادی طور پر بینکنس) ڈیٹ سیکورٹیز، انسٹرومنٹ یا ڈپازٹس میں سرمایہ کاری کرتا ہے۔ ڈیٹ سیکورٹیز کی کم از کم اینٹیٹی / انسٹرومنٹ ریٹنگ AA ہیں۔ اس سے کریڈٹ رسک میں کمی ہوتی ہے اور اس کے ساتھ ساتھ فنڈ کی لیکویڈیٹی میں اضافہ ہوتا ہے۔ فنڈ کی میعاد ایک سال سے زائد نہیں ہو سکتی۔ یہ انسٹرسٹ ریٹ یا پرائسنگ رسک کم کرتا ہے۔ فنڈ اپنے اثاثوں کا 90.25% دن سے کم مدت کے T بلز یا بینکنگ کے ساتھ سیونگ اکاؤنٹس میں انویسٹ کرتا ہے جس سے فنڈ کے لیکویڈیٹی پروفائل میں مزید اضافہ ہو جاتا ہے۔

ایشیائے خورونوش کی قیمتوں میں کمی کے سبب CPI کے مطابق مالی سال 2017 میں افراط زر اوسطاً 4.2% رہا۔ سال کے دوران اسٹیٹ بینک آف پاکستان (SBP) نے پالیسی کی شرح 5.75% برقرار رکھی۔ SBP نے چین پاکستان اقتصادی راہداری (CPEC) کے تناظر میں منصوبوں کیلئے سرمایہ کاری کی کارروائیوں میں تیزی آنے کو معاشی صورتحال میں بہتری کا سبب قرار دیا؛ تاہم درآمدات میں اضافہ پر اپنے تحفظات کا اظہار کیا، جس کے ساتھ درآمدات میں بیرون ملک سے رقوم کی ترسیل میں کمی سے کرنٹ اکاؤنٹ کا خسارہ بڑھ گیا۔ SBP کی دانشمندانہ مانیٹری پالیسی کے نتیجے میں شرح سود میں استحکام اور کمی دیکھنے میں آئی؛ جس سے نجی شعبہ کو اپنی گنجائش بڑھانے میں حوصلہ افزائی ہوئی۔ قبیل حکومتی منافع میں 5-10 بنیادی پوائنٹس کے ساتھ بہتری آئی۔ جب کہ طویل مدت کے منافع میں 60-40 بنیادی پوائنٹس کا اضافہ ہوا۔

کارپوریٹ TFCs/Sukuks کی تجارتی سرگرمیوں میں کچھ بہتری آئی ورمالی سال 17 میں ان کی مجموعی تجارتی قدر 9.1 بلین روپے رہی جو کہ گزشتہ سال 7.7 بلین روپے تھی۔ تجارت کا جھکاؤ اعلیٰ سطح کے قرضہ جات کی جانب رہا جس میں خاص طور پر بینکنگ کے شعبہ کا حصہ 71% تھا۔ ابتدائی اجراء کی قلت اور طلب میں اضافہ سے ثانوی مارکیٹ میں منافع کی صورتحال محدود رہی۔

فنڈ نے اس سال کے دوران 71.14 بلین روپے کی مجموعی آمدنی کمائی ہے۔ 14.23 بلین روپے اخراجات منہا کرنے کے بعد خالص آمدنی 56.91 بلین روپے ہے۔ NAFA فنانشل سیکٹرز انکم فنڈ (NFSIF) کی ایسیٹ ایلوکیشن 30 جون 2017 کو بمطابق ذیل ہے:



### آمدنی کی تقسیم

منیجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز نے اس سال کے دوران میں اوپننگ ex-NAV کے 8.14% (بنیادی قدر کا 8.52%) 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 کیپٹل گین منہا کرنے کے بعد 90% ہے، اس لئے فنڈ پر انکم ٹیکس آرڈیننس 2001 کے سیکشن 10 کی شق 99 کے تحت ٹیکس لاگو نہیں ہے۔

### آڈیٹرز

موجودہ آڈیٹرز میسرز ڈی لوائٹ پوسف عادل اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس، ریٹائر ہو گئے ہیں اور اہل ہونے کی بناء پر انہوں نے خود کو 30 جون 2018 کو ختم ہونے والے سال میں دوبارہ تقرر کیلئے پیش کیا ہے۔

## کوڈ آف کارپوریٹ گورننس کی پیروی میں ڈائریکٹرز اسٹیٹمنٹ

- 1- منجمنٹ کمپنی کی طرف سے تیار کردہ مالیاتی گوشوارے فنڈ کے معاملات کی کیفیت، اس کی کاروباری سرگرمیوں کے نتائج، کیش فلوز اور یونٹ ہولڈرز فنڈ میں تبدیلی کی منصفانہ عکاسی کرتے ہیں۔
- 2- فنڈ کے اکاؤنٹس کے کھاتے درست انداز میں رکھے ہوئے ہیں۔
- 3- مالیاتی گوشواروں کی تیاری میں اکاؤنٹنگ کی مناسب پالیسیوں کی مسلسل پیروی کی گئی ہے۔ شماریاتی تخمینے مناسب اور معقول نظریات پر مبنی ہیں۔
- 4- ان مالیاتی گوشواروں کی تیاری میں مالیاتی رپورٹنگ کے بین الاقوامی معیاروں، جہاں تک وہ پاکستان میں قابل اطلاق ہیں، کی پیروی کی گئی ہے۔
- 5- انٹرنل کنٹرول کا نظام مستحکم اور موثر طریقے سے نافذ ہے اور اس کی مسلسل نگرانی کی جاتی ہے۔
- 6- فنڈ کی دواں 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، ڈیویڈنڈز، محصولات اور چارجز کی مد میں واجب الادا سرکاری ادائیگیاں مالیاتی گوشواروں میں پوری طرح ظاہر کر دی گئی ہیں۔
- 10- اس مدت کے دوران منجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز کے چار اجلاس منعقد ہوئے۔ تمام ڈائریکٹرز کی حاضری ان مالیاتی گوشواروں کے نوٹ 23 میں ظاہر کی گئی ہے۔
- 11- یونٹ ہولڈنگ کا تفصیلی پیٹرن مالیاتی گوشواروں کے نوٹ 22 میں ظاہر کیا گیا ہے۔
- 12- ڈائریکٹرز، CEO، CFO، کمپنی سیکرٹری اور ان کی بیویوں اور کم عمر بچوں کی طرف سے کی جانے والی فنڈ کے یونٹس کی تمام خرید و فروخت ان مالیاتی گوشواروں کے نوٹ 19 میں ظاہر کی گئی ہے۔

## اعتراف

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

منجانب بورڈ آف ڈائریکٹرز

NBP فلرٹن ایسیٹ منجمنٹ لمیٹڈ

ڈائریکٹر

چیف ایگزیکٹو

بتاریخ

15 ستمبر 2017ء

مقام: کراچی

# NAFA FINANCIAL SECTOR INCOME FUND

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

### Report of the Trustee pursuant to Regulation 41(h) and Clause 9 of Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Financial Sector Income Fund (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2017 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 26, 2017

# NAFA FINANCIAL SECTOR INCOME FUND

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE NAFA FINANCIAL SECTOR INCOME FUND FOR THE YEAR ENDED JUNE 30, 2017

This statement is being presented by the Board of Directors (the Board) of NBP Fullerton Asset Management Limited (the Company), the Management Company of **NAFA Financial Sector Income Fund** (the Fund) to comply with the Code of Corporate Governance (CCG) contained in Regulation No. 5.19 of the Rule Book of the Pakistan Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

NBP Fullerton Asset Management Limited, the Management Company, is not listed and hence, the CCG is not applicable to it. However, the Fund being listed on Pakistan Stock Exchange comes under the ambit of the CCG. The Fund, being a unit trust scheme, does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Fund and appoints the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Company Secretary of the Management Company and other necessary personnel to manage its affairs.

The Company has applied the principles contained in the CCG in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board. The Company, being an un-listed company, does not have any minority interest. As at June 30, 2017, the Board included:

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. Nausherwan Adil (Chairman) 2. Mr. Aamir Sattar 3. Mr. Abdul Hadi Palekar 4. Mr. Lui Mang Yin 5. Dr. Kelvin Foo

The independent directors meet the criteria of independence under clause 5.19.1(b) of the CCG.

2. The directors have confirmed that none of them is serving as a director of more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies were occurred on the board on November 21, 2016 and March 17, 2017 which were filled up on the same dates.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

# NAFA FINANCIAL SECTOR INCOME FUND

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive have been taken by the Board. There is no other executive-director of the Company besides Chief Executive Officer (CEO).
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors are conversant of the relevant laws applicable to the Company, its policies and provisions of memorandum and articles of association and are aware of their duties and responsibilities. As of 30 June 2017, four directors of the Company had acquired the director's training certificate as required under the CCG. The Company plans to arrange a Director's Training Program in future, for the remaining directors.
10. The Board has approved the appointment of Head of Internal Audit of the Company with remuneration and terms and conditions of employment. There has been no new appointment of the Company Secretary and Chief Financial Officer (CFO) during the year.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in note 19 to the financial statements "Transactions with Connected Persons".
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The committee has formed the terms of reference for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. All the members are non-executive directors and the chairman of the committee is an independent director.

# NAFA FINANCIAL SECTOR INCOME FUND

18. The Board has set up an effective internal audit function headed by the Head of Internal Audit who is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Management Company.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions was determined and intimated to directors, employees and stock exchange except for 60th and 61st meeting of the Board of Directors.
22. Material / price sensitive information has been disseminated amongst all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the CCG have been complied with expect the following:
  - the mechanism was required to put in place for an annual evaluation of the Board within two years of coming into effect of the Code i.e. April 2014. The mechanism is in place and the Company is in the process of completion of annual evaluation of the Board.
  - the Company has not complied with the requirements relating to maintenance of register of persons employed having access to inside information nor any senior management officer has been designated by the Company responsible for maintaining proper record including basis for inclusion or exclusion of names of persons from the said list.

For and behalf of the Board

September 15, 2017  
Karachi

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**Dr. Amjad Waheed**  
Chief Executive Officer



# NAFA FINANCIAL SECTOR INCOME FUND

## FUND MANAGER REPORT

NAFA Financial Sector Income Fund (NFSIF) is an open-end Income Scheme.

### Investment Objective of the Fund

The objective of NAFA Financial Sector Income Fund is to provide income enhancement and preservation of capital by investing in prime quality Financial Sector TFCs/Sukuks, Bank deposits and short-term money market instruments.

### Benchmark

6-Month KIBOR.

### Fund Performance Review

This is the sixth Annual report since the launch of the Fund on October 28, 2011. The Fund size decreased by 8.2% during FY17 and stands at Rs. 1,152 million as on June 30, 2017. During FY17 the Fund posted an annualized return of 8.35% versus the benchmark return of 6.01%. The Fund's return since inception is 9.0%. During the same period, the benchmark return has been 8.0%. This translates into an outperformance of 1.0% p.a. This outperformance is net of management fee and all other expenses. Thus the Fund has achieved its investment objectives.

The Fund is unique as it invests a minimum of 70% of its assets in financial sector (mainly banks) debt securities, instruments or deposits. Minimum entity/instrument rating of debt securities are AA-. This minimizes credit risk and at the same time enhances the liquidity of the Fund. Duration of the Fund cannot be more than one year. This minimizes interest rate or pricing risk. The Fund invests 25% of its assets in less than 90 days T-Bills or saving accounts with banks, which further enhances the liquidity profile of the Fund.

The trading activity in TFCs/Sukuks remained skewed towards high quality debt issues with cumulative trade value of Rs 9.1 billion in FY17 compared to Rs 7.7 billion last year. The trades were mainly concentrated towards banking sector debt securities with 71% contribution. All TFCs/Sukuks in the Fund are floating rate linked to KIBOR.

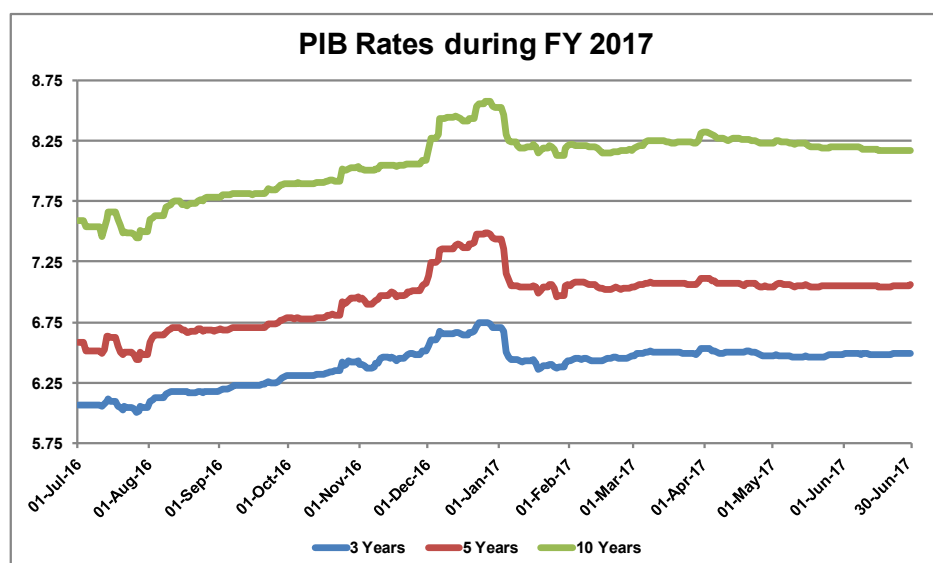
During the year, State Bank of Pakistan (SBP) held six (06) monetary policies and maintained the policy rate at 5.75%. SBP's prudent monetary policy stance translated into low and stable market interest rates; encouraged the private sector to undertake capacity expansions. Amid comfortable liquidity conditions, SBP kept the weighted average overnight repo rate close to the policy rate. SBP successfully concluded 03-Year Fixed Rental Rate GOP Ijara Sukuk (GIS-FRR) auction during the year for an amount of Rs. 71 billion and realized in line with the maturity amount at a yield of 5.24%.

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

Particulars	30-Jun-17	30-Jun-16
TFCs	25.31%	28.75%
Commercial Paper	2.53%	-
Bank Placements	7.81%	11.95%
Cash (Cash Equivalents) & Other Assets	64.35%	59.30%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

# NAFA FINANCIAL SECTOR INCOME FUND

PIB yields during the year are shown in below graph:



Distribution for the Financial Year 2017

Interim Period/Quarter	Dividend as % of Par Value (Rs.10)	Cumulative Div. Price/Unit (Rs.)	Ex- Div. Price (Rs.)
Interim	8.52	11.3453	10.4933

Unit Holding Pattern of NAFA Financial Sector Income Fund as on June 30, 2017

Size of Unit Holding (Units)	# of Unit Holders
1-1000	189
1001-5000	83
5001-10000	43
10001-50000	131
50001-100000	77
100001-500000	99
500001-1000000	15
1000001-5000000	17
5000001-10000000	1
10000001-100000000	2
	657

**During the period under question:**

During the year, the provision for Workers' Welfare Fund held by the fund till June 30, 2015 has been reversed on January 12, 2017. Further, the provision in respect of Sindh Workers' Welfare Fund has been made on a prudent basis with effect from May 21, 2015. For further details, refer note 12.1 to the financial statements.

There has been no significant change in the state of affairs of the Fund. NAFA Financial Sector Income Fund does not have any soft commission arrangement with any broker in the industry.

**Sindh Workers' Welfare Fund (SWWF)**

The scheme has maintained provisions against Sindh Workers' Welfare Fund's liability to the tune of Rs. 1.874 m. If the same were not made the NAV per unit/FY17 return of scheme would be higher by Rs.0.0171/0.18% For details investors are advised to read note 12.1 of the Financial Statement of the Scheme for the year ended June 30, 2017.

# NAFA FINANCIAL SECTOR INCOME FUND

## Review Report to the Unit Holders on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of **NBP Fullerton Asset Management Limited** (“the Management Company”) of NAFA Financial Sector Income Fund (the Fund) for the year ended 30 June 2017, to comply with clause 5.19 of the Pakistan Stock Exchange Limited Regulations where the Fund is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund’s compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. 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 Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors’ statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company’s corporate governance procedures and risks.

The Code requires the Management company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2017.

Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph reference where these are stated in the Statement of Compliance:

Paragraph reference	Description
21	As per the Code, there should be announcement of ‘closed period’ prior to the announcement of interim / final results and any business decisions, however a ‘closed period’ was not announced before 60th and 61st board meeting.
23	No register is maintained enlisting persons employed under contract or otherwise who have access to inside information.
23	A mechanism for an evaluation of the Board’s own performance is in place. However, the Management Company is in the process of completion of the annual evaluation of the Board.

Date: September 15, 2017

Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants

# NAFA FINANCIAL SECTOR INCOME FUND

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **NAFA Financial Sector Income Fund** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2017 and the related income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in unit holders' fund for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### Management's responsibility for the financial statements

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

#### Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2017 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

#### Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Non-Banking Finance Companies (Establishment and Regulation Rules, 2003) and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The financial statements of the Fund for the year ended 30 June 2016 were audited by another firm of Chartered Accountants, who vide their report dated 30 September 2016, addressed to the unitholders, had expressed an unmodified opinion thereon.

Date: September 15, 2017

Karachi

KPMG Taseer Hadi & Co.  
Chartered Accountants  
Engagement Partner: Muhammad Nadeem

# NAFA FINANCIAL SECTOR INCOME FUND

## Statement of Assets and Liabilities As at 30 June 2017

	Note	2017 -----Rupees in '000-----	2016
<b>Assets</b>			
Bank balances	5	779,534	336,091
Investments	6	410,879	510,716
Profit receivables	7	2,579	6,424
Preliminary expenses and floatation costs		-	69
Security deposit		100	100
Receivable against conversion of units		1,923	463,064
Advance, prepayment and other receivable	8	432	345
<b>Total assets</b>		<u>1,195,447</u>	<u>1,316,809</u>
<b>Liabilities</b>			
Payable to NBP Fullerton Asset Management Limited - Management Company	9	2,422	1,711
Payable to Central Depository Company of Pakistan Limited - Trustee	10	142	137
Payable to Securities and Exchange Commission of Pakistan	11	697	822
Payable against redemption of units		9,654	18,328
Accrued expenses and other liabilities	12	30,163	41,112
<b>Total liabilities</b>		<u>43,078</u>	<u>62,110</u>
<b>Net assets</b>		<u>1,152,369</u>	<u>1,254,699</u>
<b>Unit holders' fund (as per statement attached)</b>		<u>1,152,369</u>	<u>1,254,699</u>
<b>Contingency and commitment</b>	13	-----Number of units-----	
<b>Number of units in issue</b>	14	<u>109,819,491</u>	<u>119,810,599</u>
<b>Net assets value per unit</b>		<u>10.4933</u>	<u>10.4723</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## Income Statement For the year ended 30 June 2017

	Note	2017	2016
		-----Rupees in '000-----	
<b>Income</b>			
Income from term deposit receipts		12,376	13,663
Income from term finance certificates and commercial papers		30,998	36,553
Profit on bank deposits		26,812	36,385
Net unrealised (diminution) on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	6.5	(2,332)	(4,924)
Gain on sale of investments - net		-	2,479
Income from government securities		-	5,476
<b>Total income</b>		<u>67,854</u>	<u>89,632</u>
<b>Expenses</b>			
Remuneration to NBP Fullerton Asset Management Limited - Management Company	9.1	6,612	12,502
Sindh Sales Tax on remuneration to Management Company	9.2	859	2,030
Federal Excise Duty on remuneration to Management Company	12.2	-	2,000
Remuneration of Central Depository Company to Pakistan Limited - Trustee	10.1	1,544	1,737
Sindh Sales Tax on remuneration to Trustee	10.2	201	243
Annual fee - Securities and Exchange Commission of Pakistan		697	822
Allocation of expenses related to registrar services, accounting, operation and valuation services	9.3	930	575
Amortisation of preliminary expenses and floatation costs		70	219
Securities transaction cost		-	8
Settlement and bank charges		407	550
Annual listing fee		55	40
Auditors' remuneration	15	613	644
Legal and professional charges		46	10
Mutual fund rating fee		315	290
Other charges		-	101
<b>Total expenses</b>		<u>12,349</u>	<u>21,771</u>
<b>Net income from operating activities</b>		<u>55,505</u>	<u>67,861</u>
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net		(14,694)	(32,195)
Reversal of provision of Workers' Welfare Fund	12.1	17,975	-
Provision for Sindh Workers' Welfare Fund	12.1	(1,875)	-
<b>Net income for the year before taxation</b>		<u>56,911</u>	<u>35,666</u>
Taxation	16	-	-
<b>Net income for the year after taxation</b>		<u><u>56,911</u></u>	<u><u>35,666</u></u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## Statement of Comprehensive Income For the year ended 30 June 2017

	2017	2016
	-----Rupees in '000-----	
Net income for the year	56,911	35,666
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<u>56,911</u>	<u>35,666</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## Distribution Statement For the year ended 30 June 2017

	2017	2016
	-----Rupees in '000-----	
<b>Undistributed income brought forward comprising:</b>		
- Realised income	104,594	103,179
- Unrealised loss	(4,924)	(4,038)
	<u>99,670</u>	<u>99,141</u>
Net income for the year	56,911	35,666
Interim distribution for the year ended 30 June 2017: 8.52% (Date of distribution: 19 June 2017) [(2016: 6.656%) (Date of distribution: 29 June 2016)]		
- Cash distribution (refer note 14.1)	(54,614)	(35,137)
<b>Undistributed income at end of the year</b>	<u>101,967</u>	<u>99,670</u>
<b>Undistributed income carried forward comprising:</b>		
- Realised income	104,299	104,594
- Unrealised loss	(2,332)	(4,924)
	<u>101,967</u>	<u>99,670</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director



# NAFA FINANCIAL SECTOR INCOME FUND

## Statement of Movement in Unit Holders' Fund For the year ended 30 June 2017

	2017	2016
	-----Rupees in '000-----	
Net assets at beginning of the year	1,254,699	776,933
Issue of 116,601,822 units (2016: 316,564,805 units)	1,244,952	3,326,671
Redemption of 126,592,930 units (2016: 270,974,675 units)	(1,364,273)	(2,881,629)
	(119,321)	445,042
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net - amount representing loss transferred to income statement	14,694	32,195
Gain on sale of investments - net	-	2,479
Net unrealised (diminution) on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	(2,332)	(4,924)
Other net income for the year	59,243	38,111
<b>Total comprehensive income for the year</b>	56,911	35,666
Interim distribution for the year ended 30 June 2017: 8.52% (Date of distribution: 19 June 2017) [(2016: 6.656%) (Date of distribution: 29 June 2016)] - Cash distribution (refer note 14.1)	(54,614)	(35,137)
<b>Net assets at end of the year</b>	<u>1,152,369</u>	<u>1,254,699</u>
Net assets value per unit at beginning of the year	10.4723	10.4679
Net assets value per unit at end of the year	10.4933	10.4723

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## Cash Flow Statement For the year ended 30 June 2017

	Note	2017 -----Rupees in '000-----	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income before taxation		56,911	35,666
<b>Adjustments:</b>			
Net unrealised (diminution) on re-measurement of investments classified as 'financial assets at fair value through profit or loss'		2,332	4,924
Amortisation of preliminary expenses and floatation costs		70	219
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net		14,694	32,195
		<u>74,007</u>	<u>73,004</u>
<b>Decrease / (increase) in assets</b>			
Investments		97,505	21,703
Profit receivables		3,845	719
Advance, prepayment and other receivable		(87)	624
		<u>101,263</u>	<u>23,046</u>
<b>(Decrease) / increase in liabilities</b>			
Payable to NBP Fullerton Asset Management Limited - Management Company		711	(1,557)
Payable to Central Depository Company of Pakistan Limited - Trustee		5	(64)
Payable to Securities and Exchange Commission of Pakistan		(125)	(650)
Accrued expenses and other liabilities		(18,978)	(2,969)
		<u>(18,388)</u>	<u>(5,240)</u>
<b>Net cash generated from operating activities</b>		<u>156,882</u>	<u>90,810</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Amounts received against issuance of units		1,659,508	2,833,416
Payment against redemption of units		(1,372,947)	(4,031,596)
Distributions paid		-	(53,508)
<b>Net cash generated from / (used in) financing activities</b>		<u>286,561</u>	<u>(1,251,688)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<u>443,443</u>	<u>(1,160,878)</u>
Cash and cash equivalents at beginning of the year		336,091	1,496,969
<b>Cash and cash equivalents at end of the year</b>	5	<u><u>779,534</u></u>	<u><u>336,091</u></u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## Notes to and forming part of the Financial Statements For the year ended 30 June 2017

### 1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** NAFA Financial Sector Income Fund (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited as the Management Company and the Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on 28 July 2011 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 16 August 2011 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).
- 1.2** The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 7th floor, Clifton Diamond Building, Block No. 4, Scheme No. 5, Clifton, Karachi. The Management Company is also the member of Mutual Funds Association of Pakistan (MUFAP).
- 1.3** The Fund is an open-ended mutual fund classified as an "income scheme" by the Management Company as per the criteria for categorization of open end collective investment scheme as specified by Securities and Exchange Commission of Pakistan (SECP) and other allied matters and is listed on the Pakistan Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund.
- 1.4** The core objective of the Fund is to provide income enhancement and preservation of capital by investing in prime quality Financial Sector term finance certificates (TFCs) / sukuks, bank deposits and short-term money market instruments.
- 1.5** The Pakistan Credit Rating Agency (PACRA) has assigned an asset manager rating of 'AM1' to the Management Company and stability rating of 'A+(f)' to the Fund.
- 1.6** Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as the Trustee of the Fund.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the repealed Companies Ordinance, 1984, and the requirements of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008, (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever, the requirement of the NBFC Rules, the NBFC Regulations and the said directives differ with the requirements of these standards, the requirements of the NBFC Rules, the NBFC Regulations, and the said directives shall prevail (refer note 3.2).

#### 2.2 Accounting convention

These financial statements are prepared under the historical cost convention except for certain investments which are carried at fair values.

#### 2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Fund's functional and presentation currency.

#### 2.4 Critical accounting estimates and judgments

In preparing these financial statements, management has made judgement, estimates and assumptions that affect the application of the Fund's accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to estimates are recognised prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amount recognised in the financial statements and assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the subsequent years related to classification and valuation of investments (refer note 4.1 and note 6).

### 3 NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS OF IFRSs

- 3.1** There are new and amended standards and interpretations that are mandatory for accounting periods beginning 01 July 2016 but are considered not to be relevant or do not have any significant effect on the Fund's financial statements and are therefore not stated in these financial statements.
- 3.2** Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2017:

# NAFA FINANCIAL SECTOR INCOME FUND

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 01 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on the Fund's financial statements.
- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 01 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are not likely to have an impact on the Fund's financial statements.
- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 01 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on the Fund's financial statements.
- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after 01 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on the Fund's financial statements.
- Annual improvements to IFRS standards 2014-2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:
- Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 01 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 - 'Non-current Assets Held for Sale and Discontinued Operations'. The amendments are not likely to have an impact on the Fund's financial statements.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after 01 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on the Fund's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 01 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 01 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax.
- The Companies Ordinance, 1984 was repealed by the enactment of the Companies Act, 2017 on 30 May 2017. SECP vide its Circular 17 of 2017 and its press release dated 20 July 2017 has clarified that all those companies whose financial year, including quarterly and other interim period, closes on or before 30 June 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 requires enhanced disclosures and has also enhanced the definition of related parties. The amendments are not likely to have an impact on the Fund's financial statements except extended disclosures.
- SECP through SRO 756(I)/2017 dated 03 August 2017 with immediate effect has made certain amendments in NBFCs and Notified Entities Regulations, 2008. The SRO changed the definition of accounting income in regulation (63) sub-regulation (I) which excludes the element of income from "accounting income". The said SRO also deleted 'Distribution Statement' and requires additional disclosures and recording of element of income / loss included in price of unit issued or redeemed in Statement of movements in reserves or unit holders' fund instead of income statement. This change will affect the charge for SWWF in respect of element of income and consequently NAV per unit in future years.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all periods presented.

### 4.1 Financial assets

#### 4.1.1 Classification

The Fund classifies its financial assets into the following categories: loans and receivables, at fair value through profit or loss and available for sale. The classification depends on the purpose for which the financial assets were acquired. The Management Company determines the classification of its financial assets at initial recognition.

# NAFA FINANCIAL SECTOR INCOME FUND

## a) Loans and receivables

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

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

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the financial assets 'at fair value through profit or loss' category.

## c) Available for sale

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

All investments in the fund as at 30 June 2017 are classified as 'financial assets at fair value through profit and loss'.

### 4.1.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

### 4.1.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

### 4.1.4 Subsequent measurement

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

#### a) Basis of valuation of Debt Securities

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

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

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.

#### b) Loans and receivables

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

### 4.1.5 Impairment of financial assets

The carrying value of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

#### a) Debt securities

Provision for non-performing debt securities is made on the basis of time based criteria as prescribed under circular 33 of 2012 dated 24 October 2012 issued by SECP.

As allowed under circular no. 13 of 2009 dated 04 May 2009 and circular 33 of 2012 dated 24 October 2012 issued by SECP the management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid circular, in accordance with a provisioning policy approved by the Board of Directors and disseminated by the Management Company on its website.

# NAFA FINANCIAL SECTOR INCOME FUND

## b) Loans and receivables

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

### 4.1.6 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.

### 4.1.7 Offsetting of financial assets and liabilities

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

## 4.2 Cash and cash equivalents

Cash and cash equivalents comprise of deposits and current accounts maintained with banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

## 4.3 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

## 4.4 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

## 4.5 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

## 4.6 Taxation

The income of the Fund is exempt from income tax as per clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders, provided that for the purpose of determining distribution of not less than 90% of its accounting income for the year, the income distributed through bonus units shall not be taken into account.

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

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of taxation in these financial statements as the Fund distributes more than ninety percent of its accounting income for the current year and intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders' every year.

## 4.7 Issue and redemption of units

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

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

# NAFA FINANCIAL SECTOR INCOME FUND

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

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

The element of income and capital gains included in the prices of units issued less those in units redeemed to the extent that it is represented by income earned during the year is recognised in the income statement and to the extent that it is represented by unrealized appreciation / (diminution) arising during the year on available for sale securities is included in the distribution statement.

## 4.9 Net assets value per unit

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

## 4.10 Earnings per unit

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

## 4.11 Revenue recognition

- Realised gains / (losses) arising on sale of investments are included in the Income Statement on the date at which transactions take place.
- Unrealised appreciation / (diminution) arising on re-measurement of investments classified as financial assets 'at fair value through profit or loss' are included in the income statement in the period in which they arise.
- Unrealised appreciation / (diminution) arising on re-measurement of investments classified as 'available for sale' are included in the statement of comprehensive income in the period in which they arise.
- Income on purchase of Term Finance Certificate is recognised on an accrual basis to income statement.
- Profit on bank deposits, term deposit receipts and commercial papers is recognised using the accrual method.

## 4.12 Proposed distribution

Dividend / distributions are recognised in the financial statements in the period in which such distributions are declared / approved.

5	Note	2017	2016
-----(Rupees in '000)----			
<b>BANK BALANCES</b>			
In current accounts		1,724	1,622
In savings accounts	5.1 & 5.2	667,810	334,469
Term deposit receipt	5.3	110,000	-
		<u>779,534</u>	<u>336,091</u>

5.1 These accounts carry profit at the rates ranging from 3.75% to 8.00% (30 June 2016: 5.50% to 8.00%) per annum.

5.2 This includes an amount of Rs. 33.713 million on account of redemption of units and Rs. 10.795 million on account of issuance of units relating to various funds under management against switching of units at close of financial period which have been cleared subsequently.

5.3 This represents short term deposit with JS Bank Limited at the rate of 6.75% p.a and having maturity on 27 September 2017.

6	Note	2017	2016
-----(Rupees in '000)----			
<b>INVESTMENTS</b>			
<b>Investments by category</b>			
<b>Financial assets 'at fair value through profit or loss'</b>			
Term finance certificates - listed	6.1	34,956	105,630
Term finance certificates - unlisted	6.2	256,741	255,086
<b>Loans and receivables</b>			
Commercial Paper	6.3	29,182	-
Term deposit receipts - long term	6.4	90,000	150,000
		<u>410,879</u>	<u>510,716</u>

# NAFA FINANCIAL SECTOR INCOME FUND

## 6.1 Term finance certificates - listed

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

Name of the investee company	Number of certificates / bonds				Market value/ Carrying value as at 30 June 2017	Market value / Carrying value as a percentage of net assets	Market value/ carrying value as a percentage of total investments
	As at July 01,2016	Purchases during the period	Sale / matured during the period	As at June 30, 2017			
	Rupees in '000				----- % -----		
Faysal Bank Limited - III	27,900	-	-	27,900	34,956	3.03	8.51
Carrying value before fair value adjustments as at 30 June 2017.					36,020		

## 6.2 Term finance certificates - unlisted

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

Askari Bank Limited IV (face value Rs 1 million)	44	-	-	44	44,562	3.87	10.85
Bank Alfalah Limited IV	34,300	-	-	34,300	57,285	4.97	13.94
JS Bank Limited	-	23,400	-	23,400	117,835	10.23	28.68
Jahangir Siddiqui and Company Limited	4,000	-	-	4,000	20,518	1.78	4.99
Standard Chartered Bank Limited - IV	3,300	-	-	3,300	16,541	1.44	4.03
	41,644	23,400	-	65,044	256,741	22.28	62.49
Carrying value before fair value adjustments as at 30 June 2017					258,009		

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

Name of securities	Number of certificates	Repayment Frequency	Unredeemed face value (Rupees)	Mark-up rate (per annum)	Issue date	Maturity Date	Rating
Unsecured							
Listed term finance certificates							
Faysal Bank Limited III	27,900	Semi Annually	1,248	6-months KIBOR + 2.25%	27 December 2010	27 December 2017	AA-
Unlisted term finance certificates							
Askari Bank Limited - IV	44	Semi Annually	998,000	6-months KIBOR + 1.75%	23 December 2011	23 December 2021	AA
Bank Al-Falah Limited - IV	34,300	Semi Annually	1,662	6-months KIBOR + 2.50%	02 December 2009	02 December 2017	AA
Standard Chartered Bank Limited	3,300	Semi Annually	5,000	6-months KIBOR + 0.75%	29 June 2012	29 June 2022	AAA
Secured							
Unlisted term finance certificates							
JS Bank Limited	23,400	Semi Annually	4,999	6-months KIBOR + 1.65%	14 December 2016	14 December 2023	AA-
Jahangir Siddiqui and Company Limited	4,000	Semi Annually	5,000	6-months KIBOR + 1.65%	24 June 2016	24 June 2021	AA+

## 6.3 Investment in Commercial Paper

Name of Issuer	Maturity Date	Face Value				Carrying value as at 30 June 2017	Carrying value as a percentage of net assets	Carrying value as a percentage of total investments
		As at 01 July 2016	Purchases during the year	Sales / matured during the year	As at 30 June 2017			
(Rupees in '000)								
JS Global Capital Limited	07 November 2017	-	30,000	-	30,000	29,182	2.53	7.10

6.3.1 This Commercial paper has been issued at discount and is being amortised over a period of 179 days.

6.4 This represents term deposit receipts placed with Khushali Bank Limited carrying markup rate of 8.35% and having maturity of upto 17 July 2017.



# NAFA FINANCIAL SECTOR INCOME FUND

	Note	2017	2016
		----- (Rupees in '000) -----	
<b>6.5 Net unrealised (diminution) on re-measurement of investments classified as 'financial assets at fair value through profit or loss'</b>			
Market value / Carrying value of investments	6.1 & 6.2	291,697	360,716
Less: Carrying cost of investments	6.1 & 6.2	<u>(294,029)</u>	<u>(365,640)</u>
		<u>(2,332)</u>	<u>(4,924)</u>
<b>7 PROFIT RECEIVABLES</b>			
Profit receivables on savings accounts		81	52
Accrued Markup on Term deposit receipts		1,508	4,805
Accrued Markup on Term finance certificates		990	1,567
		<u>2,579</u>	<u>6,424</u>
<b>7.1</b> Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from October 29, 2011 as per the requirements set out in the Trust Deed.			
	Note	2017	2016
		----- (Rupees in '000) -----	
<b>8 ADVANCE, PREPAYMENT AND OTHER RECEIVABLE</b>			
Advance tax		268	190
Prepaid annual rating fee		164	150
Receivable against money market placement		-	5
		<u>432</u>	<u>345</u>
<b>9 PAYABLE TO NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY</b>			
Management remuneration	9.1	545	514
Sindh Sales Tax on Management remuneration	9.2	71	84
Sales load and transfer load		626	318
Sindh Sales Tax on sales load		81	51
Allocation of expenses related to registrar services, accounting, operation and valuation services	9.3	930	575
Preliminary expenses and floatation costs		-	17
Other expenses		169	152
		<u>2,422</u>	<u>1,711</u>
<b>9.1</b> Under the revised Non-Banking Finance Companies & Notified Entities Regulations 2008, notified on 25 November 2015, the Management Company of the Fund is entitled to a remuneration of an amount not exceeding 1.5 percent of average annual net assets. Effective from 07 December 2015, the Management Company charged its remuneration at the rate of 10% of net income subject to minimum of 0.5% of average net assets and maximum of 1.5% of average net assets of the Fund.			
<b>9.2</b> The Sindh Provincial Government levied Sindh Sales Tax on the remuneration of the Management Company and sales load through Sindh Sales Tax on Services Act, 2011, effective from 01 July 2011. During the year, Sindh Sales Tax at the rate of 13% (30 June 2016: 14%) was charged on management remuneration and sales load.			
<b>9.3</b> Securities and Exchange Commission of Pakistan through its SRO 1160(I)/2015 dated 25 November 2015 has revised the Non-Banking Finance Companies and Notified Entities Regulations, 2008. In the revised regulations a new clause 60(s) has been introduced allowing the management company to charge "fees and expenses related to registrar services, accounting, operation and valuation services related to CIS maximum up to 0.1% of average annual net assets of the Fund or actual whichever is less" from the mutual funds managed by it. Accordingly, such expense has been charged at the rate of 0.1% of average annual net assets of the Fund.			
	Note	2017	2016
		----- (Rupees in '000) -----	
<b>10 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE</b>			
Trustee remuneration	10.1	126	120
Sindh Sales Tax on Trustee remuneration	10.2	16	17
		<u>142</u>	<u>137</u>
<b>10.1</b> The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets value of the Fund. The remuneration is paid to the Trustee monthly in arrears.			

# NAFA FINANCIAL SECTOR INCOME FUND

The tariff structure applicable to the Fund is as follows:

Net assets	Tariff per annum
Upto Rs 1,000 million	Rs. 0.6 million or 0.17% p.a of net assets whichever is higher
Rs 1,000 million to 5,000 million	Rs.1.7 million plus 0.085% p.a. of net assets exceeding Rs. 1,000 million
Over Rs 5,000 million	Rs.5.1 million plus 0.07% p.a. of net assets exceeding Rs. 5,000 million

**10.2** The Sindh Provincial Government levied Sindh Sales Tax on the remuneration of the Trustee through Sindh Sales Tax on Services Act, 2011, effective from 1 July 2015. During the year, Sindh Sales Tax at the rate of 13% (30 June 2016: 14%) was charged on trustee remuneration.

## **11 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

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

	Note	2017 ------(Rupees in '000)-----	2016
<b>12 ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Provision for Sindh Workers' Welfare Fund	12.1	1,875	-
Provision for Workers' Welfare Fund	12.1	-	17,975
Federal Excise Duty on remuneration to Management Company	12.2	14,947	14,947
Federal Excise Duty on sales and transfer load		467	467
Auditors' remuneration		401	448
Printing charges		56	130
Bank charges		135	110
Withholding tax		9,861	4,977
Capital gain tax		1,272	2,029
CDC Charges		133	-
Legal and professional charges		-	13
Brokerage		16	16
Others		1,000	-
		<u>30,163</u>	<u>41,112</u>

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

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

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

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

# NAFA FINANCIAL SECTOR INCOME FUND

The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on 12 January 2017 and the SECP vide its letter dated 1 February 2017 has advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosures in the financial statements of the CISs/ mutual funds. Accordingly, reversal of provision for WWF amounted to Rs. 17.975 million and recording of provision for SWWF of Rs. 1.542 million upto 12 January 2017 has been made. Thereafter, the provision for SWWF is being made on a daily basis. Had the SWWF not been provided, the NAV per unit of the Fund would have been higher by Rs. 0.0171 (June 30, 2016: Nil).

- 12.2** As per the requirement of Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective 13 June 2013. The Management Company is of the view that since the remuneration is already subject to provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law, hence a petition was collectively filed by the Mutual Fund Association of Pakistan with the Honorable Sindh High Court (SHC) on 4 September 2013.

The Honorable Sindh High Court (SHC) through its recent order dated 2 June 2016, in CPD-3184 of 2014 (and others) filed by various taxpayers, has inter alia declared that Federal Excise Act 2005 (FED Act) is on services, other than shipping agents and related services, is ultra vires to the Constitution from 01 July 2011. However, the declaration made by the Honorable Court, as directed, will have affect in the manner prescribed in the judgment. The Sind High Court in its decision dated 16 July 2016 in respect of constitutional petition filed by management companies of mutual funds maintained the previous order on the FED.

Sindh Revenue Board and Federal Board of Revenue have filed appeals before Honourable Supreme Court against the Sindh High Court's decision dated 2 June 2016, which is pending for the decision. However, after the exclusion of the mutual funds from federal statute on FED from 1 July 2016, the Fund has discontinued making the provision in this regard.

Since the appeal is pending in the Supreme Court of Pakistan, the Management Company as a matter of abundant caution has retained provision for FED on management fee aggregating to Rs. 16.443 out of which Rs. 1.496 million have been paid to the Management Company (30 June 2016: Rs. 16.443 million). Had the provision not been made, the Net Asset Value per unit of the Fund would have been higher by Rs. 0.1497 (30 June 2016: Rs. 0.1372) per unit.

Federal Excise Duty on management remuneration and Federal Excise Duty on sales load has been reclassified from payable to NBP fullerton asset management limited - Management Company to accrued expense and other liabilities in order to give better presentation and accordingly comparatives have been rearranged.

## 13 CONTINGENCY AND COMMITMENT

There is no contingency and commitment as at 30 June 2017.

## 14 NUMBER OF UNITS IN ISSUE

	Note	2017	2016
-----Number of units-----			
Total units in issue at beginning of the year			
Add: units issued		119,810,599	74,220,469
Less: units redeemed	14.1	116,601,822	316,564,805
Total units in issue at end of the year		<u>(126,592,930)</u>	<u>(270,974,675)</u>
		<u>109,819,491</u>	<u>119,810,599</u>

- 14.1** This includes 4,476,879 units (2016: 2,883,151 units) issued against Dividend Reinvestment Plan amounting to Rs. 46.585 million (2016: 30.191 million), net of taxation.

## 15 AUDITORS' REMUNERATION

	2017	2016
-----Rupees in '000-----		
Annual audit fee	340	387
Half yearly review	136	165
Out of pocket expenses and others including government levy	137	92
	<u>613</u>	<u>644</u>

## 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 ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed to the unit holders as cash dividend. Furthermore, regulation 63 of the NBFC Regulations requires the Fund to distribute 90% of the net accounting income other than capital gains 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. Since the Management Company has distributed the income earned by the Fund during the year to the unit holders in the manner as explained above, no provision for taxation has been made in these financial statements.

# NAFA FINANCIAL SECTOR INCOME FUND

## 17 TOTAL EXPENSE RATIO

Total expense ratio (all the expenses, including government levies, incurred during the year divided by average net asset value for the year) is 0.40% per annum. Total expense ratio (excluding government levies) is 1.14% per annum.

## 18 FINANCIAL INSTRUMENTS BY CATEGORY

-----June 30, 2017-----

Particulars	Loans and receivables	At fair value through profit or loss - held for trading	Total
-------------	-----------------------	---	-------

-----Rupees in '000-----

Assets			
Bank balances	779,534	-	779,534
Investments	119,182	291,697	410,879
Profit receivable	2,579	-	2,579
Security deposit	100	-	100
Receivable against conversion of units	1,923	-	1,923
	<u>903,318</u>	<u>291,697</u>	<u>1,195,015</u>

-----June 30, 2017-----

Particulars	At fair value through profit or loss	At amortised cost	Total
-------------	--------------------------------------	-------------------	-------

-----Rupees in '000-----

Liabilities			
Payable to NBP Fullerton Asset Management Limited - Management Company	-	2,422	2,422
Payable to Central Depository Company of Pakistan Limited -Trustee	-	142	142
Payable against redemption of units	-	9,654	9,654
Accrued expenses and other liabilities	-	1,741	1,741
	<u>-</u>	<u>13,959</u>	<u>13,959</u>

-----June 30, 2016-----

Particulars	Loans and receivables	At fair value through profit or loss - held for trading	Total
-------------	-----------------------	---	-------

-----Rupees in '000-----

Assets			
Bank balances	336,091	-	336,091
Investments	150,000	360,716	510,716
Profit receivable	6,424	-	6,424
Security deposit	100	-	100
Receivable against conversion of units	463,064	-	463,064
Other receivable	5	-	5
	<u>955,684</u>	<u>360,716</u>	<u>1,316,400</u>

-----June 30, 2017-----

Particulars	At fair value through profit or loss	At amortised cost	Total
-------------	--------------------------------------	-------------------	-------

-----Rupees in '000-----

Liabilities			
Payable to NBP Fullerton Asset Management Limited - Management Company	-	1,711	1,711
Payable to Central Depository Company of Pakistan Limited -Trustee	-	137	137
Payable against redemption of units	-	18,328	18,328
Accrued expenses and other liabilities	-	717	717
	<u>-</u>	<u>20,893</u>	<u>20,893</u>

# NAFA FINANCIAL SECTOR INCOME FUND

## 19 TRANSACTIONS AND BALANCES WITH CONNECTED PERSONS

19.1 Connected persons include NBP Fullerton Asset Management Limited being the Management Company (NAFA), Central Depository Company of Pakistan Limited (CDC) being the Trustee, National Bank of Pakistan (NBP) and its connected persons, and Alexandra Fund Management Pte. Limited being the sponsors, NAFA Pension Fund, NAFA Provident Fund Trust being the associates of the Management Company, other collective investment schemes managed by the Management Company and directors and officers of the Management Company, 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 and unit holders holding ten percent or more units of the Fund.

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

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

19.4 The details of significant transactions and balances with connected persons at year end except those disclosed elsewhere in these financial statements are as follows:

19.5 Transactions during the year:	2017	2016
	-----Rupees in '000-----	
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Remuneration of the Management Company	6,612	12,502
Sindh Sales Tax on management remuneration	859	2,030
Allocation of expenses related to registrar services, accounting, operation and valuation services	930	575
Sales load and transfer load paid	911	790
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration of the Trustee	1,544	1,737
Sindh Sales Tax on Trustee remuneration	201	243
<b>National Bank of Pakistan - Sponsor</b>		
Profit earned by the fund on saving account	113	31
<b>Chief Operating Officer</b>		
Redemption of units: Nil (2016: 45,963 units)	-	489
<b>Pakistan Electronic Media Regulatory Authority</b>		
Dividend Reinvestment 634,186 units (2016: Nil units)	6,643	-
<b>Barret Hudgson Pakistan Private Limited</b>		
Units issued: 21,551,838 units (2016: Nil)	227,470	-
Units redeemed: 5,226,887 units (2016: Nil)	59,171	-
<b>Employees of the Management Company</b>		
Units issued: 734,905 units (2016: 2,023,916 units)	7,778	21,383
Units redeemed: 291,064 units (2016: 1,907,900 units)	3,118	20,243
<b>NAFA Income Opportunity Fund</b>		
Market treasury bills sold	-	94,537
<b>Askari Commercial Bank Limited</b>		
Mark up on bank balance	29	-
<b>Bank Islami Pakistan Limited</b>		
Mark up on bank balance	57	-
<b>19.6 Amounts outstanding at year end</b>		
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund	-	17
Sales load and transfer load payable	626	836
Other payable	-	152
Management remuneration payable	545	514
Sindh Sales Tax payable	71	84
Allocation of expenses related to registrar services, accounting, operation and valuation services	930	575

# NAFA FINANCIAL SECTOR INCOME FUND

	2017	2016
	-----Rupees in '000-----	
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	142	137
Security deposit	100	100
<b>National Bank of Pakistan - Sponsor</b>		
Balance in current account	224	-
Balance in savings account	5,419	762
Profit receivable on bank deposit	8	28
<b>Barret Hudgson Pakistan Private Limited</b>		
19,327,481 units held (2016: 3,002,530 units)	202,809	31,443
<b>Pakistan Electronic Media Regulatory Authority</b>		
11,030,277 units held (2016: Nil units)	115,744	-
<b>Employees of the Management Company</b>		
574,361 units held (2016: 130,521 units)	6,027	1,367
<b>Askari Commercial Bank Limited</b>		
Balance in savings account	529	-
Markup on savings account	6	-
<b>Summit Bank Limited</b>		
Balance in current account	1,501	1,398
<b>NAFA Islamic Active Allocation Plan III</b>		
Net (payable) against conversion of units	-	(174)
<b>NAFA Income Opportunity Fund</b>		
Net receivable against conversion of units	-	423,934
<b>NAFA Islamic Stock Fund</b>		
Net (payable) against conversion of units	-	(2,521)
<b>NAFA Government Securities Liquid Fund</b>		
Net (payable) against conversion of units	-	(15,438)
<b>NAFA Riba Free Savings Fund</b>		
Net (payable) against conversion of units	-	(154)
<b>NAFA Asset Allocation Fund</b>		
Net receivable against conversion of units	1,598	4,593
<b>NAFA Islamic Asset Allocation Fund</b>		
Net receivable against conversion of units	325	-
<b>NAFA Islamic Energy Fund</b>		
Net receivable against conversion of units	-	3,971
<b>NAFA Income Fund</b>		
Net receivable against conversion of units	-	30,566
<b>Bank Islami Pakistan Limited</b>		
Bank balance	495	-

## 20 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of members of the investment committee of the Fund are as follows:

S.No.	Name	Qualification	Experience in years
1	Dr. Amjad Waheed	Doctorate in Business Administration, CFA & MBA	29
2	Sajjad Anwar	CFA / MBA Finance	17
3	Muhammad Ali Bhabha*	MBA / MS / CFA / FRM	22
4	Mr. Hassan Raza	ACCA / BSC / CFA	6
5	Mr. Taha Khan Javed	MBA / CFA	11

\*Mr. Muhammad Ali Bhabha is the Fund manager. He is also managing NAFA Government Securities Liquid Fund, NAFA Money Market Fund, NAFA Riba Free Savings Fund, NAFA Income Fund and NAFA Active Allocation Riba Free Savings Funds.

# NAFA FINANCIAL SECTOR INCOME FUND

24 List of brokers / dealers by percentage of commission paid / payable during the year ended 30 June 2016:

S. No.	Particulars	Percentage
1.	Elixir Securities Pakistan (Private) Limited	72.68
2.	BMA Capital Management limited	18.21
3.	Pearl Securities (Private) Limited	9.11

22 PATTERN OF UNIT HOLDING

----- As at June 30, 2017-----

Category	Number of unit holders	Investment amount	Percentage of investment
Rupees in '000			
Individuals	618	557,377	48.37
Retirement Funds	15	151,720	13.17
Bank	1	63	0.01
Others	23	443,209	38.45
	<u>657</u>	<u>1,152,369</u>	<u>100.00</u>

----- As at June 30, 2016-----

Category	Number of unit holders	Investment amount	Percentage of investment
Rupees in '000			
Individuals	648	634,397	50.56
Retirement funds	18	124,778	9.94
Insurance companies	1	18,505	1.47
Others	30	477,019	38.03
	<u>697</u>	<u>1,254,699</u>	<u>100.00</u>

23 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 60th, 61st, 62nd and 63rd Board meetings were held on 23 September 2016, 28 October 2016, 28 February 2017 and 28 April 2017 respectively. Information in respect of attendance by directors in the meetings is given below:

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave granted	
Mr. Nausherwan Adil	4	4	-	-
Mr. Aamir Sattar	4	4	-	-
Mr. Abdul Hadi Palekar	4	3	1	61st meeting
Mr. Koh Boon San (refer note 23.1)	2*	2	-	-
Mr. Lui Mang Yin (Martin Lui)	4	4	-	-
Dr. FOO Chiah Shiung (Kelvin Foo) (refer note 23.2)	2*	1	1	63rd meeting
Mr. Kamal Amir Chinoy	4	4	-	-
Mr. Shehryar Faruque	4	3	1	62nd meeting
Saiyed Hashim Ishaque (refer note 23.3)	3*	3	-	-
Mr. Humayun Bashir (refer note 23.4)	1*	1	-	-
Dr. Amjad Waheed	4	4	-	-

23.1 Mr. Koh Boon San retired in EOGM held on 21 November 2016.

23.2 Dr. FOO Chiah Shiung (Kelvin Foo) opted as Director on the Board with effect from 21 November 2016.

23.3 Mr. Saiyed Hashim Ishaque retired in EOGM held on 17 March 2017.

23.4 Mr. Humayun Bashir opted as Director on the Board with effect from 17 March 2017.

\* These directors were appointed and retired during the year, therefore the number of meetings held in respect of these directors is less than the total number of meetings held during the year.

# NAFA FINANCIAL SECTOR INCOME FUND

## 24 FINANCIAL RISK MANAGEMENT

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 based on limits established by the Management Company, Fund's constitutive documents 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 Fund is willing to accept. The Board of Directors of the Management Company supervises the overall risk management approach within the Fund.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed by Board of Directors and Audit Committee regularly to reflect changes in market conditions and the Fund's activities.

The management of these risks is carried out by the Investment Committee (IC) under policies approved by the Board of Directors of the Management Company. The IC is constituted and approved by the Board of Directors of the Management Company. IC is responsible to devise the investment strategy and manage the investment portfolio of the Fund in accordance with limits prescribed in the Non Banking Finance Companies and Notified Entities Regulations, 2008, Offering document of the Fund in addition to Fund's internal risk management policies.

The Fund primarily invests in a portfolio of money market investments such as government securities, secured privately placed instruments, spread transactions, continuous funding system transactions and investments in other money market instruments (including the clean placements). Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to market risk, credit risk and liquidity risk.

### 24.1 Market risk

Market risk is the risk that the fair value or future cash flows of the financial instrument will fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk (equity price risk).

#### *Management of market risk*

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

#### 24.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as its operations are geographically restricted to Pakistan and all transactions are carried out in Pak Rupees.

#### 24.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

##### a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing term finance certificates exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on the last repricing date of these term finance certificates with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 2.888 million (2016: Rs 3.915 million).

Presently, the Fund also has balances in saving accounts with certain banks the interest rate of which is 3.75% to 8%.

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

As at June 30, 2017, the Fund does not hold any fixed rate instruments that may expose the Fund to fair value interest rate risk.

The composition of the Fund's investment portfolio and rates announced by Financial Market Association of Pakistan are expected to change over time. Therefore, the sensitivity analysis prepared as of 30 June 2017 is not necessarily indicative of the effect on the Fund's net assets due to future movements in interest rates.



# NAFA FINANCIAL SECTOR INCOME FUND

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

As at June 30, 2017

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

------(Rupees in '000)-----

## On-balance sheet financial instruments

### Financial Assets

Bank balances	3.75% - 8.00%	777,810	-	-	1,724	779,534
Investments	6.75% - 8.35%	119,182	291,697	-	-	410,879
Profit receivable		-	-	-	2,579	2,579
Security deposit		-	-	-	100	100
Receivable against conversion of units		-	-	-	1,923	1,923
		896,992	291,697	-	6,326	1,195,015

### Financial liabilities

Payable to NBP Fullerton Asset Management Limited - Management Company		-	-	-	2,422	2,422
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	142	142
Payable against redemption of units		-	-	-	9,654	9,654
Accrued expenses and other liabilities		-	-	-	1,741	1,741
		-	-	-	13,959	13,959

<b>On-balance sheet gap</b>		896,992	291,697	-	(7,633)	1,181,056
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## Off-balance sheet financial instruments

### Off-balance sheet gap

		-	-	-	-	-
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<b>Total interest rate sensitivity gap</b>		896,992	291,697	-	(7,633)	1,181,056
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<b>Cumulative interest rate sensitivity gap</b>		896,992	1,188,689	1,188,689		
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# NAFA FINANCIAL SECTOR INCOME FUND

As at June 30, 2016

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

------(Rupees in '000)-----

## On balance sheet financial instruments

Financial Assets						
Bank balances	5.50% - 8.00%	334,469	-	-	1,622	336,091
Investments	6.81% - 10.00%	150,000	360,716	-	-	510,716
Pro t receivable		-	-	-	6,424	6,424
Security deposit		-	-	-	100	100
Receivable against issue of units		-	-	-	463,064	463,064
Other receivable		5	-	-	-	5
		<u>484,474</u>	<u>360,716</u>	<u>-</u>	<u>471,210</u>	<u>1,316,400</u>

## Financial Liabilities

Payable to NBP Fullerton Asset Management Limited - Management Company		-	-	-	1,711	1,711
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	137	137
Payable against redemption of units		-	-	-	18,328	18,328
Accrued expenses and other liabilities		-	-	-	717	717
		<u>-</u>	<u>-</u>	<u>-</u>	<u>20,893</u>	<u>20,893</u>

On balance sheet gap		<u>484,474</u>	<u>360,716</u>	<u>-</u>	<u>450,317</u>	<u>1,295,507</u>
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Off balance sheet financial instruments		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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Off balance sheet gap		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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Total interest rate sensitivity gap		<u>484,474</u>	<u>360,716</u>	<u>-</u>	<u>450,317</u>	<u>1,295,507</u>
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Cumulative interest rate sensitivity gap		<u>484,474</u>	<u>845,190</u>	<u>845,190</u>		
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## 24.1.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from yield / interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Fund does not hold any security which exposes the Fund to price risk.

## 24.2 Credit risk

Credit risk represents the risk of a loss if counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in term finance certificates, receivables and bank balances. The credit risk on Fund is limited because the counter parties are financial institutions with reasonably high credit ratings.

The analysis below summarises the credit quality of the Fund's bank balances as at 30 June 2017 and 30 June 2016.

Ratings	2017	2016
	(Rupees in '000)	
AAA	18,682	4,840
AA+	94,672	276,905
AA	2,497	45,440
AA-	478,775	4,100
A+	-	2,386
A	73,406	538
A-	1,502	1,412
BBB	-	470
	<u>669,534</u>	<u>336,091</u>

# NAFA FINANCIAL SECTOR INCOME FUND

The maximum exposure to credit risk before any credit enhancement as at 30 June 2017 is the carrying amount of the financial assets.

## Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is mostly concentrated in term finance certificates, term deposits certificates and deposits held with commercial banks.

## 24.3 Liquidity risk

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

### Management of liquidity risk

The Fund is exposed to daily cash 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, without incurring unacceptable losses or risking damages to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in the market and can be readily disposed and are considered readily realisable.

The Fund has the ability to borrow in the short term to ensure settlement. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates. However, during the current year, no borrowing was obtained by the Fund.

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

### Maturity analysis for financial liabilities

The table below analyses the Fund's liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows:

The maturity profile of the Fund's liabilities based on contractual maturities is given below:

----- As at June 30, 2017 -----

Particulars	Total	Upto three months	Over three months and upto one year	Over one year
<b>Financial liabilities</b>				
Payable to NBP Fullerton Asset Management Limited - Management Company	2,422	2,422		
Payable to Central Depository Company of Pakistan Limited - Trustee	142	142	-	-
Payable against redemption of units	9,654	9,654	-	-
Accrued expenses and other liabilities	1,741	1,741	-	-
	<u>13,959</u>	<u>13,959</u>	<u>-</u>	<u>-</u>
Unit holders' fund	<u>1,152,369</u>	<u>1,152,369</u>	<u>-</u>	<u>-</u>

# NAFA FINANCIAL SECTOR INCOME FUND

----- As at June 30, 2016 -----

Particulars	Total	Upto three months	Over three months and upto one year	Over one year
<b>Financial liabilities</b>				
Payable to NBP Fullerton Asset Management Limited - Management Company	1,711	1,711		
Payable to Central Depository Company of Pakistan Limited - Trustee	137	137	-	-
Payable against redemption of units	18,328	18,328	-	-
Accrued expenses and other liabilities	717	717	-	-
	<u>20,893</u>	<u>20,893</u>	<u>-</u>	<u>-</u>
Unit holders' fund	<u>1,254,699</u>	<u>1,254,699</u>	<u>-</u>	<u>-</u>

## 25 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The fair value of financial assets and liabilities traded in active markets are based on the quoted market prices at the close of trading on the year end date. The Fund does not hold any securities that are based on quoted market prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

# NAFA FINANCIAL SECTOR INCOME FUND

30 June 2017

	Carrying value				Fair value			
	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>On-balance sheet financial instruments</b>								
<b>Financial assets measured at fair value</b>								
Investment in term finance certificates - listed	34,956	-	-	34,956	-	34,956	-	34,956
Investment in term finance certificates - unlisted	256,741	-	-	256,741	-	256,741	-	256,741
	<u>291,697</u>	<u>-</u>	<u>-</u>	<u>291,697</u>	<u>-</u>	<u>291,697</u>	<u>-</u>	<u>291,697</u>
<b>Financial assets not measured at fair value</b>								
	25.1							
Investments	-	119,182	-	119,182	-	-	-	-
Bank balances	-	779,534	-	779,534	-	-	-	-
Profit receivables	-	2,579	-	2,579	-	-	-	-
Security deposit	-	100	-	100	-	-	-	-
Receivable against conversion of units	-	1,923	-	1,923	-	-	-	-
	<u>-</u>	<u>903,318</u>	<u>-</u>	<u>903,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities not measured at fair value</b>								
	25.1							
Payable to NBP Fullerton Asset Management Limited - Management Company	-	-	2,422	2,422	-	-	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	142	142	-	-	-	-
Payable against redemption of units	-	-	9,654	9,654	-	-	-	-
Accrued expenses and other liabilities	-	-	1,741	1,741	-	-	-	-
	<u>-</u>	<u>-</u>	<u>13,959</u>	<u>13,959</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

30 June 2016

	Carrying value				Fair value			
	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>On-balance sheet financial instruments</b>								
<b>Financial assets measured at fair value</b>								
Investment in term finance certificates - listed	105,630	-	-	105,630	-	105,630	-	105,630
Investment in term finance certificates - unlisted	255,086	-	-	255,086	-	255,086	-	255,086
	<u>360,716</u>	<u>-</u>	<u>-</u>	<u>360,716</u>	<u>-</u>	<u>360,716</u>	<u>-</u>	<u>360,716</u>
<b>Financial assets not measured at fair value</b>								
Investments	-	150,000	-	150,000	-	-	-	-
Bank balances	-	336,091	-	336,091	-	-	-	-
Profit receivables	-	6,424	-	6,424	-	-	-	-
Security deposit	-	100	-	100	-	-	-	-
Receivable against conversion of units	-	463,064	-	463,064	-	-	-	-
Other receivable	-	5	-	5	-	-	-	-
	<u>-</u>	<u>955,684</u>	<u>-</u>	<u>955,684</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities not measured at fair value</b>								
Payable to NBP Fullerton Asset Management Limited - Management Company	-	-	1,711	1,711	-	-	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	137	137	-	-	-	-
Payable against redemption of units	-	-	18,328	18,328	-	-	-	-
Accrued expenses and other liabilities	-	-	717	717	-	-	-	-
	<u>-</u>	<u>-</u>	<u>20,893</u>	<u>20,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

# NAFA FINANCIAL SECTOR INCOME FUND

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

## 26 UNIT HOLDERS' FUND RISK MANAGEMENT

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

The Fund has no restrictions on the subscription and redemption of units.

The Fund meets the requirement of sub-regulation 54 (3a) which requires that the minimum size of an Open End Scheme shall be one hundred million rupees at all time during the life of the Fund.

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 unit holders and to maintain a strong base of assets under management.

In accordance with the risk management policies stated in note 24, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short term borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.

## 27 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 15, 2017.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA FINANCIAL SECTOR INCOME FUND

## PERFORMANCE TABLE

Particulars	For the year ended June 30, 2017	For the year ended June 30, 2016	For the year ended June 30, 2015	For the year ended June 30, 2014	For the year ended June 30, 2013	For the period from October 18, 2011 to June 30, 2012
Net assets (Rs. '000')	1,152,369	1,254,699	776,933	2,177,036	4,962,334	2,767,667
Net Income (Rs. '000')	56,911	35,666	131,731	291,554	324,206	133,321
Net Asset Value per units (Rs.)	10.4933	10.4723	10.4679	10.1404	10.2765	10.4231
Offer price per unit	10.6119	10.6108	10.6075	10.2768	10.3793	10.4231
Redemption price per unit	10.4933	10.4723	10.4679	10.1404	10.2765	10.4231
Ex - Highest offer price per unit (Rs.)	10.6119	10.6108	10.6075	10.2978	9.4880	9.4071
Ex - Lowest offer price per unit (Rs.)	9.8018	9.9805	9.5686	9.7627	9.5012	8.6781
Ex - Highest redemption price per unit (Rs.)	10.4933	10.4723	10.4679	10.1611	9.3941	9.4071
Ex - Lowest redemption price per unit (Rs.)	9.6854	9.8464	9.4426	9.6331	9.4071	8.6781
Fiscal Year Opening Ex Nav	9.6844	9.8421	9.4392	9.3941	9.4045	9.618
Total return of the fund (Annualized)	8.35%	6.40%	10.90%	7.94%	9.27%	8.37%
Capital growth	-0.45%	0.04%	2.67%	-1.89%	1.09%	1.09%
Income distribution as a % of ex nav	8.80%	6.36%	8.23%	9.84%	8.18%	7.28%
Income distribution as a % of par value	8.52%	6.66%	7.77%	9.24%	7.69%	7.00%
<b>Distribution dates</b>						
<b>Interim</b>						
19-Jun-17	0.8520					
29-Jun-16		0.6656				
30-Jun-15			0.7768			
30-Oct-13				0.1540		
13-Feb-14				0.2567		
30-Apr-14				0.2567		
26-Jun-14				0.2567		
23-Oct-12					0.2784	
26-Feb-13					0.2278	
26-Apr-13					0.2531	
17-Feb-12						0.2000
17-Apr-12						0.2000
<b>Final</b>						
11-Jul-13					0.0101	
09-Jul-12						0.3000
<b>Average annual return (launch date October 18, 2011)</b>						
(Since inception to June 30, 2017)	9.04%					
(Since inception to June 30, 2016)		9.19%				
(Since inception to June 30, 2015)			10.00%			
(Since inception to June 30, 2014)				9.62%		
(Since inception to June 30, 2013)					10.63%	
(Since inception to June 30, 2012)						12.42%
Portfolio Composition (Please see Fund Manager Report)						
Weighted average portfolio duration	56 Days	183 Days	93 Days	250 Days	68 Days	102 Days








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



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

## Head Office

7th Floor, Clifton Diamond Building, Block No.4,  
Scheme No.5, Clifton, Karachi.

**UAN:** 021-111-111-632

**Toll Free:** 0800-20002

**Sms:** NAFA INVEST to 9995

**Fax:** 021-35825335

**Email:** [info@nafafunds.com](mailto:info@nafafunds.com)

**Website:** [www.nafafunds.com](http://www.nafafunds.com)

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