



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

NAFA FINANCIAL SECTOR INCOME FUND

QUARTERLY REPORT

March
31 2017




Your investments & "NAFA" grow together



**FULLERTON FUND
MANAGEMENT**

Joint - Venture Partners

MISSION STATEMENT



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

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

Company Secretary & COO

Mr. Muhammad Murtaza Ali

Chief Financial Officer

Mr. Khalid Mehmood

Audit & Risk Committee

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

Human Resource and Remuneration Committee

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

Trustee

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

Bankers to the Fund

Askari Bank Limited
Bank Alfalah Limited
NIB Bank Limited
National Bank of Pakistan
Allied Bank Limited
Faysal Bank Limited
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 Taraqati Bank Limited
Bankislami 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

Lahore Office:

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

Islamabad Office:

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

Peshawar Office:

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

Multan Office:

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

NAFA FINANCIAL SECTOR INCOME FUND

DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the unaudited financial statements of **NAFA Financial Sector Income Fund (NFSIF)** for the period ended March 31, 2017.

Fund's Performance

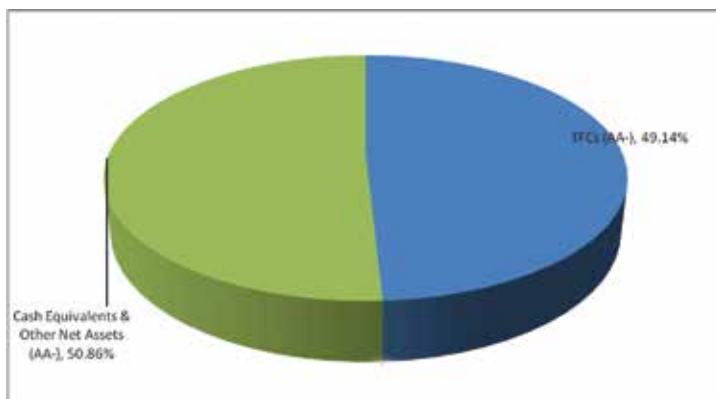
The size of NAFA Financial Sector Income Fund has decreased from Rs. 1,255 million to Rs. 763 million during the period (i.e. a decline of 39%). During the period, the unit price of the Fund has increased from Rs. 10.4723 on June 30, 2016 to Rs. 11.1809 on March 31, 2017, thus showing a return of 9.0% as compared to its benchmark return of 6.0% for the same period. The performance of the Fund is net of management fee and other expenses.

The Fund is unique as it invests a minimum 70% of its assets in financial sector (mainly banks) debt securities, instruments or deposits. Minimum entity / instrument rating of debt securities is '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 Fund has been assigned 'A+ (f)' fund stability rating by PACRA.

During the period under review, State Bank of Pakistan (SBP) maintained the discount rate and policy rate at 6.25% and 5.75% respectively. The improved interbank liquidity conditions (due to net government retirement and increase in bank deposits) were well calibrated through the open market operations – keeping the weighted average overnight repo rate close to the policy rate. However, long-term sovereign yields witnessed an average increase of around 60 basis points, indicating investors' demand for higher term premium. CPI on year-on-year basis was recorded at 4.01% in 9MFY17 as compared to 2.64% in corresponding period last year.

Overall trading activity in corporate debt securities was recorded at Rs. 7.8 billion. The trades were primarily concentrated in Banking sector TFCs.

The Fund has earned total income of Rs 59.624 million during the period. After deducting expenses of Rs.11.27 million, the net income is Rs.48.354 million. The below chart presents the asset allocation and the weighted average credit rating of each of the sub-asset classes of NFSIF.



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: April 28, 2017
Place: Karachi.

ڈائریکٹرز رپورٹ

NBP فلٹرن ایسیٹ منجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز ہمد مسرت 31 مارچ 2017ء کو ختم ہونے والی مدت کے لیے NAFA فنانسئل سیکلر انکم فنڈ (NFSIF) کے غیر آڈٹ شدہ مالیاتی گوشوارے پیش کرتے ہیں۔
فنڈ کی کارکردگی

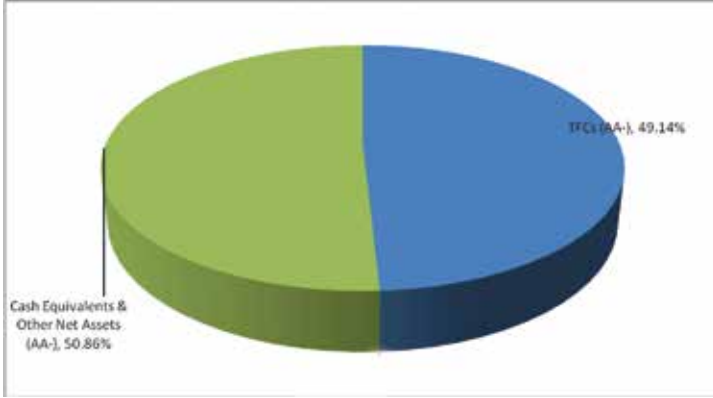
NAFA فنانسئل سیکلر انکم فنڈ کا ساڑھ اس مدت کے دوران 1,255 ملین روپے سے گھٹ کر 763 ملین روپے تک پہنچ گیا، یعنی زیر جائزہ کے دوران 39% کمی۔ اس مدت کے دوران پونٹ کی قیمت 30 جون 2016ء کو 10.4723 روپے سے بڑھ کر 31 مارچ 2017ء کو 11.1809 روپے تک پہنچ چکی ہے، لہذا اسی مدت کے لیے اپنے بیچ مارک منافع 6.0% کے مقابلے میں 9.0% منافع درج کرایا۔ فنڈ کی کارکردگی منجمنٹ فیس اور دیگر تمام اخراجات کے بعد خالص ہے۔

یہ فنڈ منفرد ہے کیوں کہ یہ اپنے اثاثوں کا کم از کم 70% فنانسئل سیکلر (بنیادی طور پر بینکنس) ڈیٹ سیکوریٹیز، انسٹرومنٹ یا ڈپازٹس میں سرمایہ کاری کرتا ہے۔ ڈیٹ سیکوریٹیز کی کم از کم اینٹیٹی / انسٹرومنٹ ریٹنگ AA- ہیں۔ اس سے کریڈٹ رسک میں کمی ہوتی ہے اور اس کے ساتھ ساتھ فنڈ کی سیالیت میں اضافہ ہوتا ہے۔ فنڈ کی میعاد ایک سال سے زائد نہیں ہو سکتی۔ یہ انڈر سٹ ریٹ یا پرائسنگ رسک کم کرتا ہے۔ فنڈ اپنے اثاثوں کا 25%، 90 دن سے کم مدت کے T-بلز یا بینکوں کے ساتھ سیویگ اکاؤنٹس میں انویسٹ کرتا ہے جس سے فنڈ کے سیالیت (لیکوئڈیٹی) پر وفاکل میں مزید اضافہ ہو جاتا ہے۔ اس فنڈ کی PACRA کی طرف سے A+(f) کی اسٹیٹیلیٹی ریٹنگ دی گئی۔

زیر جائزہ مدت میں اسٹیٹ بینک آف پاکستان (SBP) نے ڈیٹ کاؤنٹ ریٹ اور پالیسی ریٹ بالترتیب 6.25% اور 5.75% کی شرح پر برقرار رکھا۔ بہتر انفرینک سیالیت کی صورتحال (نیٹ گورنمنٹ ریٹائرمنٹ اور بینک ڈپازٹس میں اضافہ کے سبب) کی قدر و قیمت کا اپون مارکیٹ آپریشنز کے ذریعہ بہتر تعین کیا گیا۔ جبکہ ریپو کے راتوں رات ریٹ کی شرح کی قدر کو پالیسی ریٹ سے قریب تر رکھا گیا۔ تاہم طویل المعیاد بہترین نتائج میں تقریباً 60 بنیادی پوائنٹس کا اوسط اضافہ ہوا، جس سے سرمایہ کاروں کی زیادہ مدت کے پریٹیم کی طلب کا مظاہرہ ہوا۔ مالی سال 2017ء کے نو ماہ میں سال بہ سال بنیاد پر CPI 4.01% ریکارڈ کیا گیا جو گزشتہ سال اسی مدت میں 2.64% تھا۔

مجموعی طور پر کارپوریٹ ڈیٹ سیکورٹیٹیز کی تجارتی سرگرمیاں 7.8 ملین روپے رہیں۔ تجارت میں ابتدائی توجہ بینکنگ کے شعبہ TFCs پر رہی۔

فنڈ نے اس مدت کے دوران 59,624 ملین روپے کی مجموعی منافع دیا۔ 11.27 ملین روپے کے اخراجات منہا کرنے کے بعد خالص منافع 48,354 ملین روپے ہے۔ درج ذیل چارٹ NFSIF کی ایسیٹ ایلوکیشن اور اس کے ذیلی اثاثوں کے تمام درجوں کی پیمائش شدہ اوسط کریڈٹ ریٹنگ پیش کرتا ہے:



اظہارِ تشکر

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

منجانب بورڈ آف ڈائریکٹرز

NBP فلٹرن ایسیٹ منجمنٹ لمیٹڈ

ڈائریکٹر

چیف ایگزیکٹو

بتاریخ

28 اپریل 2017ء

مقام: کراچی

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES (UN-AUDITED) AS AT MARCH 31, 2017

	Note	March 31 , 2017 Unaudited	June 30, 2016 Audited
(Rupees in '000)			
ASSETS			
	4		
Bank balances		397,724	336,091
Investments		384,328	510,716
Profit receivable		10,739	6,424
Preliminary expenses and floatation costs		-	69
Security deposit		100	100
Receivable against issue of units		2,417	463,064
Prepayments and other receivables		528	345
Total assets		795,836	1,316,809
LIABILITIES			
Payable to the Management Company		17,447	17,125
Payable to Central Depository Company of Pakistan Limited - Trustee		127	137
Payable to the Securities and Exchange Commission of Pakistan		542	822
Payable against redemption of units		6,813	18,328
Accrued expenses and other liabilities		7,805	25,698
Total liabilities		32,734	62,110
NET ASSETS		763,102	1,254,699
Unit holders' fund (as per statement attached)	5	<u>763,102</u>	<u>1,254,699</u>
CONTINGENCIES AND COMMITMENTS			
(Number of units)			
Number of units in issue		<u>68,250,660</u>	<u>119,810,599</u>
(Rupees)			
Net asset value per unit		<u>11.1809</u>	<u>10.4723</u>

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED) FOR THE NINE MONTH PERIOD AND QUARTER ENDED MARCH 31, 2017

Note	Nine month ended		Quarter ended	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
------(Rupees in '000)-----				
INCOME				
Capital gain / (loss) on sale of investments - net	-	2,478	-	(156)
Income from term finance certificates	22,641	28,358	7,616	8,729
Income from government securities	-	5,473	-	15
Profit on bank deposits and Term Deposit Receipts	31,564	40,846	6,984	11,717
Reversal of provision for Workers' Welfare Fund	17,976	-	17,976	-
Net unrealised (diminution) / appreciation in the value of investments classified as financial assets at fair value through profit or loss'	(1,556)	(2,438)	161	(874)
Total income	70,625	74,717	32,737	19,431
EXPENSES				
Remuneration of the Management Company	5,132	10,926	1,423	1,897
Sindh sales tax on remuneration of the Management Company	667	1,775	185	309
Federal excise duties on remuneration of the Management Company	-	1,748	-	303
Allocation of operational expenses from the Management Company	722	360	193	244
Remuneration of the Trustee	1,195	1,373	328	409
Sindh sales tax on remuneration of the Trustee	155	192	42	58
Annual fee - Securities and Exchange Commission of Pakistan	542	660	145	182
Securities transaction cost	117	7	74	5
Settlement and bank charges	112	448	90	144
Annual listing fee	41	30	14	10
Auditors' remuneration	536	478	143	137
Fund's Rating fee	233	208	83	69
Legal and Professional Charges	46	-	23	-
Provision for Sindh workers' welfare fund - previous years	713	-	713	-
Amortisation of preliminary expenses and floatation costs	70	165	1	55
Total expenses	10,281	18,370	3,457	3,822
Net income from operating activities	60,344	56,347	29,280	15,609
Element of (loss) and capital (losses) included in prices of units issued less those in units redeemed - net	(11,001)	(15,384)	(2,944)	(10,083)
Provision for Sindh workers' welfare fund	(989)	-	(989)	-
Net income for the period before taxation	48,354	40,963	25,347	5,526
Taxation	-	-	-	-
Net income for the period after taxation	48,354	40,963	25,347	5,526

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED) FOR THE NINE MONTH PERIOD AND QUARTER ENDED MARCH 31, 2017

	<u>Nine month ended</u>		<u>Quarter ended</u>	
	<u>March 31, 2017</u>	<u>March 31, 2016</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
	------(Rupees in '000)-----			
Net income for the period after taxation	48,354	40,963	25,347	5,526
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	<u><u>48,354</u></u>	<u><u>40,963</u></u>	<u><u>25,347</u></u>	<u><u>5,526</u></u>

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE NINE MONTH PERIOD AND QUARTER ENDED MARCH 31, 2017

	Nine month ended		Quarter ended	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
	------(Rupees in '000)-----			
Undistributed income brought forward	99,670	99,141	122,677	134,578
Net income for the period	48,354	40,963	25,347	5,526
Undistributed income carried forward	<u>148,024</u>	<u>140,104</u>	<u>148,024</u>	<u>140,104</u>
Undistributed income comprising of :				
- Realised gain	149,580	142,542	147,863	142,542
- Unrealised (loss) / gain	(1,556)	(2,438)	161	(2,438)
Undistributed income carried forward	<u>148,024</u>	<u>140,104</u>	<u>148,024</u>	<u>140,104</u>

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND (UN-AUDITED) FOR THE NINE MONTH PERIOD AND QUARTER ENDED MARCH 31, 2017

	Nine month ended		Quarter ended	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
------(Rupees in '000)-----				
Net assets at the beginning of the period	1,254,699	776,933	793,085	1,105,109
Issue of 39,447,300 units (March 31 2016 : 156,595,941 units)	421,780	1,649,763	67,260	52,549
Redemption of 91,007,239 units (March 31 2016 : 152,333,596 units)	(972,732) (550,952)	(1,620,524) 29,239	(125,534) (58,274)	(310,748) (258,199)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed				
- amount representing (income) / loss that form part of unit holders' fund - transferred to Income statement	11,001	15,384	2,944	10,083
- amount representing (income) / loss that form part of unit holders' fund - transferred to distribution statement	-	-	-	-
Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	(1,556)	(2,438)	161	(874)
Capital loss on sale of investments	-	2,478	-	(156)
Other operating income	49,910	40,923	25,186	6,556
Net income for the period	48,354	40,963	25,347	5,526
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed	-	-	-	-
Net assets as at the end of the period	763,102	862,519	763,102	862,519

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED) FOR THE NINE MONTH PERIOD AND QUARTER ENDED MARCH 31, 2017

	Nine month ended		Quarter ended	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
------(Rupees in '000)-----				
CASH FLOW FROM OPERATING ACTIVITIES				
Net income for the period before taxation	48,354	40,963	25,347	5,526
Adjustments :				
Net unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	1,556	2,438	(161)	874
Element of loss and capital losses included in prices of units issued less those in units redeemed - net	11,001	15,384	2,944	10,083
Amortisation of preliminary expenses and floatation costs	70	165	1	55
	<u>60,981</u>	<u>58,950</u>	<u>28,131</u>	<u>16,538</u>
Decrease / (increase) in assets				
Investments	124,832	5,880	90,000	44,989
Advances, deposits, prepayments and other receivables	(184)	764	(233)	10
Profit receivable	(4,315)	(4,941)	(7,414)	(9,657)
	<u>120,333</u>	<u>1,703</u>	<u>82,353</u>	<u>35,342</u>
(Decrease) / increase in liabilities				
Payable to the Management Company	322	(331)	212	(46)
Payable to Central Depository Company of Pakistan Limited - Trustee	(10)	(6)	(45)	19
Payable to the Securities and Exchange Commission of Pakistan	(280)	(812)	145	182
Accrued expenses and other liabilities	(17,893)	(5,272)	(15,280)	1,462
	<u>(17,861)</u>	<u>(6,421)</u>	<u>(14,968)</u>	<u>1,617</u>
Net cash generated from operating activities	<u>163,453</u>	<u>54,232</u>	<u>95,516</u>	<u>53,497</u>
CASH FLOW FROM FINANCING ACTIVITIES				
Receipts from issue of units	882,427	1,649,763	64,843	52,549
Payment on redemption of units	(984,247)	(2,788,789)	(118,721)	(312,374)
Distribution paid	-	(53,508)	-	-
Net cash (used in) financing activities	<u>(101,820)</u>	<u>(1,192,534)</u>	<u>(53,878)</u>	<u>(259,825)</u>
Net increase in cash and cash equivalents during the period	<u>61,633</u>	<u>(1,138,302)</u>	<u>41,638</u>	<u>(206,328)</u>
Cash and cash equivalents at the beginning of the period	336,091	1,546,969	356,086	614,995
Cash and cash equivalents as at the end of the period	<u><u>397,724</u></u>	<u><u>408,667</u></u>	<u><u>397,724</u></u>	<u><u>408,667</u></u>

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE NINE MONTH PERIOD AND QUARTER ENDED MARCH 31, 2017

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Financial Sector Income Fund (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited as the Management Company and the Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on July 28, 2011 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on August 16, 2011 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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 principal office of the Management Company is situated at 7th Floor Clifton Diamond Building, Block No.4, Scheme No.5, Clifton, Karachi. The Management Company is a member of the Mutual Funds Association of Pakistan (MUFAP).

The Fund is an open-end mutual fund and is listed on the Pakistan Stock Exchange (Now merged into Pakistan Stock Exchange Limited). Units of the Fund are offered for public subscription on a continuous basis. These units are transferable and can be redeemed by surrendering to the Fund. The Fund is categorized as an Open-End "Income Scheme" as per the criteria laid down by the SECP for categorization of Collective Investment Schemes (CISs).

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.

The Pakistan Credit Rating Agency (PACRA) has assigned Management Quality Rating of 'AM1' w.e.f April 21, 2017 to the Management Company and Fund stability rating of 'A+(f)' to the Fund.

Title to the assets of the Fund is held in the name of CDC as Trustee of the Fund.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These condensed interim financial information have been prepared in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. The approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules), the Non-Banking Finance and Notified Entities Regulations, 2008 (the NBFC Regulations) and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP differ with the requirements of the IFRSs, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

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

In compliance with Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the directors of the Management Company hereby declare that this condensed interim financial information gives a true and fair view of the state of the Fund's affairs as at March 31, 2017.

3 ACCOUNTING POLICIES

The accounting policies adopted for the preparation of the condensed interim financial information are the same as those applied in the preparation of the annual audited financial statements for the year ended June 30, 2016.

NAFA FINANCIAL SECTOR INCOME FUND

	Note	31 March 2017 Unaudited	30 June 2016 Audited
(Rupees in '000)			
4 INVESTMENTS			
At fair value through profit or loss			
Term finance certificates - listed	4.1	70,132	105,630
Term finance certificates - unlisted	4.2	314,196	255,086
Loans and receivables			
Term Deposit Receipts - Long Term		-	150,000
		<u>384,328</u>	<u>510,716</u>

4.1 Term finance certificates - listed

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

Name of the investee company	Number of certificates / bonds				Market value/ Carrying value as at March 31, 2017	Investment as a percentage of	
	As at July 01, 2016	Purchases during the period	Sales/ matured during the period	As at March 31, 2017		Net assets	Market value of total investments
Rupees in '000						-----%-----	
Term finance certificates - listed							
Faysal Bank Limited - III	27,900	-	-	27,900	70,132	9.19	18.25
				<u>27,900</u>	<u>70,132</u>	<u>9.19</u>	<u>18.25</u>
Carrying Value as at March 31, 2017					70,825		
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'					<u>(693)</u>		

4.2 Term finance certificates - unlisted

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

Name of the investee company	Number of certificates / bonds				Market value/ Carrying value as at March 31, 2017	Investment as a percentage of	
	As at July 01, 2016	Purchases during the period	Sales/ matured during the period	As at March 31, 2017		Net assets	Market value of total investments
Rupees in '000						-----%-----	
Term finance certificates - unlisted							
Bank Alfalah Limited - IV	34,300	-	-	34,300	114,889	15.06	29.89
Askari Bank Limited - IV	44	-	-	44	44,571	5.84	11.60
JS Bank Limited	-	23,400	-	23,400	117,708	15.42	30.63
Jahangir Siddiqui and Company Ltd.	4,000	-	-	4,000	20,520	2.69	5.34
Standard Chartered Bank	3,300	-	-	3,300	16,508	2.16	4.30
				<u>65,044</u>	<u>314,196</u>		
Carrying Value as at March 31, 2017					315,059		
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'					<u>(863)</u>		

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

5 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at March 31, 2017 and as at June 30, 2016.

6 PROVISION FOR SINDH WORKERS' WELFARE FUND

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 November 10, 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 November 10, 2016 passed in the Civil Appeal may kindly be reviewed in the interest of justice.

NAFA FINANCIAL SECTOR INCOME FUND

Furthermore, the Sindh Revenue Board (SRB) had written to few mutual funds in January 2016 to register and pay Sindh Workers Welfare Fund (SWWF) for the accounting year closing on or after December 31, 2013. The MUFAP reviewed the issue and based on an opinion decided that SWWF is not applicable on mutual funds as they are not financial institutions as required by SWWF Act, 2014. The 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. The 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. The 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 Federal and Sindh WWF on Mutual Funds, the MUFAP has recommended the following to all its members on January 12, 2017:

based on legal opinion, the entire provision against the Federal WWF held by the CISs till June 30, 2015, to be reversed on January 12, 2017; and

the provision in respect of Sindh WWF should be made on a prudent basis on January 12, 2017 with effect from the date of enactment of the Sindh WWF Act, 2014 (i.e. starting from May 21, 2015).

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

The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on January 12, 2017 and the SECP vide its letter dated February 1, 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, the Fund has recorded these adjustments in its books on January 12, 2017.

The Scheme has maintained provisions against Sindh Workers' Welfare Fund's liability to the tune of Rs.1.702 million. If the same were not made the NAV per unit of scheme would be higher by Rs.0.0249.

7 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the period, as reduced by capital gains, whether realised or unrealised, is distributed to the unit holders. The management intends to distribute atleast 90% of the Fund's net accounting income earned by the year end to the unit holders. Accordingly, no provision for taxation has been made in this condensed interim financial information.

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

8 TOTAL EXPENSE RATIO

Total expense ratio (all the expenses incurred during the period divided by average net asset value for the period) is 1.56% p.a including 0.43% representing government levies on Collective Investment Schemes such as Sales tax, Worker's Welfare Fund and Securities and Exchange Commission of Pakistan fee for the period.

9 TRANSACTIONS WITH CONNECTED PERSONS

- 9.1 Connected persons include NBP Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan (NBP), and Alexandra Fund Management Pte. Limited being the sponsors, NAFA Provident Fund Trust being the employee contribution plan of the Management Company, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.
- 9.2 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 9.3 Remuneration and front - end load payable to the Management Company and remuneration payable to the Trustee are determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

NAFA FINANCIAL SECTOR INCOME FUND

	(Unaudited)			
	Nine month ended		Quarter ended	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
9.4 Details of the transactions with connected persons are as follows:		2015	2016	2015
		----- (Rupees in '000) -----		
NBP Fullerton Asset Management Limited - Management Company				
Remuneration of Management Company	5,132	10,926	1,423	1,897
Sindh Sales Tax on Management Company's remuneration	667	1,775	185	309
Federal excise duty on Management Company's remuneration	-	1,748	-	303
Allocation of operational expenses from the Management Company	722	360	193	244
Front end load	191	629	30	79
National Bank of Pakistan - Sponsor				
Amount paid against redemption of units	-	721,058	-	-
Distributions paid	-	53,508	-	-
Bank Profit	93	6	93	6
Central Depository Company of Pakistan Limited - Trustee				
Remuneration of the Trustee	1,195	1,373	328	409
Sindh sales tax on remuneration of the Trustee	155	192	42	58
CDS Charges	117	219	74	72
COO / Company Secretary				
Redemption of Nil units (March 31 2016: 45,963 units)	489	489	489	-
Employees of the Management Company				
54,023 Units issued / transferred in during the period (March 31 2016 : 1,474,201 units)	575	15,504	-	74
184,470 Units redeemed / transferred out during the period (March 31 2016 : 1,450,026 units)	1,954	15,295	-	701
NAFA Income Opportunity Fund				
Sale of Treasury Bills	-	94,537	-	-
			31 March 2017	30 June 2016
			Unaudited	Audited

9.5 Balances outstanding as at period end

	(Rupees in '000)	
NBP Fullerton Asset Management Limited - Management Company		
Preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund	-	17
Other payable	169	152
Management remuneration payable	492	514
Sindh Sales Tax payable	141	84
Federal Excise Duty payable	14,947	14,947
Allocation of operational expenses payable to the Management Company	722	575
Sales load and transfer load payable to the Management Company	976	836
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	112	137
Sales tax payable on remuneration of trustee	15	-
Security deposit	100	100
National Bank of Pakistan - Sponsor		
Profit receivable on bank balances	1	28
Bank balance	9,226	762
Employees of the Management Company		
Units held 73 units (June 30, 2016 : 130,521 units)	1	1,367
Summit Bank Limited		
Bank balance	1,979	1,398

NAFA FINANCIAL SECTOR INCOME FUND

	31 March 2017 Unaudited	30 June 2016 Audited
	(Rupees in '000)	
Amount receivable / (payable) against issuance and redemption of units to:		
NAFA Government Securities Liquid Fund	-	(15,438)
NAFA Islamic Active Allocation Plan III	-	(174)
NAFA Islamic Stock Fund	-	(2,521)
NAFA Riba Free Savings Fund	-	(154)
NAFA Income Opportunity Fund	-	423,934
NAFA Income Fund	-	30,566
NAFA Asset Allocation Fund	-	4,593
NAFA Islamic Energy Fund	-	3,971
PAKISTAN ELECTRONIC MEDIA REGULATORY AUTHORITY		
Units held : 10,396,091 units	116,238	-

10 DATE OF AUTHORISATION FOR ISSUE

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

11 GENERAL

11.1 Figures have been rounded off to the nearest thousand rupees.

11.2 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation. No significant reclassifications have been made during the current period.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director



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