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

NAFA FINANCIAL SECTOR INCOME FUND

ANNUAL REPORT 2016



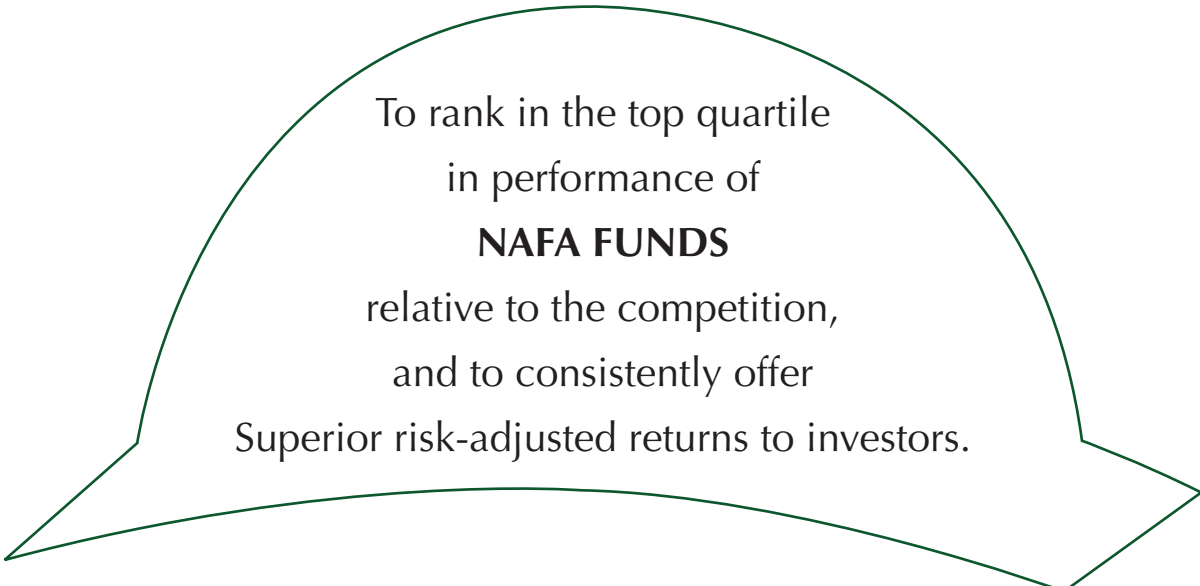
Your investments & "NAFA" grow together



**FULLERTON FUND
MANAGEMENT**

Joint - Venture Partners

MISSION STATEMENT



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

NAFA 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. Nigel Poh Cheng	Director
Mr. Koh Boon San	Director
Mr. Kamal Amir Chinoy	Director
Mr. Shehryar Faruque	Director
Mr. Aamir Sattar	Director
Mr. Abdul Hadi Palekar	Director

Company Secretary & COO

Mr. Muhammad Murtaza Ali

Chief Financial Officer

Mr. Khalid Mehmood

Audit & Risk Committee

Mr. Shehryar Faruque	Chairman
Mr. Koh Boon San	Member
Mr. Aamir Sattar	Member

Human Resource and Remuneration Committee

Mr. Nausherwan Adil	Chairman
Mr. Nigel Poh Cheng	Member
Mr. Kamal Amir Chinoy	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
Burj Bank 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 Taraqiati Bank Limited
Bankislami Pakistan Limited

NAFA FINANCIAL SECTOR INCOME FUND

Auditors

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

Legal Advisor

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

Head Office:

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

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Board of Directors



Mr. Nausherwan Adil
Chairman



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. Kamal Amir Chinoy
Director



Mr. Koh Boon San
Director



Mr. Aamir Sattar
Director



Mr. Shehryar Faruque
Director



Mr. Nigel Poh Cheng
Director



Mr. Abdul Hadi Palekar
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



Syed Suleman Akhtar CFA
Head of Research



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



Mr. Asim Wahab Khan, CFA
Head of Equity



Mr. Salman Ahmed
Head of Risk Management



Mr. Raheel Rehman ACA, CICA
Senior Manager Compliance

NAFA FINANCIAL SECTOR INCOME FUND

DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Fifth Annual Report of **NAFA Financial Sector Income Fund** for the year ended June 30, 2016.

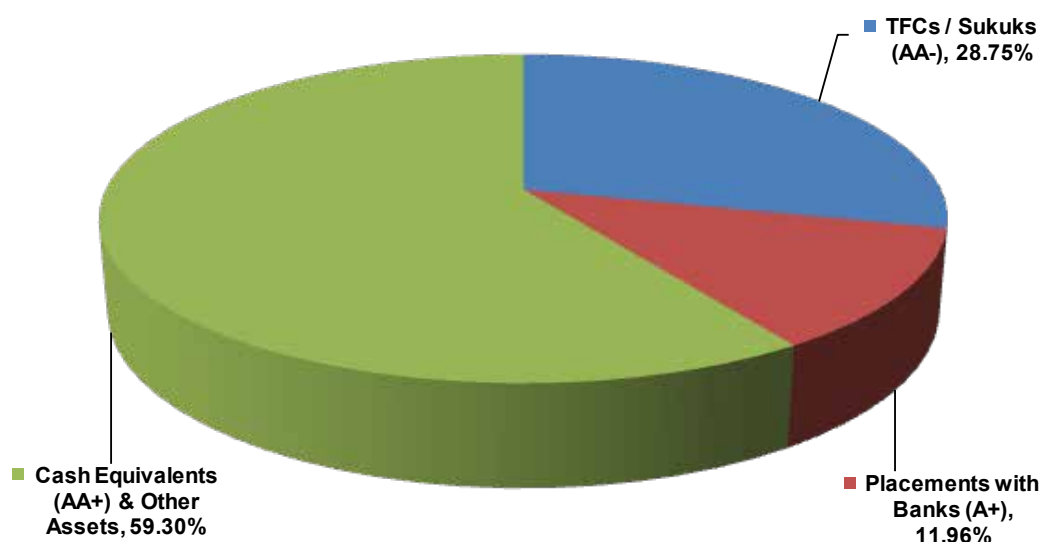
Fund's Performance

The size of NAFA Financial Sector Income Fund has increased significantly from Rs. 776 million to Rs. 1,255 million during the period, i.e. a growth of 62%. During the period, the unit price of the Fund has increased from Rs. 9.8421 (Ex - Div) on June 30, 2015 to Rs. 10.4723 on June 30, 2016 thus posting a return of 6.39% as compared to its Benchmark (70% 6 month KIBOR & 30% average 3 month deposit rates of A & above rated banks) return of 5.94% 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.

On the corporate debt sphere, trading activity in TFCs/Sukuks remained skewed towards high quality issues with total trade value touching around Rs 8 billion. The trades were mainly concentrated in the Banking sector, making up 43% share. During the period under review (FY16), due to further abatement in inflationary pressures (average inflation of 2.9%), State Bank of Pakistan (SBP) reduced the policy rate by a cumulative 75 bps following a cumulative 300 bps reduction in FY15. SBP in its policy statement highlighted (i) improvement in the macroeconomic conditions, (ii) better law and order situation; and (iii) positive growth prospects underpinned by investment under China Pakistan Economic Corridor (CPEC). During the period under review, sovereign yields responded accordingly to policy rate cut of 75 bps. We see pickup in inflation to 6% by FY17 year-end due to partial recovery in commodity prices, measured PKR devaluation, and uptick in private sector borrowing.

The Fund has earned a total income of Rs. 57.44 million during the year. After deducting total expenses of Rs.21.77 million, the net income is Rs.35.67 million. The asset allocation of NAFA Financial Sector Income Fund as on June 30, 2016 is as follows:



NAFA FINANCIAL SECTOR INCOME FUND

Income Distribution

The Board of Directors of the Management Company has approved cash dividend of 6.36% of opening ex-NAV (6.656% 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 A.F. Ferguson & Co. Chartered Accountants, has completed their five year tenure in the capacity of Auditor of the Fund. As per the requirement of Regulation 38(i) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, their replacement would be required. The Board has approved the appointment of Messrs M. Yousuf Adil Saleem & Co., Chartered Accountant, for the year ending June 30, 2017.

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 Six 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 23, 2016
Place: Karachi.

NAFA FINANCIAL SECTOR INCOME FUND

ڈائریکٹرز رپورٹ

NBP فلٹرن ایسیٹ منیجمنٹ لمیٹڈ کا بورڈ آف ڈائریکٹرز بصد مسرت 30 جون 2016ء کو ختم ہونے والے سال کے لیے NAFA فنانشل سیکٹرز انکم فنڈ کی پانچویں سالانہ رپورٹ پیش کرتا ہے۔

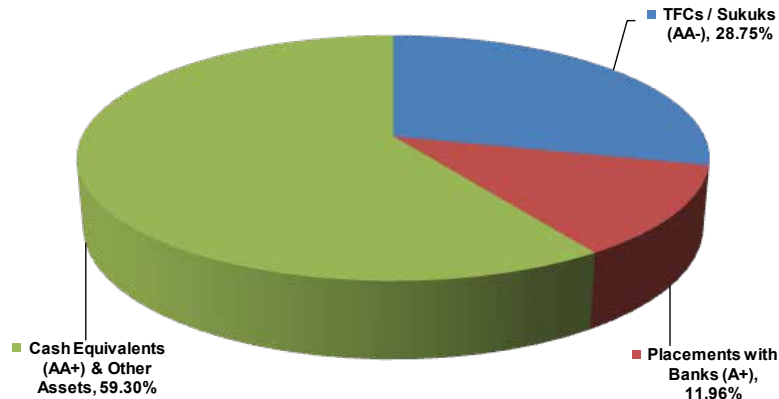
فنڈ کی پرفارمنس

NAFA فنانشل سیکٹرز انکم فنڈ کے حجم میں مدت کے دوران 776 ملین روپے سے 1,255 ملین روپے تک نمایاں اضافہ ہوا ہے، یعنی 62% اضافہ۔ اس مدت کے دوران یونٹ کی قیمت 30 جون 2015 کو 9.8421 روپے (Ex-Div) سے 30 جون 2016 کو 10.4723 روپے تک پہنچ چکی ہے، لہذا اسی مدت کے لیے اپنے بیچ مارک منافع (6) ہی KIBOR کے 70% اور زیادہ ریٹنگ والے اسلامک بینکس کے 3 ماہ کے ڈپازٹ ریٹس کا اوسط) 5.94% کے مقابلے میں 6.39% منافع درج کر لیا۔ فنڈ کا منافع منجمنٹ فیس اور دیگر اخراجات کے بعد خالص ہے۔

یہ فنڈ منفرد ہے کیوں کہ یہ اپنے اثاثوں کا کم از کم 70% فنانشل سیکٹر (بنیادی طور پر بینکس) ڈیٹ سیکورٹیز، انسٹرومنٹ یا ڈپازٹس میں انویسٹ 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 انٹرسٹ ریٹ یا پرائسنگ رسک کم کرتا ہے۔ فنڈ اپنے اثاثوں کا 25%، 90 دن سے کم مدت کے T بلز یا بینکوں کے ساتھ سیونگ اکاؤنٹس میں انویسٹ کرتا ہے جس سے فنڈ کے لیکویڈیٹی پروفائل میں مزید اضافہ ہو جاتا ہے۔

کاروباری قرض کے حلقے میں TFCs / سلوک میں تجارتی سرگرمیوں کے اعلیٰ کوالٹی اجرا کی کارروائیوں کی طرف جھکاؤ کے ساتھ مجموعی تجارتی حجم نے تقریباً 8 ارب کی سطح تک پہنچ گیا۔ لیکن دین کا اصل ارتکاز بینکاری کے شعبے میں رہا جس کا حصہ 43% بنتا ہے۔ زیر جائزہ مدت (مالی سال 2016) کے دوران، افراط زر کے دباؤ میں مزید کمی کے ساتھ (اوسط افراط زر 2.9%)، اسٹیٹ بینک آف پاکستان نے مالی سال 2015 میں پالیسی ریٹ میں 300 بنیادی پوائنٹس کی مجموعی کمی کے بعد 75 بنیادی پوائنٹس مجموعی طور پر مزید کم کر دیے۔ SBP نے اپنے پالیسی بیان میں درج ذیل کی نشان دہی کی ہے (i) مجموعی معاشی حالات میں بہتری (ii) امن وامان کی بہتر صورت حال اور (iii) چین پاکستان اقتصادی راہداری (CPEC) کے تحت سرمایہ کاری کی بدولت نمو کے مثبت امکانات۔ زیر جائزہ مدت کے دوران آزادانہ منافع جات نے پالیسی ریٹ میں 75 بنیادی پوائنٹس کی کمی کے مطابق رد عمل دکھایا۔ ہم مالی سال 2017 کے آخر تک اشیائے صرف کی قیمتوں کی جزوی بحالی، پاکستانی روپے کی قدر میں محدود کمی اور نئی شعبے کے قرضوں میں اضافے کی وجہ سے افراط زر کو 6% تک بڑھتا دیکھ رہے ہیں۔

فنڈ نے سال کے دوران 57.44 ملین روپے کی مجموعی آمدنی کمائی ہے۔ 21.77 ملین روپے کے مجموعی اخراجات منہا کرنے کے بعد خالص آمدنی 35.67 ملین روپے ہے۔ NAFA فنانشل سیکٹرز انکم فنڈ کی ایسیٹ ایلوکیشن 30 جون 2016 کو بمطابق ذیل ہے:



آمدنی کی تقسیم

منجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز نے سال کے دوران ابتدائی NAV-ex کا 6.36% (مساوی قیمت کا 6.656%) کیش ڈیویڈنڈ منظور کیا ہے۔

ٹیکسیشن

جیسا کہ مندرجہ بالا کیش ڈیویڈنڈ، انویسٹمنٹس کے تصرف شدہ اور غیر تصرف شدہ (realized and unrealized) مالیاتی منافع جات کے علاوہ، انویسٹمنٹس پر سال کے دوران کمائی گئی آمدنی کے 90% سے زائد ہے، انکم ٹیکس آرڈیننس 2001 کے دوسرے شیڈول کے حصہ 1 کی شق 99 کے تحت فنڈ پر ٹیکس لاگو نہیں ہے۔

NAFA FINANCIAL SECTOR INCOME FUND

آڈیٹرز

موجودہ آڈیٹرز میسرز ایف فرگوسن اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس نے فنڈ کے آڈیٹرز کی حیثیت سے اپنی پانچ سالہ میعاد مکمل کر لی ہے اور۔ نان بینکنگ فائننس کمپنیز اینڈ ٹیٹا اینڈ اینٹیٹیز ریگولیشنز 2008 کی ریگولیشن (h)(2)38 کے تقاضے کے مطابق ان کا متبادل درکار ہوگا۔ بورڈ نے 30 جون 2017 کو ختم ہونے والے سال کے لیے میسرز Deloitte یوسف عادل، چارٹرڈ اکاؤنٹنٹس کی تقرری کی منظوری دے دی 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 مؤثر طریقے سے نافذ ہے اور اس کی مسلسل نگرانی کی جاتی ہے۔

6- فنڈ کی رواں دواں رہنے کی صلاحیت کے بارے میں کوئی شکوک و شبہات نہیں ہیں۔

7- لسٹنگ ریگولیشنز میں تفصیلاً درج کارپوریٹ گورننس کی اعلیٰ ترین روایات سے کوئی پہلو تہی نہیں کی گئی۔

8- پرفارمنس ٹیبیل / اہم مالیاتی ڈیٹا اس سالانہ رپورٹ میں شامل ہے۔

9- ٹیکسوں، ڈیوٹیوں، 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 چھ 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 اور اعتبار اور خدمت کا موقع فراہم کرنے پر اپنے قابل قدر یونٹ ہولڈرز کا شکر یہ 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 ڈسٹی 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

23 ستمبر 2016

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, 2016 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.

Muhammad Hanif Jakhura
Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: September 30, 2016

NAFA FINANCIAL SECTOR INCOME FUND

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2016

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.

The Company, though an un-listed Public Limited Company complies with the CCG as the Fund under its management is listed on Pakistan Stock Exchange Limited.

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, 2016, the Board included:

Category	Names
Independent Directors	1. Mr. Kamal Amir Chinoy 2. Mr. Shehryar Faruque
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. Nigel Poh Cheng 5. Mr. Koh Boon San

The independent directors meets 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. No casual vacancy occurred during the year.
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.

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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 2016, three directors of the Company had acquired the director's training certificate as required under the Code. The Company plans to arrange a Director's Training Program in future, for the remaining directors.
10. The Board has approved the appointment of Chief Financial Officer (CFO) of the Company with their remuneration and terms and conditions of employment. There has been no new appointment of the Company Secretary and Head of Internal Audit 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 including an independent director and the chairman of the committee is non-executive director.

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18. The Board has set up an effective internal audit function.
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. Since there is no practical implication of closed period on the announcement of interim and final results of open end Fund. Therefore, there was no 'closed period' prior to the announcement of interim / final results.
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 except the following:
 - As per the Code, 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.

For and behalf of the Board

Karachi
September 23, 2016

Dr. Amjad Waheed
Chief Executive Officer

NAFA FINANCIAL SECTOR INCOME FUND

FUND MANAGER REPORT

NAFA Financial Sector Income Fund

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

70% 6-Month KIBOR & 30% average 3-Month deposit rates (A & above rated banks).

Fund Performance Review

This is the fifth Annual report since the launch of the Fund on October 28, 2011. The Fund size increased significantly by 62% during FY16 and stands at Rs 1,255 million as on June 30, 2016. During FY16 the Fund posted an annualized return of 6.39% versus the benchmark return of 5.94%. The Fund's return since inception is 9.19%. During the same period, the benchmark return has been 8.44%. This translates into an outperformance of 0.74% 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.

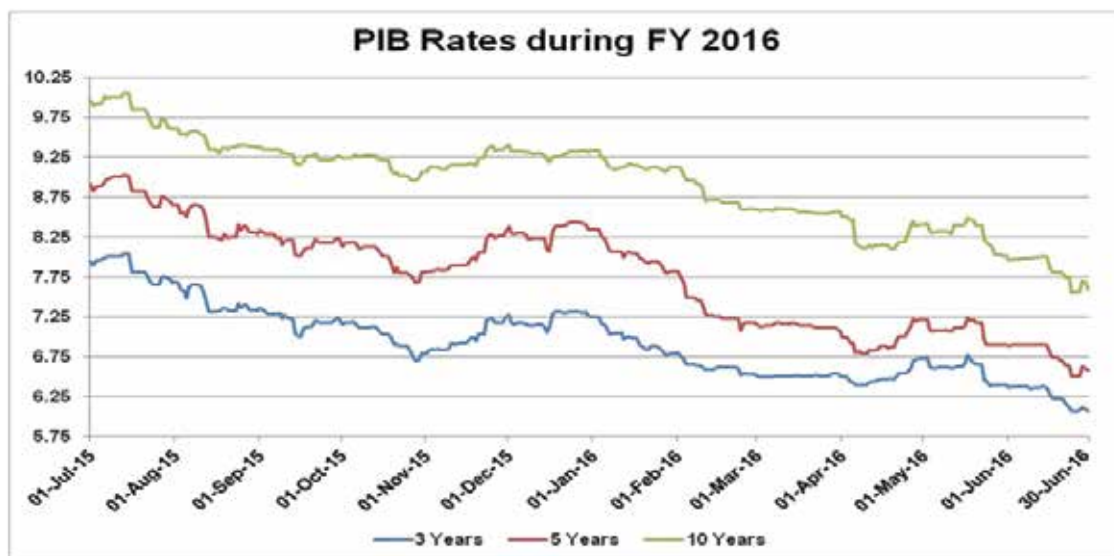
On the corporate debt sphere, trading activity in TFCs/Sukuks remained skewed towards high quality issues with total trade value touching around Rs 8 billion. The trades were mainly concentrated in the Banking sector, making up 43% share. Due to further abatement in inflationary pressures as captured in FY16 average inflation of 2.9%, State Bank of Pakistan (SBP) reduced the policy rate by a cumulative 75 bps in FY16 up on the heels of a cumulative 300 bps reduction in FY15. SBP in its policy statement highlighted (i) improvement in the macroeconomic conditions, (ii) better law and order situation; and (iii) positive growth prospects underpinned by investment under China Pakistan Economic Corridor (CPEC). During the period under review, sovereign yields responded accordingly to policy rate cut of 75 bps. We see pickup in inflation to 5.5% by year-end due to partial recovery in commodity prices, measured PKR devaluation, and uptick in private sector borrowing.

Asset Allocation of Fund (% of NAV)

Particulars	30-Jun-16	30-Jun-15
TFCs	28.75%	62.73%
Bank Placements	11.95%	-
Cash (Cash Equivalents) & Other Assets	59.30%	37.27%
Total	100.00%	100.00%

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PIB yields during the year are shown in below graph:



Distribution for the Financial Year 2016

Interim Period/Quarter	Dividend as a % of Par Value (Rs.10)	Cumulative Div. Price / Unit	Ex- Div. Price
Interim	6.656%	11.1335	10.4679

Unit Holding Pattern of NAFA Financial Sector Income Fund as on 30th June 2016

Size of Unit Holding (Units)		No. of Unit Holders
1	1000	165
1001	5000	76
5001	10000	52
10001	50000	152
50001	100000	100
100001	500000	107
500001	1000000	22
1000001	5000000	20
5000001	10000000	1
10000001	100000000	2

During the period under question: Total 697

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.

Workers' Welfare Fund (WWF)

The scheme has maintained provisions against Workers' Welfare Fund's liability to the tune of Rs 17,975,588. If the same were not made the NAV per unit/FY16 return of scheme would be higher by Rs 0.1518/1.54%. For details investors are advised to read note 17 of the Financial Statement of the Scheme for the year ended June 30, 2016.

NAFA FINANCIAL SECTOR INCOME FUND

REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE 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 June 30, 2016 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 of Corporate Governance is that of the Board of Directors of the Management Company (**NBP Fullerton Asset Management Limited**) 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 the 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's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management 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 the Fund's 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 prices 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 Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2016.

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

Paragraph reference	Description
21	No closed period was determined prior to the announcement of interim / final results.
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.

A.F. Ferguson & Co.
Chartered Accountants
Dated: September 30, 2016
Karachi

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** (hereinafter referred to as the 'Fund'), which comprise the statement of assets and liabilities as at June 30, 2016, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 entity'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 financial position of the Fund as at June 30, 2016 and of its financial performance, its cash flows and transactions for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

A.F. Ferguson & Co.
Chartered Accountants
Engagement Partner: **Noman Abbas Sheikh**
Dated: September 30, 2016
Karachi

NAFA FINANCIAL SECTOR INCOME FUND

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2016

	Note	2016 -----Rupees in '000-----	2015
ASSETS			
Bank balances	4	336,091	1,546,969
Investments	5	510,716	487,343
Profit receivable	6	6,424	7,143
Preliminary expenses and floatation costs	7	69	288
Security deposit		100	100
Receivable against issue of units	8	463,064	-
Prepayments and other receivables		345	969
Total assets		1,316,809	2,042,812
LIABILITIES			
Payable to NBP Fullerton Asset Management Limited - Management Company	9	17,125	16,682
Payable to the Central Depository Company of Pakistan Limited - Trustee	10	137	201
Payable to the Securities and Exchange Commission of Pakistan	11	822	1,472
Dividend payable		-	53,508
Payable against redemption of units	12	18,328	1,168,295
Accrued expenses and other liabilities	13	25,698	25,721
Total liabilities		62,110	1,265,879
NET ASSETS		1,254,699	776,933
UNIT HOLDERS' FUNDS (AS PER STATEMENT ATTACHED)		1,254,699	776,933
CONTINGENCIES AND COMMITMENTS			
	14	-----Number of units-----	
NUMBER OF UNITS IN ISSUE	15	119,810,599	74,220,469
		-----Rupees-----	
NET ASSET VALUE PER UNIT	3.11	10.4723	10.4679

The annexed notes 1 to 29 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2016

INCOME	Note	2016	2015
		-----Rupees in '000-----	
Capital gain on sale of investments - net		2,479	43,691
Income from term finance certificates and commercial papers		36,553	116,109
Income from government securities		5,476	35,753
Income from letters of placement		-	33
Profit on bank deposits		36,385	58,917
Income from term deposit receipts		13,663	103
Unrealised diminution on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net	5.6	(4,924)	(4,038)
Total Income		89,632	250,568
EXPENSES			
Remuneration of NBP Fullerton Asset Management Limited - Management Company	9.1	12,502	29,442
Sindh sales tax on the Management Company's remuneration	9.2	2,030	5,123
Federal excise duties on the Management Company's remuneration	9.3	2,000	4,711
Accounting and operating charges	9.4	575	-
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	10.1	1,737	2,518
Sales tax on the Remuneration of the Central Depository Company of Pakistan Limited - Trustee	10.2	243	-
Annual fee to the Securities and Exchange Commission of Pakistan		822	1,472
Amortisation of preliminary expenses and floatation costs	7	219	219
Auditors' remuneration	16	644	605
Annual listing fee		40	40
Rating fee		290	249
Printing charges		101	110
Legal and professional charges		10	125
Securities transaction cost		8	179
Settlement and bank charges		550	556
Total expenses		21,771	45,349
Net Income for the year from operating activities		67,861	205,219
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - net		(32,195)	(70,800)
Provision for Workers' Welfare Fund	17	-	(2,688)
Net income for the year		35,666	134,419
Net income for the year before taxation		35,666	131,731
Taxation	18	-	-
Net income for the year after taxation		35,666	131,731
Earnings per unit	3.12		

The annexed notes 1 to 29 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
	-----Rupees in '000-----	
Net income for the year after taxation	35,666	131,731
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u>35,666</u>	<u>131,731</u>

The annexed notes 1 to 29 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
	-----Rupees in '000-----	
Undistributed income at the beginning of the year comprising of:		
- Realised income	103,179	88,333
- Unrealised loss	<u>(4,038)</u>	<u>(13,458)</u>
	99,141	74,875
Net income for the year after taxation	35,666	131,731
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - net	-	(11,768)
Distribution made during the year		
Cash distribution of Rs 0.6656 per unit declared on June 29, 2016 (2015 : Re 0.7768 per unit declared on June 30, 2015)	(35,137)	(95,697)
Undistributed income carried forward	<u>99,670</u>	<u>99,141</u>
Undistributed income at the end of the year comprising of:		
- Realised income	104,594	103,179
- Unrealised loss	<u>(4,924)</u>	<u>(4,038)</u>
	<u>99,670</u>	<u>99,141</u>

The annexed notes 1 to 29 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
	-----Rupees in '000-----	
Net assets at the beginning of the year	776,933	2,177,036
Issue of 316,564,805 units (2015: 154,812,857 units)	3,326,671	1,701,352
Redemption of 270,974,675 units (2015: 295,280,860 units)	(2,881,629)	(3,208,289)
	445,042	(1,506,937)
Element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed - net		
- transferred to distribution statement	-	11,768
- transferred to income statement	32,195	70,800
	32,195	82,568
Unrealised diminution on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net	(4,924)	(4,038)
Capital gain on sale of investments - net	2,479	43,691
Other income (net of expenses) for the year	38,111	92,078
	35,666	131,731
Distribution during the year		
Cash distribution of Rs 0.6656 per unit declared on June 29, 2016 (2015 : Re 0.7768 per unit declared on June 30, 2015)	(35,137)	(95,697)
Element of income / (loss) and capital gains/ (losses) included in the prices of units issued less those in units redeemed - transferred to distribution statement	-	(11,768)
Net assets at the end of the year	1,254,699	776,933

The annexed notes 1 to 29 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2016

	Note	2016	2015
-----Rupees in '000-----			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year before taxation		35,666	131,731
Adjustments for:			
Profit / Income on bank deposits and debt securities		(92,077)	(210,915)
Unrealised diminution on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net		4,924	4,038
Amortisation of preliminary expenses and floatation costs		219	219
Element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed - net		32,195	70,800
Provision for Workers' Welfare Fund		-	2,688
Federal excise duty on remuneration of the Management Company		2,000	4,711
		(52,739)	(128,459)
Decrease / (increase) in assets			
Investments - net		21,703	1,199,052
Prepayments and other receivables		624	(796)
		22,327	1,198,256
Increase / (decrease) in liabilities			
Payable to NBP Fullerton Asset Management Limited - Management Company		(1,557)	1,158
Payable to the Central Depository Company of Pakistan Limited - Trustee		(64)	(59)
Payable to the Securities and Exchange Commission of Pakistan		(650)	(1,419)
Accrued expenses and other liabilities		(4,969)	1,106
		(7,240)	786
Profit received on bank balances and debt securities		92,796	263,260
Net cash generated from operating activities		90,810	1,465,574
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from issue of units		2,833,416	1,664,501
Payments on redemption of units		(4,031,596)	(2,994,526)
Distributions paid		(53,508)	-
Net cash used in financing activities		(1,251,688)	(1,330,025)
Net increase in cash and cash equivalents during the year		(1,160,878)	135,549
Cash and cash equivalents at the beginning of the year		1,546,969	1,411,420
Cash and cash equivalents at the end of the year	4.3	386,091	1,546,969

The annexed notes 1 to 29 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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 (NAFA) as the Management Company and Central Depository Company of Pakistan Limited (CDC) as 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 and Notified Entities Regulations, 2008 (the NBFC Regulations).

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 4, Scheme No. 5, Clifton, Karachi. Due to a fire incident in the month of June 2016 at the registered office of the Management Company, its office has been temporarily shifted to 2nd floor, Ex - NDFC Building, Tariq Road, 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 Limited. Units are offered for public subscription on a continuous basis. The units of the Fund are transferable and can be redeemed by surrendering these to the Fund. The Fund is categorized as an Open-End "Income Scheme" as per the criteria laid down by SECP for categorisation of Collective Investment Schemes (CIS).

The objective of the Fund is to provide income enhancement and preservation of capital by investing in prime quality Financial sector term finance certificates, sukuks, bank deposits and short-term money market instruments.

The Pakistan Credit Rating Agency (PACRA) has assigned stability rating of A+(f) to the Fund as at December 31, 2015 and an asset manager rating of AM2++ to the Management Company as at August 4, 2016.

Title of 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 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 (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 Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and the directives issued by the 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.

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

The following standard, implementations and amendment to published approved accounting standards are mandatory for the financial year beginning on or after July 01, 2015 and is relevant to the Fund:

IFRS 13 'Fair Value Measurement' establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 'Financial Instruments: Disclosures'. Additional disclosures required under IFRS 13 are included in note 27 to these financial statements.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2015 but are considered not to be relevant or do not have any significant effect on the Fund's financial statements and are, therefore, not detailed in these financial statements.

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

There are certain amendments to the existing published approved accounting standards, new interpretations and certain new standards that are mandatory for accounting periods beginning on or after July 01, 2016 but are considered not to be relevant or will not have any significant effect on the Fund's financial statements and are, therefore, not disclosed in these financial statements.

NAFA FINANCIAL SECTOR INCOME FUND

2.4 Critical accounting estimates and judgments

The preparation of the financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in application of its accounting policies. The estimates, judgments and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed as on ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

The areas involving a higher degree of judgment or complexity, or areas where estimates and assumptions are significant to the financial statements relate to classification, impairment and valuation of investments (note 3.2 and 5).

2.5 Accounting Convention

These financial statements have been prepared under the historical cost convention except that certain financial assets have been carried at fair value.

2.6 Functional and Presentation Currency

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

3.1 Cash and cash equivalents

Cash and cash equivalents comprise balances with banks and short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried in the statement of assets and liabilities at cost.

3.2 Financial assets

3.2.1 Classification

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

Investments are classified as follows:

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profits from short-term fluctuations in prices are classified as financial assets at fair value through profit or loss category. This include held for trading instruments and such other instruments that upon initial recognition are designated under this category.

b) Loans and receivables

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

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, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

3.2.2 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.

3.2.3 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 out in the income statement.

3.2.4 Subsequent measurement

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

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:

NAFA FINANCIAL SECTOR INCOME FUND

- Basis of valuation of debt securities

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the SECP for valuation of debt securities. In the determination of the rates the MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The methodology also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

- Basis of valuation of government securities

The investments of the Fund in government securities are valued on the basis of rates published by MUFAP.

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

Net gains and losses arising from changes in the fair value of available for sale financial assets are taken to other comprehensive income until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is shown as part of net income for the year.

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.

Gain or loss is also recognised in the income statement when financial assets carried at amortised cost are derecognised or impaired, and through the amortisation process.

3.2.5 Impairment

The carrying amounts of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. If any impairment evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income is reclassified from other comprehensive income and 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 no. 1 of 2009 dated January 6, 2009, circular no.33 of 2012 dated October 24, 2012 and circular no. 35 of 2012 dated November 26, 2012, issued by the SECP. Impairment losses recognised on debt securities can be reversed through the 'Income Statement'.

As allowed under circular no. 33 of 2012 dated October 24, 2012, issued by the 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.

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 is determined based on the provisioning criteria specified by the SECP.

3.2.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired, have been realised or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to management company, payable to trustee and other liabilities.

3.4 Offsetting of financial instruments

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.

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3.5 Preliminary expenses and floatation costs

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

3.6 Provisions

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

3.7 Taxation

Current

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 amongst the unit holders as cash dividend.

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.

Deferred

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 on unutilised tax losses to the extent that it is probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to avail the tax exemption under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, 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 as cash dividend.

3.8 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that day. The offer price represents the net asset 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. Sales load collected, if any, is payable to the Management Company.

Units redeemed are recorded at the redemption price, as per the constitutive documents, applicable to units for which the distributors receive redemption requests during business hours of that day. The redemption price represents daily Net Asset Value (NAV) announced as of the close of the dealing day less any back end load, provisions for transaction costs and any provision for duties and charges, if applicable.

3.9 Element of income / (loss) and capital gains / (losses) included in the 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' (the 'element') is created in order to prevent the dilution of per unit income and distribution of income already paid out on redemption. The element is determined based on the income / (loss) incurred during the year including income / (loss) arising as a result of unrealised appreciation / (diminution) on available for sale securities. Element arising as a result of unrealised appreciation / (diminution) on available for sale securities is recognised in the distribution statement. The remaining portion of the element is recognised in the income statement.

3.10 Proposed distributions

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

3.11 Net asset value per unit

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

3.12 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.

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3.13 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised appreciation / (diminution) in the value of investments classified as financial assets 'at fair value through profit or loss' are included in the income statement in the year in which they arise.
- Income on government securities is recognised on an accrual basis, using the effective interest rate.
- Income from investments in term finance certificates is recognised on an accrual basis, except where recovery is doubtful in which case it is credited to suspense account.
- Profit on bank deposits, term deposit receipts, certificate of investment and letters of placement is recognised on an accrual basis.

4 CASH AND BANK BALANCES	Note	2016	2015
----- (Rupees in '000) -----			
Savings accounts	4.1	334,469	1,543,822
Current accounts	4.2	1,622	3,147
		<u>336,091</u>	<u>1,546,969</u>

4.1 These accounts carry a rate of return ranging from 5.5% to 8% per annum (2015: 4.50% to 10.75% per annum). It includes deposit of Rs 0.538 million maintained with the National Bank of Pakistan a related party

4.2 Deposits in current accounts include Rs 0.224 million (2015: Rs 2.113 million) and Rs 1.398 million (2015: 1.034 million) maintained with National Bank of Pakistan and Summit Bank Limited respectively - related parties.

4.3 Cash and cash equivalents	Note	2016	2015
----- (Rupees in '000) -----			
Savings accounts		334,469	1,543,822
Current accounts		1,622	3,147
Term deposit receipt - with original maturity of three months or less		50,000	-
		<u>386,091</u>	<u>1,546,969</u>

5 INVESTMENTS

Financial assets 'at fair value through profit or loss'

Investment in term finance certificates - listed	5.1	105,630	222,732
Investment in term finance certificates - unlisted	5.2	255,086	264,611

Loans and receivables

Term deposit receipts	5.5	150,000	-
		<u>510,716</u>	<u>487,343</u>

5.1 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 as at June 30, 2016	Investment as a percentage of		
	As at July 01, 2015	Purchases during the period	Sale during the period	As at June 30, 2016		Net assets	Market value of total investments	Issue size
Rupees in '000						----- % -----		
Term finance certificates - listed								
Allied Bank Limited II	13,000	-	13,000	-	-	-	-	
Faysal Bank Limited - III	27,900	-	-	27,900	105,630	8.42	20.68	4.65
Pak Libya Holding Company (Pvt) Limited	10,000	-	10,000	-	-	-	-	
				<u>27,900</u>	<u>105,630</u>	<u>8.42</u>	<u>20.68</u>	

Carrying Value as at June 30, 2016 107,967

Net unrealised diminution on re-measurement of investments as at June 30, 2016 (2,337)

NAFA FINANCIAL SECTOR INCOME FUND

5.2 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 as at June 30, 2016	Investment as a percentage of		
	As at July 01,2015	Purchases during the period	Sale during the period	As at June 30, 2016		Net assets	Market value of total investments	Issue size
					Rupees in '000		% -----	
Term finance certificates - unlisted								
Bank Alfalah Limited - IV FT	39,500	-	5,200	34,300	173,969	13.87	34.06	3.43
Askari Bank Limited - IV (face value Rs 1 million)	44	-	-	44	44,580	3.55	8.73	4.40
Standard Chartered Bank	3,300	-	-	3,300	16,537	1.32	3.24	0.83
Jahangir Siddiqui and Company Limited	-	4,000	-	4,000	20,000	1.59	3.92	2.00
				<u>41,644</u>	<u>255,086</u>	<u>20.33</u>	<u>49.95</u>	
Carrying Value as at June 30, 2016					257,673			
Net unrealised diminution on re-measurement of investments as at June 30, 2016					<u>(2,587)</u>			

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

Term finance certificates - listed

Name of the investee company	Number of certificates	Face value (Rupees)	Mark up rate (per annum)	Maturity	Secured/ Unsecured	Rating
Faysal Bank Limited - III	27,900	5,000	6 month KIBOR+2.25%	December 27, 2017	Unsecured	AA-

Term finance certificates - unlisted

Name of the investee company	Number of certificates	Face value (Rupees)	Mark up rate (per annum)	Maturity	Secured/ Unsecured	Rating
Bank Alfalah Limited - IV FT	34,300	5,000	6 month KIBOR+2.5%	December 2, 2017	Unsecured	AA-
Askari Bank Limited - IV	44	1,000,000	6 month KIBOR+1.75%	December 23, 2021	Unsecured	AA-
Standard Chartered Bank Limited	3,300	5,000	6 month KIBOR+0.75%	June 29, 2022	Unsecured	AAA
Jahangir Siddiqui and Company Limited	4000	5,000	6 month KIBOR+1.65%	May 16, 2021	Secured	AA

5.4 Government securities

Market Treasury Bills

Issue date	Tenor	-----Face value-----				Market value as at June 30, 2016	Investment as a percentage of	
		As at July 01,2015	Purchases during the period	Sales / matured during the period	As at June 30, 2016		Net assets	Market value of total investments
						Rupees in '000	% -----	
August 6, 2015	12 Months	-	150,000	150,000	-	-	-	-
August 20, 2015	12 Months	-	320,000	320,000	-	-	-	-
September 3, 2015	12 Months	-	280,000	280,000	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>

5.5 This represents term deposit receipts of Rs 100 million and Rs 50 million with Khushhali Bank Limited and JS Bank Limited respectively. They carry interest at the rate of 10% and 7.35% and will mature on July 6, 2016 and September 29, 2016 respectively.

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	Note	2016 ------(Rupees in '000)-----	2015
5.6 Unrealised diminution in fair value of investments classified as 'at fair value through profit or loss' - net			
Market value of investments	5.1 & 5.2	360,716	487,343
Less : carrying value of investments	5.1 & 5.2	<u>(365,640)</u>	<u>(491,381)</u>
		<u>(4,924)</u>	<u>(4,038)</u>
6 PROFIT RECEIVABLE			
Profit receivable on bank deposits		52	2,666
Profit receivable on term finance certificates		1,567	4,477
Profit receivable on term deposit receipts		<u>4,805</u>	<u>-</u>
		<u>6,424</u>	<u>7,143</u>
7 PRELIMINARY EXPENSES AND FLOATATION COSTS			
Opening balance		288	507
Less: amortisation for the year		<u>(219)</u>	<u>(219)</u>
Closing balance		<u>69</u>	<u>288</u>
7.1 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.			
8 RECEIVABLE AGAINST ISSUE OF UNITS			
Receivable against issue of units	8.1	<u>463,064</u>	<u>-</u>
8.1 These represent amounts receivable from other collective schemes being managed by the Management Company of the Fund in respect of units issued to various unit holders based on their request to transfer units to the Fund from the other collective investment schemes. These amounts have been received from the respective collective investment schemes subsequent to the year ended June 30, 2016.			
These amounts have been received from the respective collective investment schemes subsequent to the year ended June 30, 2016.			
9 PAYABLE TO NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY			
Remuneration of the Management Company	9.1	514	2,320
Sindh Sales Tax on the Management Company's remuneration	9.2	84	404
Federal Excise Duty on the Management Company's remuneration	9.3	14,947	12,947
Sales load and transfer load payable to the Management Company		836	842
Accounting and operational charges	9.4	575	-
Preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund		17	17
Other expenses paid by the Management Company on behalf of the Fund		<u>152</u>	<u>152</u>
		<u>17,125</u>	<u>16,682</u>
9.1 In accordance with the provisions of the NBFC Regulations amended vide S.R.O 1160(I) / 2015 dated 25 November, 2015, the Management Company is entitled to receive a remuneration at the rate not exceeding 1.5% of the average daily net assets of the Fund. Accordingly, the Management Company has charged its remuneration at the rate of 1.5% per annum of the average daily net assets for the period till December 06, 2015. Subsequently, the Management Company has revised its remuneration at the higher of 10 percent of the net income of the Fund or 0.5 percent per annum of the daily net assets of the Fund with a cap of 1.5 percent per annum of the daily net assets of the Fund. The amount of remuneration is payable to the Management Company monthly in arrears.			
9.2 The Provincial Government of Sindh levied Sindh Sales Tax at the rate of 14% (2015: 15%) on the remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011.			
9.3 As per the requirement of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective June 13, 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law.			
On September 04, 2013, a Constitutional Petition has been filed in the Honorable Sindh High Court (SHC) jointly by various asset management Companies, together with their representative Collective Investment Schemes through their trustees, challenging the levy of FED.			

NAFA FINANCIAL SECTOR INCOME FUND

Subsequent to year ended June 30, 2016, the SHC has passed an order whereby all notices, proceedings taken or pending, orders made, duty recovered or actions taken under the Federal Excise Act, 2005 in respect of the rendering or providing of services (to the extent as challenged in any relevant petition) have been set aside.

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

In view of the above, the Fund has discontinued making further provision in respect of FED on management fee from July 01, 2016. The provision made with effect from June 13, 2013 to June 30, 2016, aggregating to Rs. 14.947 million (2015: Rs. 12.947 million) (including Rs. 2 million for the current year) has not been reversed as the management believes that the Federal Government retains the right to appeal against the said order in the Supreme Court within the prescribed timeline. Had the provision not been made, the Net Asset Value per unit of the Fund as at June 30, 2016 would have been higher by 0.1248 (2015: 0.1744) per unit.

- 9.4** The SECP vide SRO No 1160 (1) / 2015 dated November 25, 2015 introduced amendments in the NBFC regulations. As a result of these amendments, the Management Company of the Fund is entitled to reimbursement of fees and expenses incurred by the Management Company in relation to registrar services, accounting, operation and valuation services related to collective investment schemes upto a maximum of 0.1% of the average annual net assets of the scheme or actual whichever is less. Based on these requirements, the Management Company has charged operating expenses amounting to Rs 0.575 million to the Fund from November 25, 2015 to June 30, 2016.

	Note	2016 ------(Rupees in '000)-----	2015
10 PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE			
Trustee remuneration	10.1	120	201
Sindh Sales Tax on trustee remuneration	10.2	17	-
		<u>137</u>	<u>201</u>

- 10.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2016 and June 30, 2015 is as follows:

Amount of funds under management (average NAV)	Tariff per annum
Upto Rs. 1,000 million	Rs 0.6 million or 0.17% per annum of NAV whichever is higher
On amount exceeding Rs. 1,000 million to Rs. 5,000 million	Rs 1.7 million plus 0.085% per annum of NAV exceeding Rs 1,000 million
On amount exceeding Rs. 5,000 million	Rs 5.1 million plus 0.07% per annum of NAV exceeding Rs 5,000 million

- 10.2** The Sindh Revenue Board through Circular No. SRB 3-4/TP/01/2015/86554 dated June 13, 2015 has amended the definition of service and has levied Sindh Sales Tax on custodianship services. Accordingly, Sindh Sales Tax of 14% is charged on Trustee fee under section 2(79A) of the Sindh Finance Bill, 2010 with effect from July 01, 2015.

	Note	2016 ------(Rupees in '000)-----	2015
11 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN			
Annual fee	11.1	<u>822</u>	<u>1,472</u>

- 11.1** Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, a collective investment scheme categorised as Income Scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the scheme. There has been no change in this percentage in the current year.

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	Note	2016 ------(Rupees in '000)-----	2015
12 PAYABLE AGAINST REDEMPTION OF UNITS			
Payable against redemption of units	12.1	<u>18,328</u>	<u>1,168,295</u>

12.1 This includes Rs Nil (2015: Rs 721.058 million) which is payable to the National Bank of Pakistan (a related party). It also includes amounts aggregating to Rs 18.287 million (2015: Rs 0.4471 million) payable to other collective investment schemes being managed by the Management Company of the Fund. These amounts are payable in respect of units redeemed by various unit holders based on their request for transfer units from the Fund to the other collective investment schemes.

These amounts have been paid to the respective parties subsequent to the year ended June 30, 2016.

	Note	2016 ------(Rupees in '000)-----	2015
13 ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		448	436
Provision for Workers' Welfare Fund	17	17,975	17,975
Brokerage		16	39
Printing charges		130	135
Legal fee		13	125
Settlement and bank charges		110	81
Withholding tax payable		<u>7,006</u>	<u>6,930</u>
		<u>25,698</u>	<u>25,721</u>

14 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2016 and June 30, 2015.

	2016 -----Number of units-----	2015
15 NUMBER OF UNITS IN ISSUE		
Total units in issue at the beginning of the year	74,220,469	214,688,472
Add: units issued during the year	316,564,805	154,812,857
Less: units redeemed during the year	<u>270,974,675</u>	<u>295,280,860</u>
Total units in issue at the end of the year	<u>119,810,599</u>	<u>74,220,469</u>

	2016 -----Rupees in '000-----	2015
16 AUDITORS' REMUNERATION		
Annual audit fee and other certifications	410	380
Half yearly review fee	175	168
Out of pocket expenses	<u>59</u>	<u>57</u>
	<u>644</u>	<u>605</u>

17 PROVISION FOR WORKERS' WELFARE FUND

17.1 The Finance Act, 2008 had introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it was construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeded Rs 0.5 million in a tax year had been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this connection, a constitutional petition was filed by certain CISs through their trustees in the Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication.

During the year ended June 30, 2012, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008, had declared the said amendments as unlawful and unconstitutional. In March 2013, a larger bench of the Honourable Sindh High Court (SHC) passed an order declaring that the amendments introduced in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 do not suffer from any constitutional or legal infirmity. However, the Honorable High Court of Sindh has not addressed the other amendments made in the WWF Ordinance, 1971 about applicability of WWF to the CISs which is still pending before the Court. In May 2014, the Peshawar High Court (PHC) had also held these amendments to be ultra vires as they lacked the essential mandate to be introduced and passed through the Money Bill under the Constitution. Without prejudice to the above, the Management Company, as a matter of prudence and abundant caution, has made provision for WWF amounting to Rs 17.975 million upto June 30, 2015. Had the same not been made the net asset value per unit of the Fund as at June 30, 2016 would have been higher by Rs 0.15 (2015: Rs. 0.2422) per unit.

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17.2 The Finance Act, 2015 has excluded Mutual Funds and Collective Investment Schemes from the definition of 'Industrial establishment' subject to WWF under the WWF Ordinance, 1971. Accordingly, no further provision of WWF has been made from July 1, 2015. However, provision made till June 30, 2015 has not been reversed as the above law suit is still pending in SHC.

18 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders as cash dividend. The Fund has not recorded a provision for taxation in respect of income relating to the current year as the Management Company has already distributed the required minimum percentage of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders as cash dividend.

19 TRANSACTIONS WITH CONNECTED PERSONS

19.1 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, and Alexandra Fund Management Pte. Limited being the sponsors, other collective investment schemes managed by the Management Company and directors and officers of the Management Company. It also includes any person or company beneficially owing directly or indirectly 10% or more of the units in the issue/ net assets 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 the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.

19.4 Details of transactions with connected persons are as follows:

	2016	2015
	-----Rupees in '000-----	
NBP Fullerton Asset Management Limited - Management Company		
Remuneration for the year	12,502	29,442
Sindh Sales Tax on Management Company's remuneration	2,030	5,123
Federal Excise Duty on Management Company's remuneration	2,000	4,711
Sales load and transfer load paid	790	1,275
Accounting and operating charges	575	-
National Bank of Pakistan		
Redemption of Nil units (2015 : 68,882,766 units)	-	721,058
Cash distribution for the year	-	53,508
Bank Profit	31	-
NAFA Money Market Fund		
Market treasury bills sold during the year	-	186,275
Central Depository Company of Pakistan Limited - Trustee		
Remuneration for the year	1,737	2,518
Sindh sales tax on remuneration of the Trustee	243	-
Employees of the Management Company		
Issue of 2,023,916 units (2015 : 611,772 units)	21,383	6,764
Redemption of 1,907,900 units (2015 : 968,414 units)	20,243	10,669
Cash distribution for the year	6	11
Muhammad Murtaza Ali - Company Secretary / COO		
Issue of Nil units (2015 : 2,878 units)	-	30
Redemption of 45,963 units (2015: 37,226 units)	489	400
Cash distribution for the year	-	33
NAFA Income Opportunity Fund		
Sale of Pakistan Investment Bond	-	234,085
Sale of Treasury Bill	94,537	-
Summit Bank Limited		
Bank Profit	-	-
Pakistan Electronic Media Regulatory Authority (note 19.6)		
Issue of units - 2015 : 523,158 units	N/A	5,476
Cash distribution for the year	N/A	7,302
Discretionary portfolio managed by the Management Company:		
Byco Petroleum Pakistan Limited –Employee Provident Fund		
Term finance certificates sold during the year	-	17,587
Byco Oil Pakistan Limited –Employee Provident Fund		
Term finance certificates sold during the year	-	11,199
Thal Limited Employees Provident Fund		
Term finance certificates sold during the year	-	48,768
Thal Limited Employees Retirement Benefit Fund		
Term finance certificates sold during the year	-	5,876

NAFA FINANCIAL SECTOR INCOME FUND

	2016	2015
	-----Rupees in '000-----	
19.5 Amounts / balances outstanding as at year end		
NBP Fullerton Asset Management Limited - Management Company		
Preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund	17	17
Sales load and transfer load (including Federal excise duty and Sindh sales tax) payable to the Management Company	836	842
Other payable	152	152
Management remuneration payable	514	2,320
Sindh Sales Tax payable on Management Company's remuneration	84	404
Federal Excise Duty on Management Company's remuneration	14,947	12,947
Accounting and operating charges payable	575	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable (including Sindh sales tax)	137	201
Security deposit	100	100
National Bank of Pakistan - Sponsor		
Payable against Nil units (2015 : 68,882,766 units) redeemed as at June 30, 2016	-	721,058
Profit receivable on bank balance	28	-
Bank balance	762	2,113
Dividend payable	-	53,508
Summit Bank Limited		
Bank balance	1,398	1,034
Pakistan Electronic Media Regulatory Authority (note 19.6)		
Units held - 2015 : 9,923,033 units	N/A	103,873
Employees of the Management Company		
Units held : 130,521 units (2015 : 14,505 units)	1,367	152
Muhammad Murtaza Ali - Company Secretary / COO		
Units held : Nil units (2015 : 45,963 units)	-	481
Amount payable against redemption of units to:		
NAFA Government Securities Liquid Fund	15,438	126,227
NAFA Government Securities Saving Fund	-	3,735
NAFA Islamic Asset Allocation Fund	-	4,079
NAFA Income Opportunity Fund	-	299,121
NAFA Islamic Active Allocation Plan III	174	-
NAFA Islamic Stock Fund	2,521	-
NAFA Riba Free Savings Fund	154	-
NAFA Multi Asset Fund	-	6,484
NAFA Stock Fund	-	2,466
NAFA Income Fund	-	4,992
Amount Receivable against issuance of units from:		
NAFA Income Opportunity Fund	423,934	-
NAFA Income Fund	30,566	-
NAFA Asset Allocation Fund	4,593	-
NAFA Islamic Energy Fund	3,971	-

NAFA FINANCIAL SECTOR INCOME FUND

19.6 Current year figure has not been presented as the entity is not classified as a related party / connected person of the Fund as at June 30, 2016.

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	MBA / Doctorate in Business Administration / CFA	28
2	Mr. Sajjad Anwar	CFA / MBA Finance	16
3	Mr. Muhammad Ali Bhaba	MBA / MS / CFA / FRM	21
4	Mr. Syed Suleman Akhtar	MBA / CFA	16

* Mr. Muhammad Ali Bhaba is the manager of the Fund. He is also the Fund Manager of the following Funds:

- NAFA Government Securities Liquid Fund
- NAFA Money Market Fund
- NAFA Savings Plus Fund
- NAFA Riba Free Savings Fund
- NAFA Income Fund
- NAFA Active Allocation Riba Free Savings Fund

21 BROKERS / DEALERS BY PERCENTAGE OF COMMISSION CHARGED

2016

1	Elixir Securities Pakistan (Private) Limited	72.68%
2	BMA Capital Management limited	18.21%
3	Pearl Securities (Private) Limited	9.11%

2015

1	Invest Capital Markets Limited	33.15%
2	J. S. Global Capital Limited	30.26%
3	Next Capital Limited	19.49%
4	Invest One Markets Limited	6.76%
5	Vector Capital (Private) Limited	6.00%
6	First Capital Securities Corporation Limited	2.57%
7	Elixir Securities Pakistan (Private) Limited	1.77%

22 PATTERN OF UNIT HOLDING

----- As on June 30, 2016 -----

Category	Number of unit holders	Invested 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%
	697	1,254,699	100.00%

* This includes investment amount of Rs. 1.367 million by related parties / connected persons.

----- As on June 30, 2015 -----

Category	Number of unit holders	Invested amount	Percentage of investment
Rupees in '000			
Individuals*	714	569,083	73.25%
Retirement funds	12	36,548	4.70%
Others**	25	171,302	22.05%
	751	776,933	100.00%

* This includes investment amount of Rs. 0.633 million by related parties / connected persons.

** This includes investment amount of Rs. 103.873 million by related party / connected person.

NAFA FINANCIAL SECTOR INCOME FUND

23 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 54th, 55th, 56th, 57th, 58th & 59th Board meetings were held on July 14, 2015, September 30, 2015, October 21, 2015, February 26, 2016, April 29, 2016 and June 28, 2016 respectively. Information in respect of attendance by directors in the meetings is given below:

Name of Director	Number of meetings			Meetings not attended
	Held	Attended	Leave granted	
Mr. Nausherwan Adil	6	5	1	54th meeting
Mr. Aamir Sattar	6	4	2	56th & 57th meeting
Mr. Abdul Hadi Palekar	6	5	1	58th meeting
Mr. Koh Boon San	6	4	2	54th & 57th meeting
Mr. Nigel Poh Cheng	6	3	3	56th, 58th & 59th meeting
Mr. Kamal Amir Chinoy	6	5	1	57th meeting
Mr. Shehryar Faruque	6	4	2	54th & 59th meeting
Dr. Amjad Waheed	6	6	-	-

24 FINANCIAL INSTRUMENTS BY CATEGORY

-----As at June 30, 2016-----			
	Loans and receivables	Financial assets' at fair value through profit or loss'	Total
		(Rupees in '000)	
Financial 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 issue of units	463,064	-	463,064
Other receivable	191	-	191
	<u>955,922</u>	<u>360,716</u>	<u>1,316,638</u>
-----As at June 30, 2016-----			
	Loans and receivables	Assets at fair value through profit or loss	Total
		(Rupees in '000)	
Financial liabilities			
Payable to NBP Fullerton Asset Management Limited - Management Company	-	17,125	17,125
Payable to the 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>36,307</u>	<u>36,307</u>
-----As at June 30, 2015-----			
	Loans and receivables	Financial assets' at fair value through profit or loss'	Total
		(Rupees in '000)	
Financial assets			
Cash and bank balances	1,546,969	-	1,546,969
Investments	-	487,343	487,343
Profit receivable	7,143	-	7,143
Security deposit	100	-	100
	<u>1,554,212</u>	<u>487,343</u>	<u>2,041,555</u>

NAFA FINANCIAL SECTOR INCOME FUND

-----As at June 30, 2015-----		
Loans and receivables	Assets at fair value through profit or loss	Total
(Rupees in '000)		
Financial liabilities		
Payable to NBP Fullerton Asset Management Limited - Management Company	-	16,682
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	201
Dividend payable	-	53,508
Payable against redemption of units	-	1,168,295
Accrued expenses and other liabilities	-	816
	-	1,239,502
	-	1,239,502

25 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 primarily set up to be performed based on limits established by the Management Company, the 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 risk that the Fund is willing to accept. The Board of Directors of the Management Company supervise the overall risk management approach within the Fund. The Fund is exposed to various risks including market risk, credit risk and liquidity risk arising from the financial instruments it holds.

25.1 Market risk

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

The Management Company manages the market risk by monitoring exposure in marketable securities by following internal risk management policies and investment guidelines approved by the investment committee and regulations laid down by the Securities and Exchange Commission of Pakistan.

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk.

25.1.1 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 all transactions are carried out in Pak Rupees.

25.1.2 Yield / Interest rate risk

Yield / Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Investment Committee of the Fund reviews the portfolio of the Fund on a regular basis to ensure that the risk is managed within acceptable limits.

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 3.915 million (2015: Rs 4.783 million).

Presently, the Fund also has balances in saving accounts with certain banks the interest rate of which is 5.5% to 8%.

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2016, the Fund does not hold any fixed rate instruments that may expose the Fund to fair value interest rate risk.

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

NAFA FINANCIAL SECTOR INCOME FUND

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

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

On-balance sheet financial instruments

(Rupees in '000)

Financial assets

Bank balances	5.5 to 8	336,091	334,469	-	-	1,622
Investments	6.81 to 10	510,716	150,000	360,716	-	-
Profit receivable		6,424	-	-	-	6,424
Security deposit		152	-	-	-	152
Receivable against issue of units		463,064	-	-	-	463,064
Other receivable		191	191	-	-	-
		1,316,638	484,660	360,716	-	471,262

Financial liabilities

Payable to NBP Fullerton Asset Management Limited - Management Company		17,125	-	-	-	17,125
Payable to the Central Depository Company of Pakistan Limited - Trustee		137	-	-	-	137
Dividend payable		-	-	-	-	-
Payable against redemption of units		18,328	-	-	-	18,328
Accrued expenses and other liabilities		717	-	-	-	717
		36,307	-	-	-	36,307

On-balance sheet gap (a)

	1,280,331	484,660	360,716	-	434,955
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Off-balance sheet financial instruments

	-	-	-	-	-
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Off-balance sheet gap (b)

	-	-	-	-	-
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Total interest rate sensitivity gap (a+b)

	1,280,331	484,660	360,716	-	434,955
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Cumulative interest rate sensitivity gap

		484,660	845,376	845,376	
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-----As at June 30, 2015-----

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

On-balance sheet financial instruments

(Rupees in '000)

Financial assets

Cash and bank balances	4.5 - 10.75	1,546,969	1,543,822	-	-	3,147
Investments	7.73-15.00	487,343	79,933	407,410	-	-
Profit receivable		7,143	-	-	-	7,143
Security deposit		100	-	-	-	100
		2,041,555	1,623,755	407,410	-	10,390

Financial liabilities

Payable to NBP Fullerton Asset Management Limited - Management Company		16,682	-	-	-	16,682
Payable to the Central Depository Company of Pakistan Limited - Trustee		201	-	-	-	201
Dividend payable		53,508	-	-	-	53,508
Payable against redemption of units		1,168,295	-	-	-	1,168,295
Accrued expenses and other liabilities		816	-	-	-	816
		1,239,502	-	-	-	1,239,502

On-balance sheet gap (a)

	802,053	1,623,755	407,410	-	(1,229,112)
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Off-balance sheet financial instruments

	-	-	-	-	-
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Off-balance sheet gap (b)

	-	-	-	-	-
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Total interest rate sensitivity gap (a+b)

	802,053	1,623,755	407,410	-	(1,229,112)
--	---------	-----------	---------	---	-------------

Cumulative interest rate sensitivity gap

		1,623,755	2,031,165	2,031,165	
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NAFA FINANCIAL SECTOR INCOME FUND

25.1.3 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 interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Fund does not hold any security which exposes the Fund to price risk.

25.2 Credit risk

Credit risk arising from the inability of the counterparties to fulfil their obligations in respect of financial instrument contracts, is generally limited to the principal amount and accrued income thereon. The Fund's credit risk is primarily attributable to balances with banks, its investment in term finance certificates, receivable against sale of investments, dividend receivable and profit receivable on balances with banks. The credit risk on liquid funds is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by the investment Committee) require the Fund to invest in debt securities that have been rated as investment grade by a well known rating agency. Credit risk on dividends receivable is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using the central clearing company. The risk of default is considered minimal due to inherent systematic measures taken therein. The Fund's policy is to enter into financial instrument contracts by following internal guidelines such as approving counterparties, approving credit, obtaining adequate collateral and transacting through approved brokers.

Credit quality of the Fund's financial assets

The analysis below summarises the credit quality of the Fund's financial assets :

Bank Balances

Name of the Bank	Rating Agency	Latest available published rating	Percentage of Bank Balance
Bank of Punjab Limited	PACRA	AA-	0.25%
Habib Bank Limited	JCR-VIS	AAA	0.47%
Askari Bank Limited	PACRA	AA+	0.27%
JS Bank Limited	PACRA	A+	0.30%
Allied Bank Limited	PACRA	AA+	82.06%
United Bank Limited	JCR-VIS	AAA	0.53%
Bank Alfalah Limited	PACRA	AA	12.84%
Khushhali Bank Limited	JCR-VIS	A+	0.09%
Albaraka Bank (Pakistan) Limited	PACRA	A	0.16%
Burj Bank Limited	JCR-VIS	BBB	0.14%
MCB Bank Limited	PACRA	AAA	0.21%
Bank Al Habib Limited	PACRA	AA+	0.06%
NIB Bank Limited	PACRA	AA-	0.97%
Faysal Bank Limited	PACRA	AA	0.23%
Sindh Bank Limited	JCR-VIS	AA	0.36%
Summit Bank Limited	JCR-VIS	A-	0.42%
National Bank of Pakistan	PACRA	AAA	0.23%
Dubai Islamic Bank Pakistan Limited	PACRA	A+	0.18%
Samba Bank Limited	JCR-VIS	AA	0.09%
Bank Islami Pakistan Limited	PACRA	A+	0.14%
Zarai Taraqiati Bank Limited	JCR-VIS	AAA	0%*
			<u>100.00%</u>

* Due to rounding off.

Term Finance Certificates by rating category

AA
AA-
AAA

	2016	2015
	5.54%	24.20%
	89.88%	72.33%
	4.58%	3.47%
	<u>100%</u>	<u>100%</u>

Term Deposit receipts by rating category

A+

	2016	2015
	100%	-

There are no financial assets that are past due or impaired as at June 30, 2016.

NAFA FINANCIAL SECTOR INCOME FUND

The maximum exposure to credit risk before any credit enhancement as at June 30, 2016 is the carrying amount of the financial assets.

25.2.1 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 bank balances, term deposit receipts and term finance certificates are mainly held with four banks. The management believes that these are credit worthy counterparties.

25.2.2 Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

25.3 Liquidity risk

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

The Fund is exposed to daily cash redemptions at the option of the 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 damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed of. The Fund's investment in government securities is 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, no borrowing was obtained by the Fund during the current year.

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

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

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

Particulars	Total	Upto three months	Over three months and upto one year	Over one year
Financial liabilities				
Payable to NBP Fullerton Asset Management Limited - Management Company	17,125	17,125	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	137	137	-	-
Dividend payable	-	-	-	-
Payable against redemption of units	18,328	18,328	-	-
Accrued expenses and other liabilities	717	717	-	-
	<u>36,307</u>	<u>36,307</u>	<u>-</u>	<u>-</u>

NAFA FINANCIAL SECTOR INCOME FUND

----- As at June 30, 2015 -----

Particulars	Total	Upto three months	Over three months and upto one year	Over one year
Financial liabilities				
Payable to NBP Fullerton Asset Management Limited - Management Company	16,682	16,682	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	201	201	-	-
Dividend payable	53,508	53,508	-	-
Payable against redemption of units	1,168,295	1,168,295	-	-
Accrued expenses and other liabilities	816	816	-	-
	<u>1,239,502</u>	<u>1,239,502</u>	<u>-</u>	<u>-</u>

26 UNIT HOLDERS' FUND RISK MANAGEMENT

The Unit 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. As required under the NBFC Regulations, every open end scheme shall maintain fund size (i.e. net assets of the Fund) of Rs 100 million at all times during the life of the scheme. The Fund has maintained and complied with the requirement of minimum fund size during the current year.

The Fund's objectives when managing unit holders' fund 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 25, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, which would be augmented by short-term borrowings or disposal of investments where necessary.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability can be settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

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.

Fair value of investments is determined as follows:

- Listed and unlisted debt securities, other than government securities, are valued on the basis of prices announced by the Mutual Funds Association of Pakistan (MUFAP), as per the method of valuation agreed with the Trustees of the Fund under the Rules. The MUFAP calculates these prices in accordance with the SECP's Circular 1 of 2009. The said circular prescribes a valuation methodology which in case of currently traded securities, is based on weighted average prices during the 15 days preceding the valuation date and in case of thinly or non-traded securities, on the basis of discount coupon method which takes into consideration credit risk and maturities of the instruments.
- The fair value of all other financial assets and financial liabilities of the Fund approximate their carrying amounts due to short term maturities of these instruments.

27.1 Fair value hierarchy

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

- Fair value measurements using quoted price (unadjusted) in an active market for identical assets or liabilities.
- Fair value measurements using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Fair value measurement using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

NAFA FINANCIAL SECTOR INCOME FUND

----- As on June 30, 2016 -----				
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
ASSETS				
Financial assets classified as 'fair value through profit or loss'				
Investment in term finance certificates - listed	-	105,630	-	105,630
Investment in term finance certificates - unlisted	-	235,086	-	235,086
----- As on June 30, 2015 -----				
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
ASSETS				
Financial assets classified as 'fair value through profit or loss'				
Investment in term finance certificates - listed	-	222,732	-	222,732
Investment in term finance certificates - unlisted	-	264,611	-	264,611

28 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 23, 2016.

29 GENERAL

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

29.2 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation. No significant rearrangements or reclassifications were made in these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

PERFORMANCE TABLE

Particulars	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	October 18, 2011 to June 30, 2012
Net assets (Rs. '000')	1,254,699	776,933	2,177,036	4,962,334	2,767,667
Net Income (Rs. '000')	35,666	131,731	291,554	324,206	133,321
Net Asset Value per units (Rs.)	10.4723	10.4679	10.1404	10.2765	10.4231
Offer price per unit	10.6108	10.6075	10.2768	10.3793	10.4231
Redemption price per unit	10.4723	10.4679	10.1404	10.2765	10.4231
Highest offer price per unit (Rs.)	10.6108	10.6075	10.2978	9.4880	9.4071
Lowest offer price per unit (Rs.)	9.9805	9.5686	9.7627	9.5012	8.6781
Highest redemption price per unit (Rs.)	10.4723	10.4679	10.1611	9.3941	9.4071
Lowest redemption price per unit (Rs.)	9.8464	9.4426	9.6331	9.4071	8.6781
Fiscal Year Opening Ex Nav	9.8421	9.4392	9.3941	9.4045	9.618
Total return of the fund (Annualized)	6.40%	10.90%	7.94%	9.27%	8.37%
Capital growth	0.04%	2.67%	-1.89%	1.09%	1.09%
Income distribution as a % of ex nav	6.36%	8.23%	9.84%	8.18%	7.28%
Income distribution as a % of par value	6.66%	7.77%	9.24%	7.69%	7.00%
Distribution dates					
Interim					
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
Final					
11-Jul-13				0.0101	
9-Jul-12					0.3000
Average annual return (launch date October 18, 2011)					
(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	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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