

**AM1**  
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NBP Fullerton  
Asset Management Ltd.  
A Subsidiary of  
National Bank of Pakistan

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND-II

## ANNUAL REPORT 2017



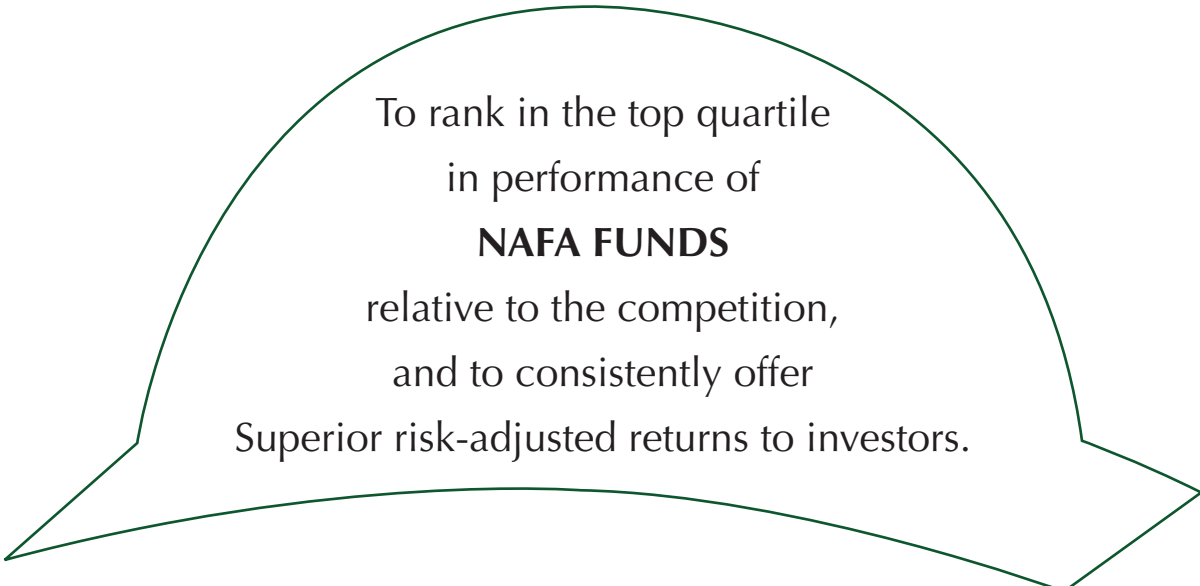
*Your investments & "NAFA" grow together*



**FULLERTON FUND  
MANAGEMENT**

*Joint - Venture Partners*

## MISSION STATEMENT



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

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## FUND'S INFORMATION

### Management Company

NBP Fullerton Asset Management Limited – Management Company

### Board of Directors of the Management Company

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

### Company Secretary & COO

Mr. Muhammad Murtaza Ali

### Chief Financial Officer

Mr. Khalid Mehmood

### Audit & Risk Committee

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

### Human Resource and Remuneration Committee

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

### Trustee

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

### Bankers to the Fund

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

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## **Auditors**

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

## **Legal Advisor**

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

## **Head Office:**

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

## **Lahore Office:**

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

## **Islamabad Office:**

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

## **Peshawar Office:**

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

## **Multan Office:**

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

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# Board of Directors



Dr. Amjad Waheed, CFA  
Chief Executive Officer



Mr. Mudassir Husain Khan  
Chairman



Mr. Kamal Amir Chinoy  
Director



Mr. Lui Mang Yin (Martin Lui)  
Director



Mr. Tariq Jamali  
Director



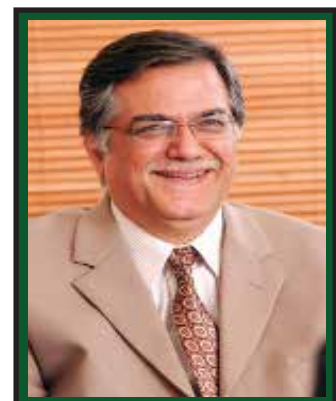
Mr. Shehryar Faruque  
Director



Dr. Foo Chiah Shiung (Kelvin Foo)  
Director



Mr. Abdul Hadi Palekar  
Director



Mr. Humayun Bashir  
Director

# Senior Management



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



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



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



**Mr. Khalid Mehmood**  
**Chief Financial Officer**



**Mr. Samiuddin Ahmed**  
**Country Head Corporate**  
**Marketing**



**Mr. Ozair Khan**  
**Chief Technology Officer**



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



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



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



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



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



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



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

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Fourth Annual Report of NAFA Islamic Principal Protected Fund - II for the year ended June 30, 2017.

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

### Fund's Performance

Fiscal Year 2016-17 can be characterized as a tale of two halves where the market surged by a hefty 26.5% during 1HFY17 while in the later half the market declined by 2.6% amid lot of volatility. FY17 started on a positive note as investors remained upbeat on various positive developments: (i) supportive investment backdrop with rising economic growth, controlled inflation & interest rates, healthy corporate earnings growth and attractive stock market valuations; (ii) Pakistan's re-classification to MSCI Emerging Market Index effective June 2017; (iii) CPEC related investment activity gaining traction; and (iv) equity related mutual funds attracting hefty inflows on account of paltry yields on fixed income avenues. The optimism of the first half of the fiscal year began to fade on the back of many negatives : (i) rising domestic political uncertainty with the start of court proceeding against the Prime Minister in the Panama Leaks Case; (ii) renewed decline in the global oil prices that weighed in on the index heavy Oil & Gas and Banking sectors; (iii) SECP's drive to curb in-house badla financing sparking concern in the market; and (iv) rising risks to the Balance of Payment (BoP) position from widening trade and current account deficits. A big disappointment for investors was absence of meaningful net foreign portfolio inflows during PSX reclassification into MSCI Emerging Market Index. Foreign investors remained net sellers throughout the year, offloading equity stakes worth USD652mn in FY17 that was mainly absorbed by Mutual Funds and Insurance Companies.

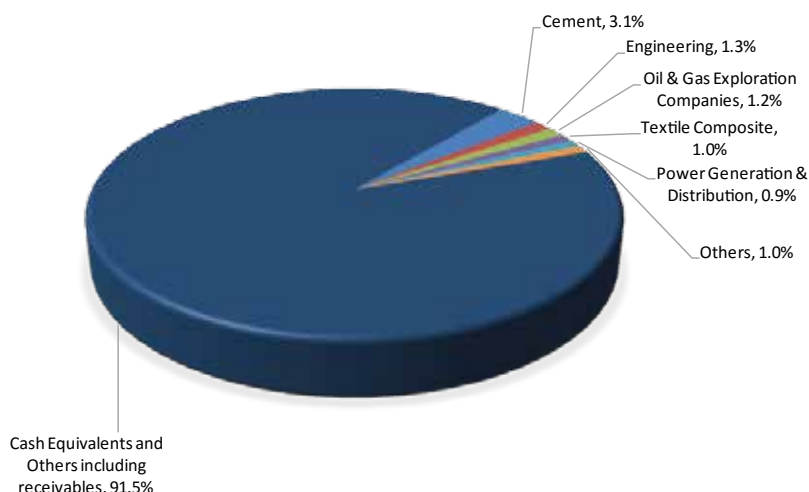
Helped by the lower food prices, inflation as measured by the CPI averaged 4.2% for FY17. During the year, State Bank of Pakistan (SBP) maintained the policy rate at 5.75%. SBP cited improving economic prospects amid investment activity in the context of CPEC gathering pace; but also highlighted its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

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

During the period, the unit price of NAFA Islamic Principal Protected Fund - II has increased from Rs.80.7235 (Ex-Div) on June 30, 2016 to Rs. 101.5691 on June 30, 2017, thus showing an increase of 25.82%. The Benchmark return during the same period was 16.07%. Thus, the Fund has outperformed its Benchmark by 9.75% during the period under review. Since inception (June 27, 2014), NIPPF-II has risen by 57.56%, whereas the Benchmark has increased by 42.27%, thus to date out-performance is 15.29%.

This performance is net of management fee and all other expenses. The Fund has earned a total income of Rs.91.20 million during the year. After deducting total expenses of Rs.20.08 million, the net income is Rs.71.12 million. The size of NAFA Islamic Principal Protected Fund-II is Rs.142 million as of June 30, 2017.

The asset allocation of the Fund as on June 30, 2017 is as follows:





## Income Distribution

The Board of Directors of the Management Company has approved bonus distribution of 34.81% of opening Ex-NAV (39.06% the par value) during the year.

## Taxation

Though the Fund has earned net income of Rs.71.12 million for the year ended June 30, 2017, yet after excluding the realized capital gain of Rs.187.32 million, the Fund does not have income for distribution for the year ended June 30, 2017. Therefore, no provision for income tax was recorded in the financial statements of the Fund for the said financial year.

## Auditors

The present auditors, Messrs A.F.Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2018.

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

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held four meetings during the year. The attendance of all directors is disclosed in the note 22 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 21 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 18 to these financial statements.

## 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  
Date: September 15, 2017  
Place: Karachi.

Director

## ڈائریکٹرز رپورٹ

NBP فلٹرن ایسیٹ منیجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز NAFA اسلامک پرنسپل پروٹیکٹڈ فنڈ II-(NIPPF-II) کی چوتھی سالانہ رپورٹ برائے سال ختمہ 30 جون 2017ء پیش کرتے ہوئے خوشی محسوس کر رہے ہیں۔

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

### فنڈ کی کارکردگی

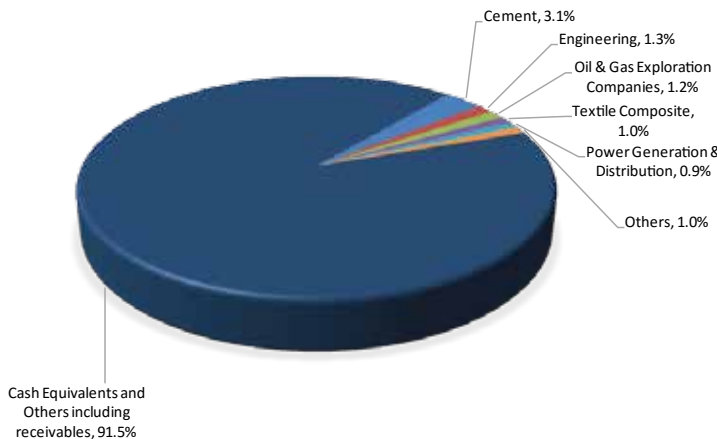
مالی سال 2016-17 کو دو ششماہیوں میں منقسم کیا جاسکتا ہے۔ سال 17 کی پہلی ششماہی میں مارکیٹ میں 26.5% کا شاندار اضافہ ہوا جب کہ دوسری ششماہی میں نسبتاً اتار چڑھاؤ کے ساتھ مارکیٹ گر کر 2.6% پر آگئی۔ مالی سال 17 کا آغاز بڑے مثبت انداز میں ہوا جس میں سرمایہ کار سرگرم رہے جس کی وجہ مختلف مثبت پیش رفت تھی جیسے (i) معاشی نمو میں اضافہ کی بدولت سرمایہ کاری کے لئے موافق پس منظر، افراط زر اور سود کی شرح پر کنٹرول، کارپوریٹ کی آمدنی میں بڑا اضافہ اور اسٹاک مارکیٹ کی پرکشش قدر قیمت (ii) MSCI ایمرجنگ مارکیٹ انڈیکس میں جون 2017ء میں پاکستان کی دوبارہ درجہ بندی؛ (iii) چین پاکستان اقتصادی راہداری (CPEC) سے متعلق سرمایہ کاری کی سرگرمیوں میں تیزی کا رجحان اور (iv) حصص پر مبنی میوچل فنڈز کے پرکشش ہونے کے سبب داخلی بہاؤ میں نمایاں اضافہ جس کی وجہ فکسڈ انکم ذرائع میں معمولی آمدنی کا حصول تھا۔ بعد ازاں مالی سال کی پہلی ششماہی کے مثبت رجحانات مختلف منفی وجوہات کی بنا پر محدود بڑے نہ لگیں۔ جیسے (i) پانامہ لیکس کیس میں وزیر اعظم کے خلاف عدالتی کارروائی کے آغاز سے ملک میں سیاسی غیر یقینی کی کیفیت (ii) عالمی سطح پر تیل کی قیمتوں میں دوبارہ کمی جس سے آئل اور گیس اور بیٹنگ کے شعبہ جات کے انڈیکس پر دباؤ پڑا (iii) سکیورٹیز ایڈیٹری کمیٹی آف پاکستان (SECP) کی جانب سے ان ہاؤس بدلہ فنانسنگ میں رکاوٹ ڈالنے سے مارکیٹ میں تشویش پائی گئی اور (iv) تجارت اور کرنٹ اکاؤنٹ میں بڑھتے ہوئے خسارے کے سبب توازن ادائیگی (BoP) میں بڑھتے ہوئے خدشات۔ سرمایہ کاروں کو اس وقت بہت مایوسی ہوئی جب MSCI ایمرجنگ مارکیٹ انڈیکس میں پاکستان اسٹاک ایکسچینج (PSX) کی دوبارہ درجہ بندی کے باوجود با مقصد خالص بیرون ملک زرمبادلہ نہ حاصل ہو پایا۔ پورے سال میں بیرونی سرمایہ کار خالص فروخت کنندہ رہے اور مالی سال 17 کے دوران 652 ملین یو ایس ڈالر کی ایکویٹی فروخت ہوئی جو زیادہ تر میوچل فنڈز اور بیمہ کمپنیوں میں جذب ہو گئی۔

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

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

مذکورہ مالی سال کے دوران NAFA اسلامک پرنسپل پروٹیکٹڈ فنڈ II-(NIPPF-II) کے یونٹ کی قیمت 30 جون 2016 کو 80.7235 روپے (Ex-Div) سے بڑھ کر 30 جون 2017 کو 101.5691 روپے ہو چکی ہے۔ لہذا فنڈ نے 25.82% کا اضافہ دکھایا۔ اسی مدت میں بیچ مارک منافع 16.07% تھا۔ لہذا زیر جائزہ مدت کے دوران فنڈ نے اپنے بیچ مارک منافع سے 9.75% بہتر کارکردگی دکھائی۔ اپنے قیام (27 جنوری 2014) سے اب تک NIPPF-II نے اپنے بیچ مارک منافع کے مقابلے میں 42.27% سے بڑھ کر 57.56% لہذا اب تک 15.29% کی بہتر کارکردگی دکھائی۔

یہ کارکردگی منیجمنٹ فیس اور دیگر تمام اخراجات کے بعد خالص ہے۔ NAFA اسلامک پرنسپل پروٹیکٹڈ فنڈ II-(NIPPF-II) اس سال کے دوران 91.20 ملین روپے کی مجموعی آمدنی کمائی ہے۔ 20.08 ملین روپے کے اخراجات منہا کرنے کے بعد خالص آمدنی 71.12 ملین روپے رہی۔ NAFA اسلامک پرنسپل پروٹیکٹڈ فنڈ II-(NIPPF-II) کے فنڈ کا حجم 30 جون 2017 کو 142 ملین روپے ہے۔



فنڈ کی ایسیٹ ایکویٹیٹی 30 جون 2017 کو بمطابق ذیل ہے:

## آمدنی کی تقسیم

منجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز نے اس سال کے دوران میں اوپننگ ex-NAV کے 34.81% (بنیادی قدر کا 39.06%) بونس ڈیویڈنڈ کی منظوری دی ہے۔

## ٹیکسیشن

اگرچہ فنڈ کی خالص آمدنی 71.12 ملین روپے ہے تاہم سرمایہ کاری پر حاصل ہونے والے 187.32 ملین روپے مصدقہ منافع کو منہا کرنے کے بعد 30 جون 2017 کے اختتام پر فنڈ میں قابل تقسیم آمدنی نہیں رہتی۔ لہذا مذکورہ مالی سال کے لیے فنڈ کی مالی اسٹیٹمنٹس میں انکم ٹیکس کی کوئی رقم مختص نہیں کی گئی۔

## آڈیٹرز

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

## کوڈ آف کارپوریٹ گورننس کی پیروی میں ڈائریکٹرز اسٹیٹمنٹ

1- منجمنٹ کمپنی کی طرف سے تیار کردہ مالیاتی گوشوارے فنڈ کے معاملات کی کیفیت، اس کی کاروباری سرگرمیوں کے نتائج، کیش فلوز اور یونٹ ہولڈرز فنڈ میں تبدیلی کی منصفانہ عکاسی کرتے ہیں۔

2- فنڈ کے اکاؤنٹس کے کھاتے درست انداز میں رکھے ہوئے ہیں۔

3- مالیاتی گوشواروں کی تیاری میں اکاؤنٹنگ کی مناسب پالیسیوں کی مسلسل پیروی کی گئی ہے۔ شماریاتی تخمینے مناسب اور معقول نظریات پر مبنی ہیں۔

4- ان مالیاتی گوشواروں کی تیاری میں مالیاتی رپورٹنگ کے بین الاقوامی معیاروں، جہاں تک وہ پاکستان میں قابل اطلاق ہیں، کی پیروی کی گئی ہے۔

5- انٹرنل کنٹرول کا نظام مستحکم اور موثر طریقے سے نافذ ہے اور اس کی مسلسل نگرانی کی جاتی ہے۔

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

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

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

9- ٹیکسوں، ڈیویڈنڈ، محصولات اور چارجز کی مد میں واجب الادا سرکاری ادائیگیاں مالیاتی گوشواروں میں پوری طرح ظاہر کر دی گئی ہیں۔

10- اس مدت کے دوران منجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز کے چار اجلاس منعقد ہوئے۔ تمام ڈائریکٹرز کی حاضری ان مالیاتی گوشواروں کے نوٹ 22 میں ظاہر کی گئی ہے۔

11- یونٹ ہولڈنگ کا تفصیلی پٹرن مالیاتی گوشواروں کے نوٹ 21 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 18 میں ظاہر کی گئی ہے۔

## اعتراف

بورڈ اس موقع کا فائدہ اٹھاتے ہوئے منجمنٹ کمپنی پر اعتماد، اعتبار اور خدمت کا موقع فراہم کرنے پر اپنے قابل قدر یونٹ ہولڈرز کا شکریہ ادا کرتا ہے۔ یہ سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور اسٹیٹ بینک آف پاکستان سے بھی ان کی سرپرستی اور رہنمائی کے لیے پُر خلوص اظہارِ تشکر کرتا ہے۔

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

منجانب بورڈ آف ڈائریکٹرز

NBP فلورن ایسیٹ منجمنٹ لمیٹڈ

ڈائریکٹر

چیف ایگزیکٹو

بتاریخ

15 ستمبر 2017ء

مقام: کراچی

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## TRUSTEE REPORT TO THE UNIT HOLDERS NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Islamic Principal Protected Fund - II (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2017 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

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

Karachi, September 26, 2017

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2017

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

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

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

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

Category	Names
Independent Directors	1. Mr. Kamal Amir Chinoy 2. Mr. Shehryar Faruque 3. Mr. Humayun Bashir
Executive Directors	Dr. Amjad Waheed (Chief Executive Officer)
Non- Executive Directors	1. Mr. Nausherwan Adil (Chairman) 2. Mr. Aamir Sattar 3. Mr. Abdul Hadi Palekar 4. Mr. Lui Mang Yin 5. Dr. Kelvin Foo

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

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

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive have been taken by the Board. There is no other executive-director of the Company besides Chief Executive Officer (CEO).
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors are conversant of the relevant laws applicable to the Company, its policies and provisions of memorandum and articles of association and are aware of their duties and responsibilities. As of 30 June 2017, four directors of the Company had acquired the director's training certificate as required under the CCG. The Company plans to arrange a Director's Training Program in future, for the remaining directors.
10. The Board has approved the appointment of Head of Internal Audit of the Company with remuneration and terms and conditions of employment. There has been no new appointment of the Company Secretary and Chief Financial Officer (CFO) during the year.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in note 18 to the financial statements "Transactions with Connected Persons".
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The committee has formed the terms of reference for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. All the members are non-executive directors and the chairman of the committee is an independent director.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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

For and behalf of the Board

September 15, 2017  
Karachi

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**Dr. Amjad Waheed**  
Chief Executive Officer



# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## FUND MANAGER REPORT

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

### Investment Objective of the Fund

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

### Benchmark

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

### Fund performance review

This is the fourth annual report of the Fund. During the period, the unit price of NAFA Islamic Principal Protected Fund - II has increased from Rs.80.7235 (Ex-Div) on June 30, 2016 to Rs. 101.5691 (Ex-Div) on June 30, 2017, thus showing an increase of 25.82%. The Benchmark return during the same period was 16.07%. Thus, the Fund has outperformed its Benchmark by 9.75% during the period under review. Since inception (June 27, 2014), NIPPF-II has risen by 57.56%, whereas the Benchmark has increased by 42.27%, thus to date out-performance is 15.29%. This performance is net of management fee and all other expenses. The size of NAFA Islamic Principal Protected Fund-II is Rs.142 million as of June 30, 2017.

The Fund has gradually built its position in equities and its current stock exposure stands at around 8.5%. Key holdings of the Fund belong to Oil & Gas Exploration Companies, Engineering, Cement, Power Generation & Distribution and Textile Composite sectors.

Fiscal Year 2016-17 can be characterized as a tale of two halves where the market surged by hefty 26.5% during 1HFY17 while in the later half the market surrendered return of 2.6% amid lot of volatility. FY17 started on a positive note as investors remained upbeat on various positive developments: (i) supportive investment backdrop with rising economic growth, controlled inflation & interest rates, healthy corporate earnings growth and attractive stock market valuations; (ii) Pakistan's re-classification to MSCI Emerging Market Index effective June 2017; (iii) CPEC related investment activity gaining traction; and (iv) equity related mutual funds attracting hefty inflows on account of paltry yields on fixed income avenues. The optimism of the first half began to fade on the back of many negatives: (i) rising domestic political uncertainty with the start of court proceeding against the Prime Minister in the Panama Leaks Case; (ii) renewed decline in the global oil prices that weighed in on the index heavy Oil & Gas and Banking sectors; (iii) SECP's drive to curb in-house badla financing sparking panic in the market; and (iv) rising risks to the Balance of Payment (BoP) position from widening trade and current account deficits. A big disappointment for investors was absence of meaningful net foreign portfolio inflows during PSX reclassification into MSCI Emerging Market index. Foreign investors remained net sellers throughout the year, offloading equity stakes worth USD652mn in FY17 that was mainly absorbed by Mutual Funds and Insurance Companies.

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

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

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

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

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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

Particulars	30-Jun-17	30-Jun-16
Equities / Stocks	8.52%	54.97%
Cash Equivalents	100.54%	48.31%
Other Net Liabilities	-9.06%	-3.28%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

## Distribution for the Financial Year 2017

Interim / Final	Dividend as % of Par Value (Rs.100)	Cumulative Div. Price/Unit (Rs.)	Ex- Div. Price/Unit (Rs.)
Interim Bonus distribution	39.06%	139.2306	100.1752

## Unit Holding Pattern of NAFA Islamic Principal Protection Fund-I as on June 30, 2017

Size of Unit Holding (Units)	# of Unit Holders
1-1000	27
1001-5000	33
5001-10000	19
10001-50000	9
50001-100000	1
100001-500000	4
<b>Total</b>	<b>93</b>

## Sindh Workers' Welfare Fund (SWWF)

The scheme has maintained provision against Sindh Workers' Welfare Fund's liability to the tune of Rs 3.592 million. If the same were not made the NAV per unit/ last one year return of scheme would be higher by Rs 2.569/3.18%. For details investors are advised to read note 12.1 of the Financial Statement of the Scheme for the year ended June 30, 2017.

## STATEMENT OF COMPLIANCE WITH THE SHARI'AH PRINCIPLES

NAFA Islamic Principal Protected Fund - II (the Fund) has fully complied with the Shari'ah principles specified in the Trust Deed and in the guidelines issued by the Shari'ah Advisor for its operations, investments and placements made during the year ended June 30, 2017. This has been duly confirmed by the Shari'ah Supervisory Board of the Fund.

For and behalf of the board

Date: September 15, 2017  
Karachi.

Dr. Amjad Waheed, CFA  
Chief Executive Officer

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## Report of the Shari'ah Supervisory Board – NAFA Islamic Principal Protected Fund–II

August 21, 2017 /Dhu Al-Qi'dah 28, 1438

**Alhamdulillah**, the period from July 1, 2016 to June 30, 2017 was the fourth year of operations of NAFA Islamic Principal Protected Fund-II (NIPPF– II). This report is being issued in accordance with clause 4.7.1 of the Offering Document of the Fund. The scope of the report is to express an opinion on fulfillment of the Shariah Compliance requirements for launching of the fund.

We have prescribed six criteria for Shari'ah compliance of equity investments which relate to (i) Nature of business, (ii) Debt to total assets, (iii) Investment in Shari'ah Non-Compliant activities (iv) Shari'ah Non-Income from Non-Compliant Investments, (v) Illiquid assets to total assets, and (vi) Net liquid assets per share vs. share price.

- i. On the basis of information provided by the management and the provisions of the Scheme, investments in equities made on account of NIPPF– II are Shari'ah Compliant and in accordance with the criteria established by us.
- ii. There are investments made by NIPPF– II where Investee companies have earned a part of their income from non-compliant sources (e.g. interest income received on bank deposits and etc). In such cases, the management company has been directed to set aside such proportion of the income from Investee companies as charity in order to purify the earnings of the Fund.

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

In light of the above, we hereby certify that nothing has come to our attention which causes to believe that the overall operations of NIPPF– II for the year ended June 30, 2017 are not in compliance with the Shari'ah principles.

During the year a provision of Rupees 24,492/- was created and an amount of Rupees 365,399/- was available for disbursement into charity as of June 30, 2017. However, the provisional amount will be adjusted after the availability of the respective annual financial statements.

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

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**For and on behalf of Meezan Bank Limited**  
*Shar'iah Technical Services & Support Provider*

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

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

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

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE WITH 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 Islamic Principal Protected Fund-II** (the Fund) for the year ended June 30, 2017 to comply with clause 5.19 of the Pakistan Stock Exchange Limited Regulations where the Fund is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company (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 a 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 of Directors' 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 as applicable to the Fund for the year ended June 30, 2017.

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

A.F. Ferguson & Co.  
Chartered Accountants  
Dated: September 15, 2017  
Karachi

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

We have audited the accompanying financial statements of **NAFA Islamic Principal Protected Fund - II** (hereinafter referred to as the 'Fund'), which comprise the statement of assets and liabilities as at June 30, 2017, 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, 2017 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: **Rashid A. Jafer**  
Dated: September 15, 2017  
Karachi

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2017

	Note	2017 -----Rupees in '000-----	2016
<b>ASSETS</b>			
Balances with banks	4	144,702	523,450
Investments	5	12,097	595,581
Dividend and profit receivable	6	622	2,951
Security deposits	7	2,600	2,600
<b>Total assets</b>		<b>160,021</b>	<b>1,124,582</b>
<b>LIABILITIES</b>			
Payable to NBP Fullerton Asset Management Limited - Management Company	9	11,759	13,987
Remuneration payable to the Central Depository Company of Pakistan Limited - Trustee	10	17	141
Payable to the Securities and Exchange Commission of Pakistan	11	457	927
Payable against redemption of units		-	16,579
Accrued expenses and other liabilities	12	5,755	9,444
<b>Total liabilities</b>		<b>17,988</b>	<b>41,078</b>
<b>NET ASSETS</b>		<b>142,033</b>	<b>1,083,504</b>
<b>UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>		<b>142,033</b>	<b>1,083,504</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	13	-----Number of units-----	
<b>NUMBER OF UNITS IN ISSUE</b>	14	<b>1,398,392</b>	<b>9,657,301</b>
		-----Rupees-----	
<b>NET ASSET VALUE PER UNIT</b>	3.11	<b>101.5691</b>	<b>112.1953</b>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017	2016
		-----Rupees in '000-----	
<b>INCOME</b>			
Capital gain / (loss) on sale of investments - net		187,323	(24,637)
Profit on bank deposits		14,759	29,520
Dividend income		22,105	41,795
Unrealised appreciation on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net	5.2	2,347	31,479
<b>Total income</b>		<b>226,534</b>	<b>78,157</b>
<b>EXPENSES</b>			
Remuneration of NBP Fullerton Asset Management Limited - Management Company	9.1	10,779	24,708
Sindh sales tax on the Management Company's remuneration	9.2	1,401	4,013
Federal excise duty on the Management Company's remuneration	9.3	-	3,953
Accounting and operational charges	9.4	609	713
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	10.1	793	1,606
Sindh sales tax on remuneration of the Trustee	10.2	103	225
Annual fee - Securities and Exchange Commission of Pakistan	11.1	457	927
Amortisation of preliminary expenses and floatation costs	8	-	1,155
Auditors' remuneration	15	409	386
Annual listing fee		55	40
Printing charges		100	100
Securities transaction costs		666	1,504
Settlement and bank charges		575	449
Legal and professional charges		125	125
Shariah advisor fee		420	179
<b>Total operating expenses</b>		<b>16,492</b>	<b>40,083</b>
<b>Net income for the year from operating activities</b>		<b>210,042</b>	<b>38,074</b>
Element of loss and capital losses included in the prices of units issued less those in units redeemed - net		(140,399)	(2,150)
Provision for Sindh Workers' Welfare Fund	12.1	(3,592)	-
Reversal of provision for Workers' Welfare Fund	12.1	5,070	-
<b>Net income for the year before taxation</b>		<b>71,121</b>	<b>35,924</b>
Taxation	16	-	-
<b>Net income for the year after taxation</b>		<b>71,121</b>	<b>35,924</b>
<b>Earning per unit</b>	3.12		

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director



# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016
	-----Rupees in '000-----	
Net income for the year after taxation	71,121	35,924
Other comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	<u>71,121</u>	<u>35,924</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016
	-----Rupees in '000-----	
<b>Undistributed income at the beginning of the year comprising of:</b>		
Realised gain	108,079	64,964
Unrealised gain	<u>31,479</u>	<u>143,577</u>
	139,558	208,541
Net income for the year after taxation	71,121	35,924
<b>Distributions made during the year</b>		
Cash distribution	-	(2,402)
- Rs Nil (2016: Re 0.2192 per unit)		
Interim bonus distribution		
- Rs 39.0554 per unit declared on January 20, 2017 (2016: Rs 7.7158 per unit)	(85,981)	(77,873)
Cash distribution		
- Rs Nil (2016: Rs 2.6047 per unit)	-	(24,632)
Undistributed income carried forward	<u>124,698</u>	<u>139,558</u>
<b>Undistributed income at the end of the year carried forward comprising of :</b>		
Realised gain	122,351	108,079
Unrealised gain	<u>2,347</u>	<u>31,479</u>
	<u>124,698</u>	<u>139,558</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2017

	2017 -----Rupees in '000-----	2016
Net assets at the beginning of the year	1,083,504	1,308,075
Issue of Nil units (2016: 222,275 units)	-	25,133
Redemption of 9,074,300 units (2016: 2,238,587 units)	(1,148,692)	(258,962)
	(1,148,692)	(233,829)
Element of loss and capital losses included in the prices of units issued less those in units redeemed - net	140,399	2,150
Issue of 815,391 bonus units (2016: 682,028 units) - net of tax	81,682	76,091
Unrealised appreciation on re-measurement of investments classified as financial assets 'at fair value through profit or loss' - net	2,347	31,479
Capital gain / (loss) on sale of investments - net	187,323	(24,637)
Other net (loss) / income for the year	(118,549)	29,082
	71,121	35,924
<b>Distribution made during the year</b>		
Cash distribution - Rs Nil (2016: Re 0.2192 per unit)	-	(2,402)
Interim bonus distribution - Rs 39.0554 per unit declared on January 20, 2017 (2016: Rs 7.7158 per unit)	(85,981)	(77,873)
Cash distribution - Rs Nil (2016: Rs 2.6047 per unit)	-	(24,632)
<b>Net assets at the end of the year</b>	<u>142,033</u>	<u>1,083,504</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017 -----Rupees in '000-----	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year before taxation		71,121	35,924
<b>Adjustments for:</b>			
Profit on bank deposits		(14,759)	(29,520)
Dividend income		(22,105)	(41,795)
Unrealised appreciation on re-measurement of investments classified as 'financial assets at fair value through profit or loss' - net		(2,347)	(31,479)
Amortisation of preliminary expenses and floatation costs		-	1,155
Element of loss and capital losses included in the prices of units issued less those in units redeemed - net		140,399	2,150
Provision for Sindh Workers' Welfare Fund		3,592	-
Reversal of provision for Workers' Welfare Fund		(5,070)	-
Federal excise duty on the remuneration of the Management Company		-	3,953
		99,710	(95,536)
<b>Decrease in assets</b>			
Investments		585,831	382,721
		585,831	382,721
<b>Decrease in liabilities</b>			
Payable to NBP Fullerton Asset Management Limited - Management Company		(2,228)	393
Remuneration payable to the Central Depository Company of Pakistan Limited - Trustee		(124)	-
Payable to the Securities and Exchange Commission of Pakistan		(470)	(52)
Accrued expenses and other liabilities		(2,211)	(990)
		(5,033)	(649)
Profit received on bank balances		16,172	29,237
Dividend received		23,021	43,454
Withholding tax paid on distribution during the year		(4,299)	(1,782)
<b>Net cash generated from operating activities</b>		<u>786,523</u>	<u>393,369</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments on redemption of units		(1,165,271)	(242,382)
<b>Net cash used in financing activities</b>		<u>(1,165,271)</u>	<u>(242,382)</u>
<b>Net (decrease) / increase in cash and cash equivalents during the year</b>		<u>(378,748)</u>	<u>150,987</u>
Cash and cash equivalents at the beginning of the year		523,450	372,463
<b>Cash and cash equivalents at the end of the year</b>	4	<u><u>144,702</u></u>	<u><u>523,450</u></u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Islamic Principal Protected Fund-II (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited as the Management Company and the Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on May 7, 2014 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on May 15, 2014 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 Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 7th floor, Clifton Diamond Building, Block 4, Scheme No. 5, Clifton, Karachi. The Management Company is a member of the Mutual Funds Association of Pakistan (MUFAP).

The Fund has been categorised as an Open-End "Shariah Compliant Capital Protected Fund Scheme" as per the criteria laid down by the SECP for categorisation of Collective Investment Schemes (CIS) and is listed on the Pakistan Stock Exchange Limited.

The objective of the Fund is to earn a potentially high return through dynamic asset allocation between shariah compliant equities and Money Market investment avenues, while providing principal protection. Principal protection means that the net realisable value of the Fund shall not fall below the initial investment value (adjusted for distributions / redemptions during the life of the Fund), provided that the units are held till the completion of the initial maturity of the Fund.

The Pakistan Credit Rating Agency (PACRA) has assigned an Asset Manager Rating of AM 1 as at April 21, 2017 (2016: AM2++) to the Management Company.

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

The Fund commenced its operations from June 28, 2014. As per the offering document, the nature of the Fund is perpetual and the initial maturity of the fund is two years from the date of commencement. Principal protection will not be available if units are encashed before the expiry of initial maturity term.

### 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 (IASB) 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 Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP differ with the requirements of 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

There are certain new and amended standards and interpretations that are mandatory for the Fund's accounting period beginning on or after July 1, 2016 but are considered not to be relevant or to have any significant effect on the Fund's operations and are, therefore, not disclosed in these financial statements.

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

The following standards, amendments and interpretations with respect to approved accounting standards would be effective from the date mentioned below against the respective standards, amendments or interpretations:

<b>Standards, Interpretations or Amendments</b>	<b>Effective date (accounting period beginning on or after)</b>
- IFRS 9 – Financial Instruments	January 1, 2018
- IFRS 15 – Revenue from contracts with customers	January 1, 2018
- IFRS 16 – Leases	January 1, 2019

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

2.3.1 The impact of standards, interpretations and amendments to published approved accounting standards that are not yet effective is yet to be determined by the Management Company of the Fund.

2.3.2 The SECP vide its SRO 756(1) / 2017 dated August 3, 2017 has made certain amendments in the NBFC Regulations, 2008 which will be applicable on the financial statements of the Fund from the accounting year ending on June 30, 2018. The notification includes a definition and explanation relating to "element of income" and excludes the element of income from the expression "accounting income" as described in Regulation 63 (Amount distributable to unit holders) of the NBFC Regulations, 2008. In addition there are certain changes in the disclosure requirements relating to the Income Statement and the Statement of Movement in Unit Holders' Fund. The management is currently in the process of assessing the impact of these changes on the financial statements.

## 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 the judgment in the 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 underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years.

The areas involving a degree of judgment or complexity, or areas where estimates and assumptions are significant to the financial statements are as follows:

- classification and valuation of investment (note 3.2 and 5)
- impairment of financial assets (note 3.2.5)
- taxation (note 3.7 and 16)

## 2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which 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 of bank balances and short term highly liquid investments with original maturity of three months or less, are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes. 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. These include held for trading investments and such other investments that, upon initial recognition, are designated under this category.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## b) Loans and receivables

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

## c) Available for sale

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

### 3.2.2 Regular way contracts

All regular purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention are recognised on the trade date - the date on which the Fund commits to purchase or sell the assets.

### 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 the 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 at fair value through profit or loss and available for sale are revalued at fair value.

#### - Basis of valuation of equity securities

The investment of the Fund in equity securities is valued on the basis of closing quoted market prices available at the stock exchange.

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

Net gains and losses arising from the 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.

Gains or losses are recognised in the 'income statement' when the financial assets carried at amortised cost are derecognised or impaired.

### 3.2.5 Impairment of financial assets

The Fund assesses at each reporting date whether there is an objective evidence that the financial assets or a group of financial assets is impaired. The carrying value of the Fund's assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

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

For certain other financial assets, a provision for impairment is established when there is an objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The provision against these amounts is made as per the provisioning policy duly formulated and approved by the Board of Directors of the Management Company in accordance with the requirements of the Securities and Exchange Commission of Pakistan.

### 3.2.6 Derecognition

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

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 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. These are initially recognised at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

## 3.4 Offsetting of financial assets and liabilities

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

## 3.5 Provisions

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

## 3.6 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 two years in accordance with the requirements set out in the Trust Deed of the Fund.

## 3.7 Taxation

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

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

## 3.8 Proposed distributions

Distributions declared subsequent to the reporting date are considered as non-adjusting events and are recognised in the year in which such distributions are declared.

## 3.9 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the 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.

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

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' (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 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.

## 3.11 Net asset value per unit

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

## 3.12 Earning per unit (EPU)

Earning per unit has not been disclosed as, in the opinion of the management, the determination of cumulative weighted average number of units outstanding during the year for calculating earnings per unit is not practicable.



# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 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) arising on re-measurement of investments classified as 'financial assets at fair value through profit or loss' is included in the income statement in the year in which they arise.
- Dividend income is recognised when the right to receive the dividend is established.
- Profit on bank deposits is recognised on an accrual basis.

## 3.14 Expenses

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

4 BALANCES WITH BANKS	Note	2017	2016
		-----Rupees in '000-----	
Profit and loss savings accounts	4.1	141,787	523,311
Current accounts		<u>2,915</u>	<u>139</u>
		<u>144,702</u>	<u>523,450</u>

4.1 These carry profits at the rates ranging from 2.4% to 6.05% (June 30, 2016 : 2.4% to 6.7%) per annum.

5 INVESTMENTS	Note	2017	2016
		-----Rupees in '000-----	
'Financial assets at fair value through profit or loss' - net			
- Investments in listed equity securities	5.1	<u>12,097</u>	<u>595,581</u>

### 5.1 Listed equity securities

All shares have a nominal face value of Rs 10 per share each except for the shares of Thal Limited which have a face value of Rs 5 per share.

Name of the Sector / investee company	Number of shares					Market value as at June 30, 2017	Market Value as a percentage of		Holding as a percentage of Paid up capital of the investee company
	As at July 1, 2016	Purchases during the year	Bonus / Right Issue during the year	Sales / during the year	As at June 30, 2017		Net assets	Total investments	
						(Rupees in '000)	-----%------		
<b>Refinery</b>									
Attock Refinery Limited	-	37,000	-	37,000	-	-	-	-	-
National Refinery Limited	21,200	-	-	21,200	-	-	-	-	-
<b>Oil &amp; Gas Marketing Companies</b>									
Attock Petroleum Limited	64,050	-	-	64,050	-	-	-	-	-
Hascol Petroleum Limited	876	-	-	-	876	299	0.21	2.47	.*
Pakistan State Oil Company Limited	93,600	28,000	-	121,600	-	-	-	-	-
Shell Pakistan Limited	74,000	18,500	-	92,500	-	-	-	-	-
						299	0.21	2.47	
<b>Oil &amp; Gas Exploration Companies</b>									
Pakistan Oilfields Limited	98,000	14,000	-	112,000	-	-	-	-	-
Pakistan Petroleum Limited	168,400	32,000	-	200,400	-	-	-	-	-
Mari Petroleum Company Limited	11,850	10,600	-	21,350	1,100	1,733	1.22	14.33	.*
Oil and Gas Development Company Limited	-	75,000	-	75,000	-	-	-	-	-
						1,733	1.22	14.33	
<b>Fertilizer</b>									
Engro Fertilizers Company Limited	251,500	120,000	-	371,500	-	-	-	-	-
Engro Corporation Limited	137,400	19,000	-	153,400	3,000	978	0.69	8.08	.*
Fauji Fertilizer Bin Qasim Limited	120,000	97,000	-	217,000	-	-	-	-	-
						978	0.69	8.08	
<b>Cement</b>									
D.G. Khan Cement Company Limited	102,700	-	-	97,500	5,200	1,108	0.78	9.16	.*
Lucky Cement Limited	42,500	-	-	42,500	-	-	-	-	-
Maple Leaf Cement Factory Limited	71,500	-	-	71,500	-	-	-	-	-
Attock Cement (Pakistan) Limited	92,600	21,000	-	113,600	-	-	-	-	-
Fauji Cement Company Limited	392,000	-	-	359,400	32,600	1,338	0.94	11.06	.*
Pioneer Cement Limited	83,500	-	-	68,300	15,200	1,976	1.39	16.33	0.01
						4,422	3.11	36.55	
<b>Automobile Parts &amp; Accessories</b>									
Thal Limited	78,600	-	-	78,600	-	-	-	-	-
<b>Automobile Assembler</b>									
Indus Motor Company Limited	25,830	2,250	-	28,080	-	-	-	-	-

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

Name of the Sector / investee company	Number of shares					Market value as at June 30, 2017	Market Value as a percentage of		Holding as a percentage of Paid up capital of the investee company
	As at July 1, 2016	Purchases during the year	Bonus / Right Issue during the year	Sales / during the year	As at June 30, 2017		Net assets	Total investments	
						(Rupees in '000)	-----%-----		
<b>Cable and Electrical Goods</b>									
Pak Elektron Limited	179,875	82,500	-	262,375	-	-	-	-	-
<b>Engineering</b>									
Mughal Iron and Steel Industries Limited	329,975	-	15,950	323,700	22,225	1,794	1.26	14.83	0.01
Crescent Steel and Allied Products Limited	48,500	30,000	-	78,500	-	-	-	-	-
						1,794	1.26	14.83	
<b>Textile Composite</b>									
Kohinoor Textile Mills Limited	526,225	-	-	521,488	4,737	498	0.35	4.12	.*
Nishat Mills Limited	347,600	93,000	-	434,400	6,200	984	0.69	8.13	.*
						1,482	1.04	12.25	
<b>Pharmaceuticals</b>									
The Searle Company Limited	24,000	-	3,383	27,132	251	128	0.09	1.06	.*
Ferozsons Laboratories Limited	3,000	-	-	3,000	-	-	-	-	-
						128	0.09	1.06	
<b>Technology &amp; Communication</b>									
Pakistan Telecommunication Company Limited	337,000	-	-	337,000	-	-	-	-	-
Avanceon Limited	227,500	-	-	227,500	-	-	-	-	-
NetSol Technologies Limited	45,000	-	-	45,000	-	-	-	-	-
<b>Power Generation &amp; Distribution</b>									
The Hub Power Company Limited	205,300	-	-	205,300	-	-	-	-	-
Kot Addu Power Company Limited	272,000	59,500	-	314,100	17,400	1,253	0.88	10.36	.*
Lalpir Power Limited	337,500	-	-	337,500	-	-	-	-	-
						1,253	0.88	10.36	
<b>Commercial Banks</b>									
Meezan Bank Limited	237,500	-	-	237,400	100	8	0.01	0.07	.*
<b>As at June 30, 2017</b>						<u>12,097</u>	<u>8.51</u>	<u>100.00</u>	
<b>Carrying value as at June 30, 2017</b>						<u>9,750</u>			

\* Nil value due to rounding off difference.

5.1.1 Investments include shares with market value of Rs 5.393 million (2016: Rs 66.642 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular no. 11 dated October 23, 2007 issued by the SECP.

5.2 Unrealised appreciation in the value of investments classified as financial assets 'at fair value through profit or loss' - net	Note	2017	2016
		-----Rupees in '000-----	
Market value of investments	5.1	12,097	595,581
Less: carrying value of investments		9,750	564,102
		<u>2,347</u>	<u>31,479</u>

5.3 The Finance Act, 2014 introduced amendments to the Income Tax Ordinance 2001. As a result of these amendments, companies are liable to withhold tax on bonus shares at the rate of 5 percent. In accordance with the requirement of the Ordinance these shares shall only be released to a shareholder if the Company collects from the shareholder tax equal to 5 percent of the value of the bonus shares issued. The value of tax is computed on the basis of day-end price on the first day of book closure.

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

As at June 30, 2017, the following bonus shares of the Fund were withheld by certain companies at the time of bonus declaration. The Fund has included these shares in its portfolio, as the management believes that the decision of the constitutional petition will be in favour of the CISs.

Name of the investee company	June 30, 2017		June 30, 2016	
	Bonus Shares			
	Number of shares	Market value	Number of shares	Market value
		Rupees in '000		Rupees in '000
Hascal Petroleum Limited	813	277	813	159
Mughal Iron and Steel Industries Limited	1,324	107	1,324	89
Kohinoor Textile Mills Limited	4,736	498	4,736	379
The Searle Company Limited	248	127	50	27
		<u>1,009</u>		<u>654</u>

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

	Note	2017	2016
-----Rupees in '000-----			
<b>6</b>	<b>DIVIDEND AND PROFIT RECEIVABLE</b>		
	Dividend receivable	15	931
	Profit receivable on deposits with banks	607	2,020
		<u>622</u>	<u>2,951</u>
<b>7</b>	<b>SECURITY DEPOSITS</b>		
	Security deposit with the National Clearing Company of Pakistan Limited	2,500	2,500
	Security deposit with the Central Depository Company of Pakistan Limited	100	100
		<u>2,600</u>	<u>2,600</u>
<b>8</b>	<b>PRELIMINARY EXPENSES AND FLOATATION COSTS</b>		
	At the beginning of the year	-	1,155
	Less: amortisation during the year	8.1	(1,155)
	At the end of the year	<u>-</u>	<u>-</u>

**8.1** Preliminary expenses and floatation costs represented expenditure incurred prior to the commencement of operations of the Fund and were amortised over a period of two years commencing from June 28, 2014 as per the requirements set out in the Trust Deed.

	Note	2017	2016
-----Rupees in '000-----			
<b>9</b>	<b>PAYABLE TO NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY</b>		
	Remuneration of the Management Company	9.1	88
	Sindh sales tax on remuneration of the Management Company	9.2	12
	Federal excise duty on remuneration of the Management Company	9.3	8,151
	Federal excise duty on sales load		2,899
	Accounting and operational charges	9.4	609
		<u>11,759</u>	<u>13,987</u>

**9.1** During the year, the criteria for the payment of remuneration to the Management Company was changed. From July 1, 2016 to December 31, 2016 the Management Company charged remuneration at the rate of 2% (2016: 2%) per annum based on the daily net assets of the Fund. However, with effect from January 1, 2017, the Management Company started charging remuneration at a rate of 2% on equity component and 12% of net income excluding equity component, subject to a minimum of 0.5% of net assets and maximum of 1% of net assets of the Fund. The remuneration is paid to the Management Company on a monthly basis in arrears.

**9.2** The Provincial Government of Sindh has levied Sindh sales tax at the rate of 13% (2016:14%) on the remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011.

**9.3** As per the requirements of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company was applied effective June 13, 2013. The Management Company was of the view that since the remuneration is already subject to provincial sales tax as explained in note 9.2, further levy of FED results in double taxation, which does not appear to be the spirit of the law.

On September 4, 2013, a Constitutional Petition was 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.

During the year ended June 30, 2017, 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. The Deputy Commissioner Inland Revenue, Zone II has filed a petition for leave to appeal against the SHC order with the Supreme Court of Pakistan.

Further with effect from July 1, 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 1, 2016. However, the provision made till June 30, 2016, aggregating to Rs 8.151 million has not been reversed as the management believes that the Federal Government retains the right to appeal against the said order in the SCP. Had the provision not been made, the Net Asset Value per unit of the Fund as at June 30, 2017 would have been higher by Rs 5.8288 per unit (2016: Rs 0.8440 per unit).

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

9.4 In accordance with the provisions of the NBFC Regulations amended vide S.R.O 1160(I) / 2015 dated November 25, 2015, 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 relating to Collective Investment Scheme upto a maximum of 0.1% of the average annual net assets of the Scheme or actual whichever is less. The Management Company has charged operating expenses to the Fund at the rate of 0.1% per annum of the average annual net assets of the Fund for the year from July 1, 2016 to June 30, 2017 amounting to Rs 0.609 million (November 25, 2015 to June 30, 2016: Rs 0.713 million).

	Note	2017	2016
-----Rupees in '000-----			
<b>10 REMUNERATION PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE</b>			
Trustee remuneration	10.1	15	124
Sindh sales tax on the remuneration of trustee	10.2	2	17
		17	141
<b>10.1</b>	The Trustee is entitled to a monthly remuneration for the services rendered to the Fund under the provisions of the Trust Deed as per the tariff structure specified therein, based on the daily net assets of the Fund. The fee is paid on a monthly basis in arrears at the rate of 0.13% (2016: 0.13%) of the net assets. There is no change in the tariff structure in the current year.		
<b>10.2</b>	Sindh sales tax at 13% (2016: 14%) is charged on Trustee fee.		
	Note	2017	2016
-----Rupees in '000-----			
<b>11 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>			
Annual fee	11.1	457	927
<b>11.1</b>	Under the provisions of the NBFC Regulations, a collective investment scheme categorised as Shariah Compliant Capital Protected Scheme is required to pay an annual fee to the SECP at an amount equal to 0.075% of the average annual net assets of the Fund. There has been no change in this percentage in the current year.		
	Note	2017	2016
-----Rupees in '000-----			
<b>12 ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Auditors' remuneration		289	283
Provision for Workers' Welfare Fund	12.1	-	5,070
Provision for Sindh Workers' Welfare Fund	12.1	3,592	-
Brokerage		-	297
Settlement charges		64	58
Bank charges		50	84
Printing charges		155	128
Withholding tax and capital gains tax on dividend		92	2,256
Haram portion of dividend income	12.2	894	958
Legal fee		210	131
Shariah advisor fee		409	179
		5,755	9,444
<b>12.1</b>	The Finance Act, 2008 introduced amendments to the Workers' Welfare Fund (WWF) Ordinance, 1971 whereby the definition of industrial establishment was extended. The amendments were challenged at various levels and conflicting judgments were rendered by the Lahore High Court, Sindh High Court and Peshawar High Court. The Honourable Supreme Court of Pakistan vide its judgment dated November 10, 2016, has upheld the view of Lahore High Court and decided that WWF is not a tax and hence the amendments introduced through the Finance Act, 2008 are ultra-vires to the Constitution. The Federal Board of Revenue has filed Civil Review Petitions in respect of the above judgment with the prayer that the judgment dated November 10, 2016 passed in the Civil Appeal may kindly be reviewed in the interest of justice.		
Furthermore, the Sindh Revenue Board (SRB) had written to a few mutual funds in January 2016 to register and pay Sindh Workers Welfare Fund (SWWF) for the accounting year closing on or after December 31, 2013. The MUFAP reviewed the issue and were of the view that SWWF is not applicable on mutual funds as they are not financial institutions as required by the SWWF Act, 2014. The MUFAP wrote to the SRB that mutual funds are not establishments and are pass through vehicles hence, they do not have any worker and no SWWF is payable by them. The SRB responded back that as mutual funds are included in the definition of financial institutions in the Financial Institutions (Recovery of Finance) Ordinance, 2001, therefore SWWF is applicable on mutual funds. The MUFAP has taken up this matter before the Sindh Finance Ministry to exclude mutual funds from the applicability of SWWF.			

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

In view of the above developments regarding the applicability of Federal and Sindh WWF on Mutual Funds, the MUFAP recommended the following to all its members on January 12, 2017:

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

Accordingly, on January 12, 2017 the provision for WWF was reversed and the provision for SWWF was made for the period from May 21, 2015 to January 12, 2017. Thereafter, the provision for SWWF is being made by the Fund on a daily basis going forward.

The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on January 12, 2017 and the SECP vide its letter dated February 1, 2017 advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosures in the financial statements of the CISs/ mutual funds. Accordingly, the Fund has recorded these adjustments in its books on January 12, 2017.

Had the provision for SWWF amounting to Rs 3.592 million not been recorded in the financial statements of the Fund, the net asset value of the Fund as at June 30, 2017 would have been higher by Re 2.569 per unit.

12.2 Total haram portion of dividend for the year amounted to Rs 0.422 million (2016: Rs 0.701 million). Dividend income is recorded net of haram portion.

## 13 CONTINGENCIES AND COMMITMENTS

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

		2017	2016
-----Number of units-----			
14	<b>NUMBER OF UNITS IN ISSUE</b>		
	Total units in issue at the beginning of the year	9,657,301	10,991,585
	Add: units issued during the year	-	222,275
	Add: bonus units issued during the year	815,391	682,028
	Less: units redeemed during the year	<u>(9,074,300)</u>	<u>(2,238,587)</u>
	Total units in issue at the end of the year	<u>1,398,392</u>	<u>9,657,301</u>

		2017	2016
-----Rupees in '000-----			
15	<b>AUDITORS' REMUNERATION</b>		
	Annual audit fee and other certification	258	244
	Half yearly review fee	83	82
	Out of pocket expenses	<u>68</u>	<u>60</u>
		<u>409</u>	<u>386</u>

## 16 TAXATION

The income of the Fund is exempt from income tax under Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed to the unit holders as cash dividend. The Fund has not recorded provision for taxation as the Fund's income for the year is not subject to taxation after it has been reduced by capital gains (realised or unrealised). Hence no cash dividend is distributed during the year.

## 17 TOTAL EXPENSE RATIO

The total expense ratio (TER) of the Fund for the year ended June 30, 2017 is 3.31% which includes 0.92% representing government levies on the Fund such as sales taxes, Sindh Workers' Welfare Fund, annual fee payable to the SECP, etc. This ratio is within the maximum limit of 4% prescribed under the NBFC Regulations for a collective investment scheme categorised as a "capital protected" scheme.

## 18 TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

18.1 Related parties / connected persons include NBP Fullerton Asset Management Limited being the Management Company, the Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan (NBP) and Alexandra Fund Management Pte. Limited being the sponsors, other collective investment schemes managed by the Management Company, entities having common directorship with the Management Company, retirement funds of group companies, directors and officers of the Management Company and any person or company which beneficially owns directly or indirectly 10% or more of the units in issue / net assets of the Fund.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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

18.3 Remuneration and front-end load payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

18.4 Remuneration payable to the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.

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

2017                      2016  
-----Rupees in '000-----

**NBP Fullerton Asset Management Limited - Management Company**

Remuneration for the year	10,779	24,708
Sindh sales tax on remuneration of the Management Company	1,401	4,013
Federal excise duty on remuneration of the Management Company	-	3,953
Accounting and operational charges to the Management Company	609	713

**Central Depository Company of Pakistan Limited - Trustee**

Remuneration for the year	793	1,606
Sindh sales tax on remuneration of the Trustee	103	225
CDS charges	300	300

**Employees of the Management Company**

Cash distribution for the year	-	4
Issue of 618 bonus units (2016: Nil)	62	-

**Taurus Securities Limited**

Brokerage expense	32	114
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**Persons holding directly or indirectly 10% or more of the units in issue / net assets of the Fund**

**City School Provident Fund Trust (note 18.7)**

Issue of 123,844 bonus units (2016: Nil)	12,406	-
--	--------	---

**PTCL Employees General Provident Fund (note 18.7)**

Cash distribution for the year	-	893
Redemption of 4,463,705 units (2016: Nil)	616,346	-

**Mehreen Dawood (note 18.7)**

Issue of 56,296 bonus units (2016: Nil)	5,639	-
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18.6 Amounts outstanding as at year end

**NBP Fullerton Asset Management Limited - Management Company**

Management fee payable	88	1,913
Sindh sales tax payable on remuneration of the Management Company	12	311
Federal excise duty payable on remuneration of the Management Company	8,151	8,151
Federal excise duty payable on sales load	2,899	2,899
Accounting and operational charges payable to the Management Company	609	713

**Central Depository Company of Pakistan Limited - Trustee**

Remuneration payable	15	124
Sindh sales tax payable on remuneration of the Trustee	2	17
Settlement charges payable	64	58
Security deposit	100	100

**Employees of the Management Company**

Units held: 2,287 units (2016: 1,669 units)	232	187
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**Taurus Securities Limited**

Brokerage payable	-	47
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**NAFA Islamic Energy Fund**

Payable against redemption of units	-	416
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# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

2017  
-----Rupees in '000-----

## NAFA Islamic Active Allocation Fund - I (Plan - III)

Payable against redemption of units - 16,163

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

## City School Provident Fund Trust (note 18.7)

Units held: 458,218 units (2016: Nil) 46,541 -

## PTCL Employees General Provident Fund

Units held: Nil (2016: 4,463,705 units) - 500,807

## Mehreen Dawood (note 18.7)

Units held: 208,293 units (2016: Nil) 21,156 -

18.7 A connected person / related party of the Fund during the current year.

## 19 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

Details of the 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	29
2	Mr. Sajjad Anwar *	CFA / MBA Finance	17
3	Mr. Muhammad Ali Bhabha	CFA / MBA / FRM / MS	22
4	Mr. Hassan Raza	ACCA / BSC / CFA	6
5	Mr. Taha Khan Javed	MBA / CFA	11

\* Mr. Sajjad Anwar is the manager of the Fund. He is also the Fund Manager of NAFA Pension Fund, NAFA Islamic Pension Fund, NAFA Islamic Principal Protected Fund I, NAFA Islamic Principal Preservation Fund, NAFA Islamic Income Fund, NAFA Islamic Stock Fund, NAFA Islamic Active Allocation Fund I and NAFA Islamic Active Allocation Fund II .

## 20 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION CHARGED

S. No.	Particulars	Percentage 2017
1	EFG Hermes Pakistan Limited (formerly Invest & Finance Securities (Private) Limited)	14.48%
2	Arif Habib Securities Limited	9.15%
3	Aqeel Karim Dehdi Securities (Private) Limited	6.59%
4	IGI Finex Securities Limited	6.43%
5	Next Capital Limited	5.93%
6	Taurus Securities Limited	5.54%
7	J. S. Global Capital Limited	4.09%
8	BIPL Securities Limited	4.06%
9	Insight Securities (Private) Limited	4.03%
10	First Capital Equities Limited	3.83%

S. No.	Particulars	Percentage 2016
1	Taurus Securities Limited	9.00%
2	Arif Habib Securities Limited	6.30%
3	Foundation Securities	5.79%
4	Concordaia Securities (Private) Limited	4.38%
5	Al Habib Capital Markets (Private) Limited	3.86%
6	Habib Metropolitan Financial Services	3.73%
7	BMA Capital Management Limited	3.67%
8	KASB Securities Limited	3.40%
9	IGI Finex Securities Limited	3.21%
10	Aqeel Karim Dehdi Securities (Private) Limited	3.18%

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 21 PATTERN OF UNIT HOLDING

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

Category	Number of unit holders	Investment amount	Percentage of investment
Rupees in '000			
Individuals *	86	78,426	55.22%
Retirement funds **	4	62,172	43.77%
Others	3	1,435	1.01%
	93	142,033	100.00%

\* This includes investment of Rs 21.388 million of related parties / connected person

\*\* This includes investment of Rs 46.541 million of related parties / connected person

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

Category	Number of unit holders	Investment amount	Percentage of investment
Rupees in '000			
Individuals*	308	301,764	28.00%
Retirement funds**	12	627,434	58.00%
Others	16	154,306	14.00%
	336	1,083,504	100.00%

\* This includes investment of Rs 0.187 million of related parties / connected persons.

\*\* This includes investment of Rs 500.807 million of related parties / connected persons.

## 22 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

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

Name of Directors	Number of meetings			Meeting not attended
	Held	Attended	Leave granted	
Mr. Nausherwan Adil	4	4	-	-
Mr. Aamir Sattar	4	4	-	-
Mr. Abdul Hadi Palekar	4	3	1	61st
Mr. Koh Boon San [note 22.1]	2*	2	-	-
Mr. Lui Mang Yin (Martin Lui)	4	4	-	-
Dr. Foo Chiah Shiung (Kelvin Foo) [note 22.2]	2*	1	1	63rd
Mr. Kamal Amir Chinoy	4	4	-	-
Mr. Shehryar Faruque	4	3	1	62nd
Mr. Saiyed Hashim Ishaque [note 22.3]	3*	3	-	-
Mr. Humayun Bashir [note 22.4]	1*	1	-	-
Dr. Amjad Waheed	4	4	-	-

22.1 Mr. Koh Boon San retired in Extra Ordinary General Meeting held on November 21, 2016.

22.2 Dr. Foo Chiah Shiung (Kelvin Foo) appointed as director on the Board with effect from November 21, 2016.

22.3 Mr. Saiyed Hashim Ishaque retired in Extra Ordinary General Meeting held on March 17, 2017.

22.4 Mr. Humayun Bashir appointed as director on the Board with effect from March 17, 2017.

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



# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 23 FINANCIAL INSTRUMENTS BY CATEGORY

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

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

### Financial assets

Balances with banks	144,702	-	144,702
Investments	-	12,097	12,097
Dividend and profit receivable	622	-	622
Security deposits	2,600	-	2,600
	<u>147,924</u>	<u>12,097</u>	<u>160,021</u>

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

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

Particulars	Loans and receivables	Other financial liabilities at amortised cost	Total
-------------	-----------------------	---	-------

### Financial liabilities

Payable to NBP Fullerton Asset Management Limited - Management Company	-	11,759	11,759
Remuneration payable to the Central Depository Company of Pakistan Limited - Trustee	-	17	17
Accrued expenses and other liabilities	-	2,071	2,071
	<u>-</u>	<u>13,847</u>	<u>13,847</u>

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

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

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

### Financial assets

Balances with banks	523,450	-	523,450
Investments	-	595,581	595,581
Dividend and profit receivable	2,951	-	2,951
Security deposits	2,600	-	2,600
	<u>529,001</u>	<u>595,581</u>	<u>1,124,582</u>

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

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

Particulars	Loans and receivables	Other financial liabilities at amortised cost	Total
-------------	-----------------------	---	-------

### Financial liabilities

Payable to NBP Fullerton Asset Management Limited - Management Company	-	13,987	13,987
Remuneration payable to the Central Depository Company of Pakistan Limited - Trustee	-	141	141
Payable against redemption of units	-	16,579	16,579
Accrued expenses and other liabilities	-	2,118	2,118
	<u>-</u>	<u>32,825</u>	<u>32,825</u>

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

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 24 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

### 24.1 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 on marketable securities by following the internal risk management policies and the investment guidelines approved by the investment committee and regulations laid down by the SECP.

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

#### 24.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. At present, the Fund is not exposed to currency risk as all the transactions are carried out in Pakistani Rupees.

#### 24.1.2 Yield / profit rate risk

Yield / profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market profit rates. The Fund is mainly exposed to profit rate risk on balances held with the banks.

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

Presently, the Fund does not directly hold any variable rate instrument and is not exposed to cash flow profit rate risk except for balances in profit and loss accounts with certain banks the profit rate of which ranges from 2.4% to 6.05% per annum.

##### Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased / decreased unit holder fund and income statement by Rs 1.4178 million (2016: Rs 5.2331 million). The analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

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

Presently, the Fund does not hold any fixed rate instrument that may expose the Fund to any material profit rate risk.

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

As at June 30, 2017

Particulars	Effective Yield / profit 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	
	%		------(Rupees in '000)-----			

### On-balance sheet financial instruments

#### Financial assets

Balances with banks	2.4 - 6.05	144,702	141,787	-	-	2,915
Investments		12,097	-	-	-	12,097
Dividend and profit receivable		622	-	-	-	622
Security deposits		2,600	-	-	-	2,600
		160,021	141,787	-	-	18,234

#### Financial liabilities

Payable to NBP Fullerton Asset Management Limited - Management Company		11,759	-	-	-	11,759
Remuneration payable to the Central Depository Company of Pakistan Limited - Trustee		17	-	-	-	17
Accrued expenses and other liabilities		2,071	-	-	-	2,071
		13,847	-	-	-	13,847

### On-balance sheet gap

	146,174	141,787	-	-	4,387
--	---------	---------	---	---	-------

### Total profit rate sensitivity gap

	146,174	141,787	-	-	4,387
--	---------	---------	---	---	-------

### Cumulative profit rate sensitivity gap

	141,787	141,787	141,787
--	---------	---------	---------

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

As at June 30, 2016

Particulars	Effective Yield / profit 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	

%

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

## On-balance sheet financial instruments

### Financial assets

Balances with banks	2.4 - 6.7	523,450	523,311	-	-	139
Investments		595,581	-	-	-	595,581
Dividend and profit receivable		2,951	-	-	-	2,951
Security deposits		2,600	-	-	-	2,600
		1,124,582	523,311	-	-	601,271

### Financial liabilities

Payable to NBP Fullerton Asset Management Limited - Management Company		13,987	-	-	-	13,987
Remuneration payable to the Central Depository Company of Pakistan Limited - Trustee		141	-	-	-	141
Payable against redemption of units		16,579	-	-	-	16,579
Accrued expenses and other liabilities		2,118	-	-	-	2,118
		32,825	-	-	-	32,825

## On-balance sheet gap

	1,091,757	523,311	-	-	568,446
--	-----------	---------	---	---	---------

## Total profit rate sensitivity gap

	1,091,757	523,311	-	-	568,446
--	-----------	---------	---	---	---------

## Cumulative profit rate sensitivity gap

	523,311	523,311	523,311
--	---------	---------	---------

### 24.1.3 Price risk

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

The Fund is primarily exposed to equity price risk because of investments held and classified by the Fund on the statement of assets and liabilities at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks prescribed in the Trust deed. The Fund's constitutive documents / the NBFC Regulations also limit individual equity securities based on the net assets, or issued capital of the investee company and sector exposure limit.

In case of 5% increase / decrease in KMI 30 index on June 30, 2017, net income for the year would increase / decrease by Rs 0.19 million (2016: Rs 12.733 million) and net assets of the Fund would increase / decrease by the same amount as a result of gains / losses on equity securities at fair value through profit or loss.

The analysis is based on increase / decrease of equity index by 5% with all other variables held constant and with an assumption that all the Fund's equity instruments will move according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KMI 30 index having regard to the historical volatility of the index. The composition of the Fund's investment portfolio and the correlation thereof to the KMI 30 index, is expected to change over time. Accordingly, the aforementioned sensitivity analysis is not necessarily indicative of the effects on the Fund's net assets of future movements in the level of KMI 30 index.

### 24.2 Credit risk

Credit risk arises from the inability of the issuers of the instruments or the counter party to fulfil their obligations. The Fund is exposed to credit risk with respect to its balances with banks, dividend and profit receivable and deposits. Credit risk also arises from the inability of the relevant brokerage house or the counter party to fulfill their obligations. There is a possibility of default by participants or failure of the financial markets / stock exchange, the depositories, the settlements or clearing system, etc. The settlement risk of default on equity securities is considered minimal due to inherent systematic measures taken therein.

The Fund's policy is to enter into financial contracts in accordance with internal risk management policies and instrument guidelines approved by the Investment Committee. The Fund's maximum exposure to credit risk as of June 30, 2017 amounts to Rs 147.924 million (2016 : Rs 529.001 million).

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## 24.2.1 Credit rating

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

Name of the Bank	Rating Agency	Latest available published rating	Percentage of Bank Balance
Habib Bank Limited	JCR	A1+	1.19%
United Bank Limited	JCR	A1+	91.90%
Allied Bank Limited	PACRA	A1+	0.23%
Bank Al-Habib Limited*	PACRA	A1+	-
Habib Metropolitan Limited*	PACRA	A1+	-
Bank Alfalah Limited	PACRA	A1+	1.67%
Meezan Bank Limited	JCR	A1+	3.31%
Sindh Bank Limited*	JCR	A1+	-
Soneri Bank Limited	PACRA	A1+	1.35%
JS Bank Limited	PACRA	A1+	0.35%

\* Nil value due to rounding off difference

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

Name of the Bank	Rating Agency	Latest available published rating	Percentage of Bank Balance
Habib Bank Limited	JCR-VIS	AAA	34.57%
United Bank Limited	JCR-VIS	AAA	0.21%
Allied Bank Limited *	PACRA	AA+	-
Bank Al-Habib Limited *	PACRA	AA+	-
Habib Metropolitan Bank *	PACRA	AA+	-
Bank Alfalah Limited	PACRA	AA	0.03%
Meezan Bank Limited	JCR-VIS	AA	7.07%
Sindh Bank Limited *	JCR-VIS	AA	-
Soneri Bank Limited	PACRA	AA-	58.13%

\* Nil value due to rounding off difference

## 24.2.2 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 mainly deals in equity securities which are primarily subject to price risk. The Fund's portfolio of other financial instruments comprise of bank balances.

The Fund's major bank balances are held with two banks. The management believes that these are credit-worthy counterparties.

## 24.3 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 to the Fund.

The Fund is exposed to daily cash redemptions, if any. 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. The Fund's policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily realised. The Fund's listed securities are considered readily realisable as they are liquid shares listed on the Pakistan Stock Exchange.

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

The table below indicates 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.

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

-----June 30, 2017-----				
Total	Maturity up to			More than one year
	Upto three months	Over three months and upto one year		
----- (Rupees in '000) -----				
<b>Financial liabilities</b>				
Payable to NBP Fullerton Asset Management Limited - Management Company	11,759	11,759	-	-
Remuneration payable to the Central Depository Company of Pakistan Limited - Trustee	17	17	-	-
Accrued expenses and other liabilities	2,071	2,071	-	-
	<u>13,847</u>	<u>13,847</u>	<u>-</u>	<u>-</u>
-----June 30, 2016-----				
Total	Maturity up to			More than one year
	Upto three months	Over three months and upto one year		
----- (Rupees in '000) -----				
<b>Financial liabilities</b>				
Payable to NBP Fullerton Asset Management Limited - Management Company	13,987	13,987	-	-
Remuneration payable to the Central Depository Company of Pakistan Limited - Trustee	141	141	-	-
Payable against redemption of units	16,579	16,579	-	-
Accrued expenses and other liabilities	2,118	2,118	-	-
	<u>32,825</u>	<u>32,825</u>	<u>-</u>	<u>-</u>

## 25 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.

In accordance with the risk management policies stated in note 24, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

The Fund provides protection of principal to the unit holders through its investment methodology (Constant Proportion Portfolio Insurance 'CPPI' methodology) and the investment structure of the Fund and not through an undertaking by the Management Company, the Trustee or the SECP.

## 26 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:

- Fair value of listed equity securities is determined on the basis of closing market prices quoted on the stock exchange.
- 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.

### 26.1 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:

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

- Fair value measurements using quoted price (unadjusted) in an active market for identical assets or liabilities. (Level 1)
- 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). (Level 2)
- Fair value measurement using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs). (Level 3)

As at June 30, 2017, the Fund held the following financial instruments measured at fair value:

ASSETS	----- As at June 30, 2017 -----			
	Level 1	Level 2	Level 3	Total
-----Rupees in '000-----				
Financial assets at fair value through profit or loss - Investment in listed equity securities	12,097	-	-	12,097
----- As at June 30, 2016 -----				
ASSETS	Level 1	Level 2	Level 3	Total
-----Rupees in '000-----				
Financial assets at fair value through profit or loss - Investment in listed equity securities	595,581	-	-	595,581

## 27 GENERAL

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

27.2 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.

## 28 DATE OF AUTHORISATION FOR ISSUE

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

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## PERFORMANCE TABLE

Particulars	For the year ended June 30, 2017	For the year ended June 30, 2016	For the year ended June 30, 2015	For the period from June 28, 2014 to June 30, 2014
Net assets at the year / period ended (Rs '000)	142,033	1,083,504	1,308,075	792,371
Net income for the year / period ended (Rs '000)	71,121	35,924	247,532	876
Net Asset Value per unit at the year / period ended (Rs)	101.5691	112.1953	119.0069	100.1223
Offer Price per unit at year end	N/A	N/A	N/A	104.164
Redemption Price per unit at year end	101.5691	112.1953	119.0069	100.1223
Ex - Highest offer price per unit (Rs.)	N/A	N/A	102.3029	104.164
Ex - Lowest offer price per unit (Rs.)	N/A	N/A	101.9044	104.0630
Ex - Highest redemption price per unit (Rs.)	102.2684	114.1762	120.8775	100.1223
Ex - Lowest redemption price per unit (Rs.)	81.1320	101.7554	95.6336	100.0252
Ex- Fiscal Year Opening Nav	80.7235	108.5848	98.1398	-
Total return of the fund	25.82%	3.33%	21.05%	0.12%
Capital growth	-22.56%	-5.81%	18.66%	0.12%
Income distribution % of Ex NAV	48.38%	9.13%	2.44%	0.00%
Income distribution % of Par Value	39.06%	10.32%	2.39%	0.00%
Distribution				
Interim distribution per unit	39.0554	10.3205	2.1727	0.0000
Final distribution per unit	-	-	0.2192	-
Distribution Dates				
Interim	20-Jan-17	28-Apr-16 & 30-Jun-16	30-Jun-15	-
Final	-	-	16-Jul-15	-
Average annual return of the fund (launch date June 28, 2014)				
(Since inception to June 30, 2017)	16.30%			
(Since inception to June 30, 2016)		25.22%		
(Since inception to June 30, 2015)			21.00%	
(Since inception to June 30, 2014)				0.12%
Portfolio Composition ( Please see Fund Manager Report)				
Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up				

# NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

## PROXY ISSUED BY THE FUND

The proxy voting policy of **NAFA Islamic Principal Protected Fund - II**, duly approved by Board of Directors of the Management Company, is available on the website of NBP Fullerton Asset Management Limited i.e. [www.nafafunds.com](http://www.nafafunds.com). A detailed information regarding actual proxies voted by the Management Company in respect of the fund is also available without charge, upon request, to all unit holders.

The details of summarized proxies voted are as follows:

	<b>Resolutions</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>
<b>Number</b>	2	2	-	-
<b>(%ages)</b>	100%	100%	-	-












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NBP Fullerton  
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A Subsidiary of  
National Bank of Pakistan

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