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

NAFA FINANCIAL SECTOR INCOME FUND

HALF YEARLY REPORT

DECEMBER 31

2015



Your investments & "NAFA" grow together



**FULLERTON FUND
MANAGEMENT**

Joint - Venture Partners

MISSION STATEMENT



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

NAFA FINANCIAL SECTOR INCOME FUND

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NAFA FINANCIAL SECTOR INCOME FUND

FUND'S INFORMATION

Management Company

NBP Fullerton Asset Management Limited – Management Company

Board of Directors of the Management Company

Mr. Nausherwan Adil	Chairman
Dr. Amjad Waheed	Chief Executive Officer
Mr. Nigel Poh Cheng	Director
Mr. Koh Boon San	Director
Mr. Kamal Amir Chinoy	Director
Mr. Shehryar Faruque	Director
Mr. Aamir Sattar	Director
Mr. Abdul Hadi Palekar	Director

Company Secretary & COO

Mr. Muhammad Murtaza Ali

Chief Financial Officer

Mr. Khalid Mehmood

Audit & Risk Committee

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

Human Resource and Remuneration Committee

Mr. Nausherwan Adil	Chairman
Mr. Nigel Poh Cheng	Member
Mr. Kamal Amir Chinoy	Member

Trustee

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

Bankers to the Fund

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

NAFA FINANCIAL SECTOR INCOME FUND

Auditors

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

Legal Advisor

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

Head Office:

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

Lahore Office:

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

Islamabad Office:

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

Peshawar Office:

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

Multan Office:

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

NAFA FINANCIAL SECTOR INCOME FUND

DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the reviewed financial statements of **NAFA Financial Sector Income Fund (NFSIF)** for the period ended December 31, 2015.

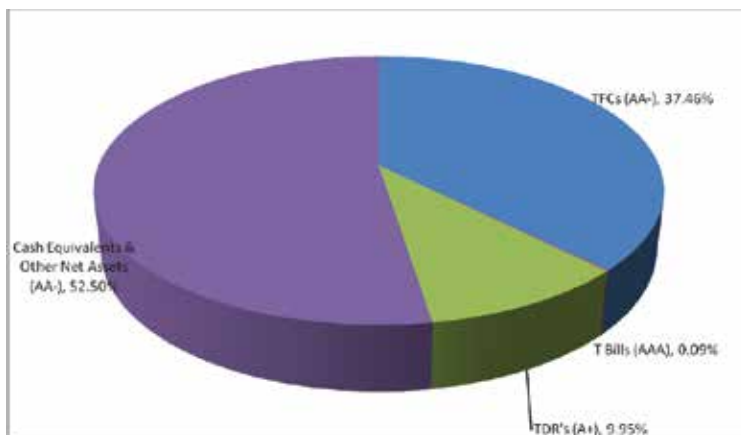
Fund's Performance

The size of NAFA Financial Sector Income Fund has increased from Rs. 777 million to Rs. 1,105 million during the period, i.e. an increase of 42.2%. During the period, the unit price of the Fund has increased from Rs. 10.4679 on June 30, 2015 to Rs. 10.8147 on December 31, 2015, thus showing a return of 6.57% as compared to its Benchmark (70% 6-month KIBOR & 30% average 3-month deposit rates of A & above rated banks) return of 6.15% for the same period. The performance of the Fund is net of management fee and other expenses.

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

On the corporate debt sphere, trading activity in TFCs remained depressed. Dearth of high credit quality corporate bonds further depressed the secondary market yields. During the period under review, the State Bank of Pakistan reduced the discount rate by 50 bps to 6.5%. SBP highlighted: i) benign inflation readings and anchored near-term expectation; ii) high real lending rates; iii) comfortable external account position; and (iv) improving law and order situation and macroeconomic stability. Sovereign securities responded to the loose monetary policy stance with yields on the PIBs and T-Bills declining accordingly. All TFCs/Sukuks in the Fund are floating rate linked to KIBOR with three to six month coupon resetting period.

The Fund has earned total income of Rs.49.99 million during the period. After deducting expenses of Rs.14.55 million, the net income is Rs.35.44 million. The below chart presents the asset allocation and the weighted average credit rating of each of the sub-asset classes of NFSIF.



NAFA FINANCIAL SECTOR INCOME FUND

Acknowledgement

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

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

On behalf of the Board of
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: February 26, 2016
Place: Karachi.

NAFA FINANCIAL SECTOR INCOME FUND

TRUSTEE REPORT TO THE UNIT HOLDERS NAFA FINANCIAL SECTOR INCOME FUND

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

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Financial Sector Income Fund (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the six months period ended December 31, 2015 in accordance with the provisions of the following:

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

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

Karachi: February 25, 2016

NAFA FINANCIAL SECTOR INCOME FUND

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **NAFA Financial Sector Income Fund** as at December 31, 2015 and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unit holders' fund and condensed interim cash flow statement together with the notes forming part thereof (here-in-after referred to as the 'condensed interim financial information'), for the half year ended December 31, 2015. The Management Company (NBP Fullerton Asset Management Limited) is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review. The figures of the condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of unit holders' fund and condensed interim cash flow statement for the quarter ended December 31, 2015 and December 31, 2014 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2015.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2015 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

A.F. Ferguson & Co. Chartered Accountants
Engagement Partner: **Noman Abbas Sheikh**
Dated: February 29, 2016
Karachi

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2015

	Note	(Un- Audited) December 31, 2015 (Rupees in '000)	(Audited) June 30, 2015
ASSETS			
Balances with banks	4	614,995	1,546,969
Investments	5	524,888	487,343
Profit receivable		2,427	7,143
Preliminary expenses and floatation costs		178	288
Security deposit		100	100
Prepayments and other receivables		215	969
Total assets		1,142,803	2,042,812
LIABILITIES			
Payable to NBP Fullerton Asset Management Limited - Management Company	6	16,397	16,682
Payable to the Central Depository Company of Pakistan Limited - Trustee		176	201
Payable to the Securities and Exchange Commission of Pakistan		478	1,472
Dividend payable		-	53,508
Payable against redemption of units		1,656	1,168,295
Accrued expenses and other liabilities		18,987	25,721
Total liabilities		37,694	1,265,879
NET ASSETS		1,105,109	776,933
UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED)		1,105,109	776,933
CONTINGENCIES AND COMMITMENTS			
	7		(Number of units)
NUMBER OF UNITS IN ISSUE		102,185,981	74,220,469
			-----Rupees-----
NET ASSET VALUE PER UNIT	8	10.8147	10.4679

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM INCOME STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2015

	Half year ended		Quarter ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Note ----- Rupees in '000 -----				
INCOME				
Capital gain on sale of investments - net	2,634	1,087	240	310
Income from government securities	5,458	19,792	3,148	10,999
Income from term deposit receipts	4,105	103	2,973	-
Income from term finance certificates	19,629	68,761	9,237	32,336
Profit on bank deposits	25,024	28,087	9,401	13,210
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'at fair value through profit or loss' - net	(1,564)	16,890	(506)	15,695
Total income	55,286	134,720	24,493	72,550
EXPENSES				
Remuneration of NBP Fullerton Asset Management Limited - Management Company	6.1	9,029	15,341	4,046
Sindh Sales Tax on remuneration of the Management Company	6.2	1,466	2,669	657
Federal Excise Duty on remuneration of the Management Company	6.3	1,445	2,455	647
Allocation of operational expenses from the Management Company	6.4	116	-	116
Remuneration of the Central Depository Company of Pakistan Limited - Trustee		964	1,298	473
Sindh sales tax on remuneration of the Central Depository Company of Pakistan Limited - Trustee		134	-	65
Annual fee to the Securities and Exchange Commission of Pakistan		478	767	229
Securities transaction cost		2	36	1
Bank charges		304	247	116
Listing fee		20	20	10
Auditors' remuneration		341	329	203
Printing charges		-	30	-
Rating fee		139	110	69
Legal fee		-	25	-
Amortisation of preliminary expenses and floatation costs		110	110	55
Total expenses		14,548	23,437	6,687
Net income from operating activities		40,738	111,283	17,806
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net		(5,301)	-	(4,262)
Provision for Workers' Welfare Fund	9	-	(2,226)	-
Net income for the period before taxation		35,437	109,057	13,544
Taxation	10	-	-	-
Net income for the period after taxation		35,437	109,057	13,544
Earnings per unit	11			

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2015

	Half year ended		Quarter ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	----- Rupees in '000 -----			
Net income for the period after taxation	35,437	109,057	13,544	59,940
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	<u>35,437</u>	<u>109,057</u>	<u>13,544</u>	<u>59,940</u>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Chief Executive

For NBP Fullerton Asset Management Limited
(Management Company)

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM DISTRIBUTION STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2015

	Half year ended		Quarter ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	----- Rupees in '000 -----			
Undistributed income brought forward comprising of :				
- Realised gain	103,179	88,333	122,092	120,569
- Unrealised (loss) / gain	<u>(4,038)</u>	<u>(13,458)</u>	<u>(1,058)</u>	<u>1,195</u>
	99,141	74,875	121,034	121,764
 Net income for the period	 35,437	 109,057	 13,544	 59,940
 Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed-net	 -	 (7,170)	 -	 (4,942)
 Undistributed income carried forward	 <u>134,578</u>	 <u>176,762</u>	 <u>134,578</u>	 <u>176,762</u>
Undistributed income comprising of :				
- Realised gain	136,142	159,872	136,142	159,872
- Unrealised (loss) / gain	<u>(1,564)</u>	<u>16,890</u>	<u>(1,564)</u>	<u>16,890</u>
	<u>134,578</u>	<u>176,762</u>	<u>134,578</u>	<u>176,762</u>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Chief Executive

For NBP Fullerton Asset Management Limited
(Management Company)

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2015

	Half year ended		Quarter ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	----- Rupees in '000 -----			
Net assets at the beginning of the period	776,933	2,177,036	1,240,589	2,013,057
Issue of 151,775,408 units (Dec 2014: 20,332,367 units)	1,597,214	212,573	82,371	140,048
Redemption of 123,809,896 units (Dec 2014: 53,730,729 units)	(1,309,776)	(558,384)	(235,657)	(272,763)
	287,438	(345,811)	(153,286)	(132,715)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed				
- transferred to distribution statement	-	7,170	-	4,942
- transferred to income statement	5,301	-	4,262	-
Net unrealised (diminution) / appreciation on re-measurement of investments classified as 'at fair value through profit or loss' - net	(1,564)	16,890	(506)	15,695
Capital gain on sale of investments - net	2,634	1,087	240	310
Other income for the period	34,367	91,080	13,810	43,935
	35,437	109,057	13,544	59,940
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed				
- transferred to distribution statement	-	(7,170)	-	(4,942)
Net assets as at the end of the period	<u>1,105,109</u>	<u>1,940,282</u>	<u>1,105,109</u>	<u>1,940,282</u>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2015

Note	Half year ended		Quarter ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
----- Rupees in '000 -----				
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period before taxation	35,437	109,057	13,544	59,940
Adjustments for :				
Net unrealised diminution / (appreciation) on re-measurement of investments classified as 'at fair value through profit or loss' - net	1,564	(16,890)	506	(15,695)
Amortisation of preliminary expenses and floatation costs	110	110	55	55
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net	5,301	-	4,262	-
Provision for Workers Welfare Fund	-	2,226	-	1,224
Profit / Income on bank deposits and debt securities	(54,216)	(116,743)	(24,759)	(56,545)
Federal Excise Duty on remuneration of the Management Company	1,445	2,455	647	1,196
	(10,359)	(19,785)	(5,745)	(9,825)
(Increase) / decrease in assets				
Investments - net	(39,109)	252,643	(110,882)	(21,491)
Receivable against sale of units	-	-	-	61
Prepayments and other receivables	754	148	(113)	46
	(38,355)	252,791	(110,995)	(21,384)
Increase / (decrease) in liabilities				
Payable to the Management Company	(1,730)	1,467	(522)	(586)
Payable to the Central Depository Company of Pakistan Limited - Trustee	(25)	(45)	(3)	3
Payable to the Securities and Exchange Commission of Pakistan	(994)	(2,124)	229	373
Accrued expenses and other liabilities	(6,734)	(240)	(1,221)	(673)
	(9,483)	(942)	(1,517)	(883)
Profit received on bank balances and debt securities	58,932	139,803	34,473	63,628
Net cash generated from / (used in) operating activities	735	371,867	(83,784)	31,536
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts from issue of units	1,597,214	212,573	82,371	140,048
Payment on redemption of units	(2,476,415)	(1,500,851)	(235,399)	(271,006)
Distribution paid	(53,508)	-	-	-
Net cash used in financing activities	(932,709)	(1,288,278)	(153,028)	(130,958)
Net decrease in cash and cash equivalents during the period	(931,974)	(916,411)	(236,812)	(99,422)
Cash and cash equivalents at the beginning of the period	1,546,969	1,411,420	851,807	594,431
Cash and cash equivalents as at the end of the period	4	495,009	614,995	495,009

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA FINANCIAL SECTOR INCOME FUND

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2015

1 LEGAL STATUS AND NATURE OF BUSINESS

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

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The principal office of the Management Company is situated at 7th Floor Clifton Diamond Building, Block No.4, Scheme No.5, Clifton, Karachi. The Management Company is a member of the Mutual Funds Association of Pakistan (MUFAP).

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

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

The Pakistan Credit Rating Agency (PACRA) has assigned Management Quality Rating of 'AM2+' to the Management Company as at April 6, 2015 and Fund stability rating of 'A+(f)' to the Fund.

Title to the assets of the Fund is held in the name of the Central Depository Company of Pakistan Limited (CDC) as trustee of the Fund.

2 BASIS OF PREPARATION

2.1 Statement of Compliance

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

The disclosures made in this condensed interim financial information have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'. This condensed interim financial information does not include all the information and disclosures required in a full set of financial statements and should be read in conjunction with the published annual audited financial statements of the Fund for the year ended June 30, 2015.

In compliance with Schedule V of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the directors of the Management Company hereby declare that this condensed interim financial information gives a true and fair view of the state of the Fund's affairs as at December 31, 2015.

3 SIGNIFICANT ACCOUNTING AND RISK MANAGEMENT POLICIES, ESTIMATES, JUDGEMENT AND CHANGES THEREIN

3.1 The accounting policies adopted for the preparation of the condensed interim financial information for the half year ended December 31, 2015 are the same as those applied in the preparation of the published annual audited financial statements for the year ended June 30, 2015.

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

NAFA FINANCIAL SECTOR INCOME FUND

The significant estimates, judgments and assumptions made by the management in applying the accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the published annual audited financial statements as at and for the year ended June 30, 2015.

3.3 The financial risk management objectives and policies are consistent with those disclosed in the published annual audited financial statements of the Fund for the year ended June 30, 2015.

3.4 **Standards, interpretations and amendments to published approved accounting standards that are effective in the current period**

3.4.1 The following published standard is mandatory for the financial year beginning on or after January 1, 2015 and is relevant to the Fund:

IFRS 13 'Fair Value Measurement' - effective for annual periods beginning on or after January 1, 2015. The standard establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 'Financial Instruments: Disclosures'. As a result the Fund has included additional disclosures in this regard in note 13 to the condensed interim financial information. Notwithstanding the above, the change had no significant impacts on the measurements of the Fund's assets and liabilities.

There are certain other amendments to approved accounting standards that have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2015. None of those amendments have a significant effect on this condensed interim financial information.

			December 31 2015 (Un-audited)	June 30, 2015 (Audited)
4	BALANCES WITH BANKS	Note	----- Rupees in '000 -----	-----
	In saving accounts	4.1 & 4.2	611,915	1,543,822
	In current accounts	4.3	<u>3,080</u>	<u>3,147</u>
			<u>614,995</u>	<u>1,546,969</u>

4.1 These accounts carry profit at the rates ranging from 4% to 9% (June 30, 2015: 4.50% to 10.75%) per annum.

4.2 Deposits in saving account includes Rs. 0.719 million (June 30, 2015: Rs Nil) which is maintained with the National Bank of Pakistan (a related party) and carries profit rate of 4% (June 30, 2015: Nil).

4.3 Deposits in current accounts include Rs. 0.625 million (June 30, 2015: Rs 2.113 million) and Rs. 2.455 million (June 30, 2015: Rs1.034 million) maintained with National Bank of Pakistan and Summit Bank Limited respectively - related parties.

			December 31 2015 (Un-audited)	June 30, 2015 (Audited)
5	INVESTMENTS	Note	----- Rupees in '000 -----	-----
	Financial assets classified as 'at fair value through profit or loss'			
	Term finance certificates - listed	5.1	150,662	222,732
	Term finance certificates - unlisted	5.2	263,267	264,611
	Government securities - Treasury Bills	5.3	959	-
			414,888	487,343
	Loans and receivables			
	Term Deposit Receipts - Long Term	5.4	<u>110,000</u>	-
			<u>524,888</u>	<u>487,343</u>

NAFA FINANCIAL SECTOR INCOME FUND

5.1 Term finance certificates - listed

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

Name of the investee company	Number of certificates / bonds				Market value as at December 31, 2015	Investment as a percentage of	
	As at July 1, 2015	Purchases during the period	Sales / matured during the period	As at December 31, 2015		Net assets	Market value of total investments
(Rupees in '000)							
Term finance certificates - listed							
Allied Bank Limited II	13,000	-	13,000	-	-	-	-
Faysal Bank Limited - III	27,900	-	-	27,900	142,353	12.88	27.12
Pak Libya Holding Company (Private) Limited	10,000	-	-	10,000	8,309	0.75	1.58
				<u>37,900</u>	<u>150,662</u>	<u>13.63</u>	<u>28.70</u>

Carrying value as at December 31, 2015

150,930

Net unrealised diminution on re-measurement of investments

classified as 'financial assets at fair value through profit or loss'

(268)

5.2 Term finance certificates - unlisted

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

Name of the investee company	Number of certificates / bonds				Market value as at December 31, 2015	Investment as a percentage of	
	As at July 1, 2015	Purchases during the period	Sales / matured during the period	As at December 31, 2015		Net assets	Market value of total investments
(Rupees in '000)							
Term finance certificates - unlisted							
Bank Alfalah Limited - IV FT	39,500	-	-	39,500	202,416	18.32	38.56
Askari Bank Limited - IV	44	-	-	44	44,325	4.01	8.44
Standard Chartered Bank	3,300	-	-	3,300	16,526	1.50	3.15
				<u>42,844</u>	<u>263,267</u>	<u>23.82</u>	<u>50.16</u>

Carrying value as at December 31, 2015

264,563

Net unrealised diminution on re-measurement of investments

classified as 'financial assets at fair value through profit or loss'

(1,296)

5.3 Government securities

Market Treasury Bills

Issue date	Tenor	As at July 01, 2015	Face value			Market Value as at September 30, 2015	Investment as a percentage of	
			Purchases during the period	Sales / matured during the period	As at September 30, 2015		Net assets	Market value of total investments
Rupees in '000								
6-Aug-15	12 Months	-	150,000	150,000	-	-	-	-
20-Aug-15	12 Months	-	320,000	320,000	-	-	-	-
3-Sep-15	12 Months	-	280,000	279,000	1,000	959	0.09	0.18
					<u>1,000</u>	<u>959</u>	<u>0.09</u>	<u>0.18</u>

Carrying value as at December 31, 2015

959

Net unrealised diminution on re-measurement of investments
classified as 'financial assets at fair value through profit or loss'

-

NAFA FINANCIAL SECTOR INCOME FUND

5.4 Term Deposit Receipt

Name of Issuer	Maturity Date	Rate	Face Value
JS Bank Limited	28-Mar-16	7.75	110,000

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

	Note	December 31, 2015 (Un-audited)	June 30, 2015 (Audited)
----- Rupees in '000 -----			
6 PAYABLE TO THE NBP FULLERTON ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY			
Remuneration of the Management Company	6.1	927	2,320
Sindh sales tax on the Management Company's remuneration	6.2	151	481
Federal excise duty on the Management Company's remuneration	6.3	14,392	12,947
Allocation of operational expenses from the Management Company	6.4	116	-
Sales load and transfer load (including Federal Excise Duty) payable to the Management Company		642	765
Payable against preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund		17	17
Payable against expenses paid by the Management Company on behalf of the Fund		152	152
		<u>16,397</u>	<u>16,682</u>

- 6.1 In accordance with the provisions of the NBFC Regulations amended vide S.R.O 1160(I) / 2015 dated 25 November, 2015, the Management Company is entitled to receive a remuneration at the rate not exceeding 1.5% of the average daily net assets of the Fund. Accordingly, the Management Company has charged its remuneration at the rate of 1.5% per annum of the average daily net assets for the period till December 06, 2015. Subsequently, the Management Company has revised its remuneration at the higher of 10 percent of net income of the Fund or 0.5 percent per annum of the daily net assets of the Fund with a cap of 1.5 percent per annum of the daily net assets of the Fund. The amount of remuneration is payable to the Management Company monthly in arrears.
- 6.2 The Provincial Government of Sindh has levied Sindh Sales Tax at the rate of 14% (June 30, 2015: 15%) on the remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011.
- 6.3 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 has been applied effective June 13, 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax as explained in note 6.2, further levy of FED may result in double taxation, which does not appear to be the spirit of the law.

The matter has been collectively taken up by the Management Company jointly with other Asset Management Companies together with their respective Collective Investment Schemes through their trustees, through a Constitutional Petition filed in the Honourable Sindh High Court (SHC) during September 2013 challenging the levy of FED. In this respect, the SHC has issued a stay order against the recovery of FED and the hearing of the petition is still pending.

Pending decision of the SHC, the Fund is not making payments for FED. However, the Fund, as a matter of abundant caution, has made full provision in respect of FED amounting to Rs 14.392 million (June 30, 2015: Rs 12.947 million). Had the provision not been made the net asset value per unit of the Fund as at December 31, 2015 would have been higher by Re. 0.1408 per unit (June 30, 2015: Re. 0.2422 per unit)

- 6.4 During the current period, the SECP vide S.R.O No 1160(I) / 2015 dated November 25, 2015 introduced amendments in the NBFC regulations. As a result of these amendments, the Management Company of the Fund is entitled to reimbursement of fees and expenses incurred by the Management Company in relation to registrar services, accounting, operation and valuation services related to Collective Investment 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 period from November 25, 2015 to December 31, 2015.

NAFA FINANCIAL SECTOR INCOME FUND

7 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at December 31, 2015 and as at June 30, 2015.

8 NET ASSET VALUE PER UNIT

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

9 PROVISION FOR WORKERS' WELFARE FUND

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

During the year ended June 30, 2011, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However, on December 14, 2010, the Ministry filed its response against the constitutional petition requesting the Court to dismiss the petition. According to the legal counsel who is handling the case there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in the Court.

During the year ended June 30, 2012, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008, had declared the said amendments as unlawful and unconstitutional. In March 2013, a larger bench of the Honourable Sindh High Court (SHC) passed an order declaring that the amendments introduced in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 do not suffer from any constitutional or legal infirmity. However, the Honourable High Court of Sindh has not addressed the other amendments made in the WWF Ordinance, 1971 about the applicability of WWF to the CISs which is still pending before the Court.

In a judgment of May 2014, the Honourable Peshawar High Court (PHC) has also held these amendments to be ultra vires as they lacked the essential mandate to be introduced and passed through the Money Bill under the Constitution.

Without prejudice to the above, the Management Company, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs 17.976 million in this condensed interim financial information. Had the same not been made the net asset value per unit of the Fund as at December 31, 2015 would have been higher by Re 0.1759 per unit (June 30, 2015: Re 0.2422 per unit).

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

10 TAXATION

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

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

11 EARNINGS PER UNIT

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

NAFA FINANCIAL SECTOR INCOME FUND

12 TRANSACTIONS WITH RELATED PARTIES / CONNECTED PERSONS

- 12.1 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.
- 12.2 The transactions with related parties / connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 12.3 Remuneration and sales load payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.
- 12.4 Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.
- 12.5 Details of transactions with related parties / connected persons are as follows:

	----- (Un-Audited) -----			
	Half year ended		Quarter ended	
	December	December	December	December
	31, 2015	31, 2014	31, 2015	31, 2014
	----- Rupees in '000 -----			
NBP Fullerton Asset Management Limited - Management Company				
Remuneration of the Management Company	9,029	15,341	4,046	7,471
Sindh Sales Tax on the Management Company's remuneration	1,466	2,669	657	1,208
Federal Excise Duty on the Management Company's remuneration	1,445	2,455	647	1,196
Allocation of operational expenses from the Management Company	116	-	116	-
Front end load	633	590	138	395
National Bank of Pakistan - Sponsor				
Distributions paid	53,508	-	-	-
Amount paid against redemption of units	721,058	-	-	-
Central Depository Company of Pakistan Limited - Trustee				
Remuneration of the Trustee	964	1,298	473	638
Sindh sales tax on remuneration of the Trustee	134	-	65	-
CDS Charges	147	112	73	61
Employees of the Management Company				
Issue of 1,467,340 units (2014: 100,242 units)	15,430	1,034	528	185
Redemption of 1,385,481 units (2014: 221,972 units)	14,594	2,302	203	1,463
NAFA Income Opportunity Fund				
Sale of Pakistan Investment Bond	-	207,600	-	-
Sale of Treasury Bills	94,537	-	47,657	-
COO / Company Secretary				
Redemption of 45,963 units (2014: Nil units)	489	-	-	-

NAFA FINANCIAL SECTOR INCOME FUND

	As at December 31, 2015 (Un-Audited)	As at June 30, 2015 (Audited)
12.6 Balances outstanding as at period / year end	(Rupees in '000)	
NBP Fullerton Asset Management Limited - Management Company		
Payable against preliminary expenses and floatation costs paid by the Management Company on behalf of the Fund	17	17
Payable against rating fee paid by the Management Company on behalf of the Fund	52	52
Security deposit with the Central Depository Company of Pakistan Limited given by the Management Company on behalf of the Fund	100	100
Management remuneration payable	927	2,320
Sindh Sales Tax payable on the Management Company's remuneration	151	481
Federal Excise Duty on the Management Company's remuneration	14,392	12,947
Sales load and transfer load (including Federal excise duty) payable to the Management Company	642	765
Allocation of operational expenses payable to the Management Company	116	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	176	201
Security deposit receivable	100	100
Employees of the Management Company		
Units held 96,364 units (June 30, 2015 : 14,505 units)	1,042	152
National Bank of Pakistan - Sponsor		
Payable against units redeemed (June 30, 2015: 68,882,766 units)	-	721,058
Bank balance	1,344	2,113
Dividend payable	-	53,508
Summit Bank Limited		
Bank balance	2,455	1,034
COO / Company Secretary		
Units held : Nil units (June 30, 2015 : 45,963 units)	-	481
Amount payable against redemption of units to:		
NAFA Government Securities Liquid Fund	-	126,227
NAFA Government Securities Saving Fund	-	3,735
NAFA Islamic Asset Allocation Fund	-	4,079
NAFA Income Opportunity Fund	-	299,121
NAFA Multi Asset Fund	-	6,484
NAFA Stock Fund	-	2,466
NAFA Income Fund	-	4,992

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

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

The investments of the Fund in debt securities are valued on the basis of rates determined by the Mutual Fund Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the SECP for valuation of debt securities. In the determination of the rates MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The investments of the Fund in government securities are valued on the basis of rates announced by the Financial Markets Association of Pakistan. The estimated fair values of all other financial assets and liabilities are considered not to be significantly different from book values.

NAFA FINANCIAL SECTOR INCOME FUND

13. Fair value hierarchy

The Fund uses the following hierarchy for disclosure of the fair value of financial instruments:

Level 1: quoted prices in active markets for identical assets.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2015 and 30 June 2015, the Fund held the following financial instruments measured at fair values:

As at 31 December 2015	Level 1	Level 2	Level 3
	-----	Rupees	-----
Financial assets classified as ' at fair value through profit or loss '			
Investment in Term finance certificates - listed	-	150,662	-
Investment in Term finance certificates - unlisted	-	263,267	-
Investment in Government securities - Treasury Bills	-	959	-
As at 30 June 2015			
Financial assets classified as ' at fair value through profit or loss '			
Investment in Term finance certificates - listed	-	222,732	-
Investment in Term finance certificates - unlisted	-	264,611	-
Investment in Government securities - Treasury Bills	-	-	-

14 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorised for issue on February 26, 2016 by the Board of Directors of the Management Company.

15 GENERAL

15.1 Figures have been rounded off to the nearest thousand rupees, unless otherwise specified.

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director



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

Head Office

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

UAN: 021-111-111-632

Toll Free: 0800-20002

Sms: NAFA INVEST to 8080

Fax: 021-35825335

Email: info@nafafunds.com

Website: www.nafafunds.com

 /nafafunds