

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 GOVERNMENT SECURITIES LIQUID FUND

FUND'S INFORMATION

Management Company

NBP Fullerton Asset Management Limited – Management Company

Board of Directors of the Management Company

| | |
|-----------------------|-------------------------|
| Mr. Asif Hassan | Chairman |
| Dr. Amjad Waheed | Chief Executive Officer |
| Mr. Khalid Mahmood | Director |
| Mr. Aamir Shehzad | Director |
| Mr. Wah Geok Sum | Director |
| Mr. Koh Boon San | Director |
| Mr. Shehryar Faruque | Director |
| Mr. Kamal Amir Chinoy | Director |

Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

Audit & Risk Committee

| | |
|----------------------|----------|
| Mr. Shehryar Faruque | Chairman |
| Mr. Koh Boon San | Member |
| Mr. Aamir Shehzad | Member |

Human Resource Committee

| | |
|-----------------------|----------|
| Mr. Khalid Mahmood | Chairman |
| Mr. Wah Geok Sum | 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 Shakra-e-Faisal, Karachi.

Bankers to the Fund

Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
NIB Bank Limited
United Bank Limited
National Bank of Pakistan
KASB Bank Limited
Standard Chartered Bank (Pak) Limited
Barclays Bank Plc Limited
Summit Bank Limited
Soneri Bank Limited

NAFA GOVERNMENT SECURITIES LIQUID FUND

Auditors

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

Legal Advisor

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

Head Office:

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

Lahore Office:

7-Noon Avenue, Canal Bank,
Muslim Town Lahore.
Contact: 042-35914272

Islamabad Office:

Plot No. 395, 396
Industrial Area, 1-9/3 Islamabad.
UAN: 051-111-111-632
Phone: 051-2514987
Fax: 051-4859031

Peshawar Office:

1st Floor, Haji Tehmas Centre,
Near KFC, Tehkal Payan
University Road, Peshawar.
Phone: 92-91-5711784, 5711782
Fax: 92-91-5211780

Multan Office:

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

Contents

| | |
|--|----|
| DIRECTORS' REPORT | 05 |
| TRUSTEE REPORT TO THE UNIT HOLDERS | 08 |
| STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE | 09 |
| FUND MANAGER REPORT | 12 |
| REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE | 15 |
| INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS | 16 |
| STATEMENT OF ASSETS AND LIABILITIES | 17 |
| INCOME STATEMENT | 18 |
| STATEMENT OF COMPREHENSIVE INCOME | 19 |
| DISTRIBUTION STATEMENT | 20 |
| STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND | 21 |
| CASH FLOW STATEMENT | 22 |
| NOTES TO THE FINANCIAL STATEMENTS | 23 |
| PERFORMANCE TABLE | 42 |

NAFA GOVERNMENT SECURITIES LIQUID FUND

DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Fifth Annual Report of **NAFA Government Securities Liquid Fund (NGSLF)** for the year ended June 30, 2013.

Fund's Performance

The size of NAFA Government Securities Liquid Fund has reduced from Rs. 14,772 million to Rs. 12,402 million during the period, i.e. a decrease of 16.04%. During the said period, the unit price of the Fund has increased from Rs. 9.2390 (Ex-Div) on June 30, 2012 to Rs. 10.0389 on June 30, 2013, thus posting a return of 8.66% as compared to its Benchmark (70% 3-Month T-Bills & 30% average 3-Month deposit rate of 'AA' & above rated banks) return of 8.87% for the same period.

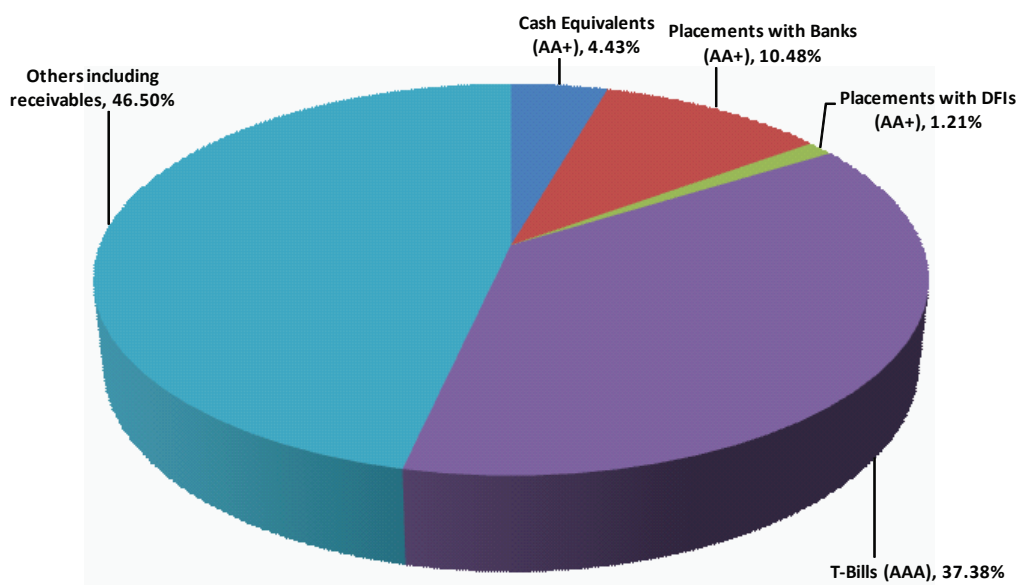
NGSLF is categorized as a Money Market Scheme and is awarded stability rating of 'AAA(f)' by PACRA. The rating reflects exceptionally strong credit and liquidity profile of the Fund. NGSLF (i) allocates 70% of the portfolio to Government Securities and (ii) maintains maximum maturity of a single T-Bill to six months. iii) Duration of T-Bill asset class is maintained at 45 days on average.

With letup in inflationary pressures and manageable external account position, SBP followed an accommodative monetary policy stance and slashed the Policy Rate during FY13 by 300 bps to 9%. As the yields on the short term government securities track the policy rate, we have witnessed declining trend in the T-bills yields. With looming upside risks to inflation and interest rates, money market funds is attractive investment avenue given their very low credit and interest rate risk due to short maturities.

The management is announcing monthly dividends since July 2011 and intends to continue this policy in the future as well.

The Fund has earned a total income of Rs.1,305.51 million during the year. After deducting total expenses of Rs.231.95 million, the net income is Rs.1,073.56 million.

The asset allocation of NAFA Government Securities Liquid Fund as on June 30, 2013 is as follows:



NAFA GOVERNMENT SECURITIES LIQUID FUND

Income Distribution

The Board of Directors of the Management Company has approved interim distribution of 8.46% of opening ex-NAV (8.504% of the par value) during the year.

Taxation

As the above distribution is more than 90% of the income earned during the year, excluding realized and unrealized capital gains on investments, the Fund is not subject to tax under Clause 99 of the Part I of the Second Schedule of the Income Tax Ordinance, 2001.

Auditors

The present auditors, KPMG Taseer Hadi & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2014.

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 five meetings during the current financial year. The attendance of all directors is disclosed in the note 24 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 23 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 20 to these financial statements.

NAFA GOVERNMENT SECURITIES LIQUID 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: August 27, 2013

Place: Karachi.

NAFA GOVERNMENT SECURITIES LIQUID FUND

TRUSTEE REPORT TO THE UNIT HOLDERS NAFA GOVERNMENT SECURITIES LIQUID FUND

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

We, Central Depository Company of Pakistan Limited, being the trustee of NAFA Government Securities Liquid Fund (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2013 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 Fund; and
- (iii) The Non-banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified entities Regulations, 2008 and the constitutive documents of the Fund.

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

KARACHI: SEPTEMBER 18, 2013

NAFA GOVERNMENT SECURITIES LIQUID FUND

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE NAFA GOVERNMENT SECURITIES LIQUID FUND FOR THE YEAR ENDED JUNE 30, 2013

This statement is being presented by the Board of Directors of NBP Fullerton Asset Management Limited (Company), the Management Company of NAFA Government Securities Liquid Fund (the Fund) to comply with the Best Practices of Code of Corporate Governance (CCG) contained in Regulation No. 35, Chapter XI of Listing Regulations of Lahore Stock Exchange 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, though an un-listed Public Limited Company complies with the CCG as the Fund under its management is listed on Lahore Stock Exchange.

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 of Directors. The Company, being an un-listed company, does not have any minority interest. As at June 30, 2013, the Board included:

| Category | Names |
|--------------------------|---|
| Independent Directors | 1. Mr. Kamal Amir Chinoy 2. Mr. Shehryar Faruque |
| Executive Directors | Dr. Amjad Waheed (Chief Executive Officer) |
| Non- Executive Directors | 1. Mr. Asif Hassan (Chairman) 2. Mr. Khalid Mahmood 3. Mr. Amir Shehzad 4. Mr. Wah Geok Sum 5. Mr. Koh Boon San |

The independent directors meet the criteria of independence under clause i (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). However, the requirement of serving as a director of seven listed companies is applicable from the date of next election of directors.
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 February 26, 2013 and on May 20, 2013 during the year which were filled up by the directors on April 11, 2013 and May 20, 2013 respectively.
5. The Management 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 GOVERNMENT SECURITIES LIQUID FUND

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board. There is no other executive-director of the Company besides 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. In order to apprise the directors on their duties and responsibilities and requirements of CCG, the code requires company to conduct formal orientation for directors. Up to 30 June 2013, one of the directors has obtained the director's training program offered by Pakistan Institute of Corporate Governance. The Company has started the process for training of other directors and it is expected that some of other directors may also obtain certification of the director's training program in upcoming year. However, the directors are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
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 20 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 revised terms of reference of the committee have been formed and advised to the committee 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 a non-independent director.
18. The Board has set up an effective internal audit function.

NAFA GOVERNMENT SECURITIES LIQUID FUND

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. There was no 'closed period' prior to the announcement of interim/final results.
22. Material / price sensitive information has been disseminated amongst all market participants at once through stock exchange.
23. We confirm that all other material principles contained in the CCG have been complied with.

For and behalf of the board

Karachi
August 27, 2013

Dr. Amjad Waheed
Chief Executive Officer

NAFA GOVERNMENT SECURITIES LIQUID FUND

FUND MANAGER REPORT

NAFA Government Securities Liquid Fund

NAFA Government Securities Liquid Fund is an open-end Money Market Scheme.

Investment Objective of the Fund

The objective of NAFA Government Securities Liquid Fund is to generate optimal return with minimum risk, to provide easy liquidity and reasonable income to its unit holders by investing primarily in short-term Government Securities.

Benchmark

70% 3-Month T-Bills and 30% average 3-Month deposit rates of AA and above rated banks.

Fund Performance Review

This is the fifth Annual report since the launch of the Fund on May 16, 2009. The Fund size decreased by around 16.05% during FY13 and stands at Rs 12.40 billion as on June 30, 2013. The Fund's annualized return since inception is 10.42% versus the benchmark return of 10.45%. The Fund's return for FY 2013 is 8.66% as against the benchmark return of 8.87%. Thus, the Fund has achieved its stated objectives.

NGSLF's stability rating is 'AAA (f)' awarded by PACRA. The rating reflects exceptionally strong credit and liquidity profile of your Fund. T-Bills are the major asset class of the Fund. Exposure of the Fund to credit, liquidity and interest rate risk is exceptionally low due to minimum 70% investment in Government securities (T-Bill) with average maturity of the overall portfolio at 45 days. The Fund invests in AA and above rated Bank/DFIs with maximum maturity of six months.

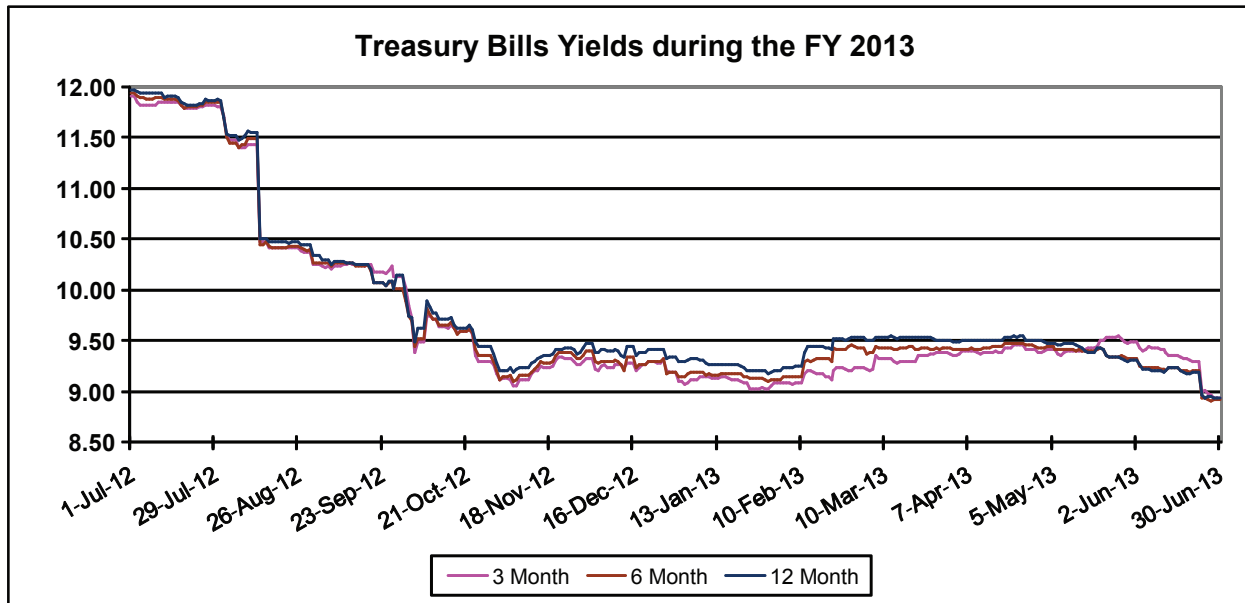
Asset Allocation of Fund (% of NAV)

| Particulars | 30-Jun-13 | 30-Jun-12 |
|---------------------------------|----------------|----------------|
| T-Bills | 37.38% | 86.17% |
| Placements with DFIs | 1.21% | 3.99% |
| Placements with Banks | 10.48% | 4.74% |
| Cash Equivalents & Other Assets | 50.93% | 5.10% |
| Total | 100.00% | 100.00% |

Inflation as measured by CPI inflation clocked in at 7.4% YoY for FY13, Pakistan's first year of single-digit inflation after FY07 and 11% during the preceding year. Amid soft inflation, manageable external account and to spur private sector investment, SBP reduced the Discount Rate from 12% to 9%. Correspondingly, the 3-Months T-Bills yields declined to 8.94% from 11.92% during the year.

NAFA GOVERNMENT SECURITIES LIQUID FUND

T-Bills yields during the year are shown in below graph:



Distribution for the Financial Year 2013

| Month | Dividend as a % of Par Value (Rs.10) | Cumulative Div. Price / Unit | Ex- Div. Price |
|--------|--------------------------------------|------------------------------|----------------|
| Jul-12 | 0.8440% | 10.1317 | 10.0473 |
| Aug-12 | 0.8240% | 10.1397 | 10.0573 |
| Sep-12 | 0.8040% | 10.1299 | 10.0495 |
| Oct-12 | 0.7540% | 10.1336 | 10.0582 |
| Nov-12 | 0.7040% | 10.1162 | 10.0458 |
| Dec-12 | 0.6530% | 10.1081 | 10.0428 |
| Jan-13 | 0.6840% | 10.1099 | 10.0415 |
| Feb-13 | 0.6430% | 10.1002 | 10.0359 |
| Mar-13 | 0.5830% | 10.0942 | 10.0359 |
| Apr-13 | 0.6230% | 10.1039 | 10.0416 |
| May-13 | 0.6840% | 10.1044 | 10.0360 |
| Jun-13 | 0.7040% | 10.1045 | 10.0341 |

NAFA GOVERNMENT SECURITIES LIQUID FUND

Unit Holding Pattern of NAFA Government Securities Liquid Fund as on 30th June 2013

| Size of Unit Holding (Units) | # of Unit Holders |
|------------------------------|-------------------|
| 1 - 1000 | 259 |
| 1001 - 5000 | 277 |
| 5001 - 10000 | 117 |
| 10001 - 50000 | 512 |
| 50001 - 100000 | 226 |
| 100001 - 500000 | 254 |
| 500001 - 1000000 | 46 |
| 1000001 - 5000000 | 49 |
| 5000001 - 10000000 | 6 |
| 10000001 - 100000000 | 17 |
| 100000001 - 1000000000 | 1 |
| | 1764 |

During the period under question:

With effect from June 24, 2013 the Management fee of the Fund has changed from 1.25% per annum of Net Assets to 10% of Gross Earnings (subject to Minimum 1% and Maximum 1.25% of the Net Assets). There has been no other significant change in the state of affairs of the Fund. NAFA Government Securities Liquid Fund does not have any soft commission arrangement with any broker in the industry.

Workers' Welfare Fund (WWF)

The scheme has maintained provisions against Workers' Welfare Fund's liability to the tune of Rs. 84,628,392/-. If the same were not made the NAV per unit/ FY 2013 return of scheme would be higher by Rs. 0.0685/ 0.74%. For details investors are advised to read note 17 of the Financial Statement of the Scheme for the year ended June 30, 2013.

NAFA GOVERNMENT SECURITIES LIQUID FUND

Review Report to the Unitholders' of NAFA Government Securities Liquid Fund ("the Fund") on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of NBP Fullerton Asset Management Limited ("Management Company") to comply with the Listing Regulations of the Lahore Stock Exchange Limited (formerly Lahore Stock Exchange (Guarantee) Limited), where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company 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 of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

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

Further, Listing Regulations notified by the Lahore Stock Exchange Limited (formerly Lahore Stock Exchange (Guarantee) Limited) requires the Management Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2013.

Date: 27 August 2013
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

NAFA GOVERNMENT SECURITIES LIQUID FUND

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

We have audited the accompanying financial statements of **NAFA Government Securities Liquid Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2013 and the income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in Unit Holders' Fund for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation of the 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 the financial statements that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2013 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Other Matter

The financial statements of the Fund for the year ended 30 June 2012 were audited by another firm of Chartered Accountants, who vide their report dated 26 September 2012, addressed to the Unitholders, had expressed an unmodified opinion thereon.

Report on Other Legal and Regulatory Requirements

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

Date: August 27, 2013

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Nadeem

NAFA GOVERNMENT SECURITIES LIQUID FUND

Statement of Assets and Liabilities As at 30 June 2013

| | Note | 2013 (Rupees in '000) | 2012 |
|--|------|---------------------------|----------------------|
| ASSETS | | | |
| Balances with banks | 4 | 1,849,896 | 1,556,170 |
| Investments | 5 | 4,785,275 | 13,319,080 |
| Profit receivables | 6 | 16,870 | 50,810 |
| Advance, prepayment and other receivable | 7 | 7,105 | 7,093 |
| Receivable from a connected person | 8 | 5,846,012 | - |
| Preliminary expenses and floatation costs | 9 | 867 | 1,858 |
| Total assets | | <u>12,506,025</u> | <u>14,935,011</u> |
| LIABILITIES | | | |
| Payable to the NBP Fullerton Asset Management Limited - Management Company | 10 | 8,433 | 19,201 |
| Payable to Central Depository Company of Pakistan Limited -Trustee | 11 | 482 | 1,056 |
| Payable to Securities and Exchange Commission of Pakistan | 12 | 9,628 | 10,894 |
| Payable on redemption of units | | 10 | 25,511 |
| Accrued expenses and other liabilities | 13 | 85,546 | 106,124 |
| Total liabilities | | <u>104,099</u> | <u>162,786</u> |
| NET ASSETS | | <u>12,401,926</u> | <u>14,772,225</u> |
| UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED) | | <u>12,401,926</u> | <u>14,772,225</u> |
| CONTINGENCY AND COMMITMENT | 14 | -----Number of units----- | |
| Number of units in issue | 15 | <u>1,235,387,776</u> | <u>1,469,543,330</u> |
| NET ASSETS VALUE PER UNIT | | <u>10.0389</u> | <u>10.0523</u> |

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA GOVERNMENT SECURITIES LIQUID FUND

Income Statement For the year ended 30 June 2013

| | Note | 2013 -----Rupees in '000----- | 2012 |
|--|------|----------------------------------|-------------------------|
| INCOME | | | |
| Capital gain / (loss) on sale of investments - net | | 12,374 | (2,300) |
| Income from government securities | | 1,125,232 | 1,386,618 |
| Income from term deposit receipts | | 68,838 | 79,053 |
| Income from money market placements | | 54,012 | 263,715 |
| Profit on saving accounts | | 45,313 | 34,162 |
| Unrealised (diminution) on remeasurement of investments classified as financial assets at fair value through profit or loss - net | 5.3 | (259) | (5,815) |
| Total Income | | <u>1,305,510</u> | <u>1,755,433</u> |
| EXPENSES | | | |
| Remuneration of NBP Fullerton Asset Management Limited - Management Company | 10.1 | 160,181 | 181,570 |
| Sindh sales tax on remuneration of Management Company | 10.2 | 25,629 | 29,052 |
| Federal excise duty on remuneration of Management Company | 10.3 | 628 | - |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | 11 | 10,347 | 11,644 |
| Annual fee to Securities and Exchange Commission of Pakistan | 12 | 9,628 | 10,894 |
| Amortisation of preliminary expenses and floatation costs | 9 | 991 | 991 |
| Securities transaction cost | | 1,103 | 4,477 |
| Bank charges | | 657 | 1,281 |
| Annual listing fee | | 40 | 40 |
| Auditors' remuneration | 16 | 440 | 397 |
| Legal and professional charges | | 55 | 40 |
| Other charges | | 337 | 271 |
| Total Expense | | <u>210,036</u> | <u>240,657</u> |
| Net income from operating activities | | <u>1,095,474</u> | <u>1,514,776</u> |
| Provision for workers' welfare fund | 17 | (21,909) | (30,295) |
| Net income before taxation | | <u>1,073,565</u> | <u>1,484,481</u> |
| Taxation | 18 | - | - |
| Net income for the year | | <u><u>1,073,565</u></u> | <u><u>1,484,481</u></u> |

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA GOVERNMENT SECURITIES LIQUID FUND

Statement of Comprehensive Income For the year ended 30 June 2013

| | 2013 | 2012 |
|--|------------------|------------------|
| | (Rupees in '000) | |
| Net income for the year | 1,073,565 | 1,484,481 |
| Other comprehensive income | - | - |
| Total comprehensive income for the year | <u>1,073,565</u> | <u>1,484,481</u> |

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA GOVERNMENT SECURITIES LIQUID FUND

Distribution Statement For the year ended 30 June 2013

| | 2013 | 2012 |
|---|--------------------|--------------------|
| | (Rupees in '000) | |
| Undistributed income brought forward | | |
| Realised income | 32,917 | 365,504 |
| Unrealised loss | (5,815) | (4,425) |
| | <u>27,102</u> | <u>361,079</u> |
| Final distribution during the year | | |
| Final distribution for the year ended 30 June 2012: Nil (2011: 2.757% per unit) | | |
| - Cash distribution | - | (19,861) |
| - Bonus units | - | (267,810) |
| Net income for the year | 1,073,565 | 1,484,481 |
| Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - net | (43,024) | 27,777 |
| Interim distributions during the year | | |
| - Re 0.0844 per unit declared on 30 July 2012 (2012: Re 0.908 per unit declared on 2 August 2011) | | |
| - Cash distribution | (34,305) | (6,685) |
| - Issue of bonus units | (91,004) | (103,576) |
| - Re 0.0824 per unit declared on 28 August 2012 (2012: Re 0.0908 per unit declared on 06 September 2011) | | |
| - Cash distribution | (33,492) | (7,440) |
| - Issue of bonus units | (87,139) | (100,940) |
| - Re 0.0804 per unit declared on 28 September 2012 (2012: Re 0.0908 per unit declared on 03 October 2011) | | |
| - Cash distribution | (32,678) | (6,988) |
| - Issue of bonus units | (76,400) | (84,617) |
| - Re 0.0754 per unit declared on 30 October 2012 (2012: Re 0.0928 per unit declared on 02 November 2011) | | |
| - Cash distribution | (19) | (53,081) |
| - Issue of bonus units | (104,654) | (87,115) |
| - Re 0.0704 per unit declared on 28 November 2012 (2012: Re 0.0887 per unit declared on 02 December 2011) | | |
| - Cash distribution | (49) | (47,897) |
| - Issue of bonus units | (97,253) | (75,674) |
| - Re 0.0653 per unit declared on 28 December 2012 (2012: Re 0.0887 per unit declared on 03 January 2011) | | |
| - Cash distribution | (45) | (6,167) |
| - Issue of bonus units | (89,672) | (130,006) |
| - Re 0.0684 per unit declared on 29 January 2013 (2012: 0.0887 per unit declared on 30 January 2012) | | |
| - Cash distribution | (10) | (8,803) |
| - Issue of bonus units | (88,873) | (128,939) |
| - Re 0.0643 per unit declared on 27 February 2013 (2012: 0.0887 per unit declared on 28 February 2012) | | |
| - Cash distribution | (6) | (13,193) |
| - Issue of bonus units | (83,418) | (127,516) |
| - Re 0.0583 per unit declared on 28 March 2013 (2012: 0.0887 per unit declared on 29 March 2012) | | |
| - Cash distribution | (10) | (14,936) |
| - Issue of bonus units | (74,654) | (124,851) |
| - Re 0.0623 per unit declared on 29 April 2013 (2012: 0.0887 per unit declared on 27 April 2012) | | |
| - Cash distribution | (11) | (53,733) |
| - Issue of bonus units | (56,656) | (86,333) |
| - Re 0.0684 per unit declared on 29 May 2013 (2012: 0.0887 per unit declared on 30 May 2012) | | |
| - Cash distribution | (8) | (62,875) |
| - Issue of bonus units | (51,128) | (85,695) |
| - Re 0.0704 per unit declared on 28 June 2013 (2012: 0.0928 per unit declared on 27 June 2012) | | |
| - Cash distribution | (8) | (41,856) |
| - Issue of bonus units | (45,547) | (99,648) |
| Undistributed income carried forward | <u>(1,047,039)</u> | <u>(1,558,564)</u> |
| | <u>10,604</u> | <u>27,102</u> |
| Undistributed income comprising: | | |
| - Realised income | 10,863 | 32,917 |
| - Unrealised loss | (259) | (5,815) |
| | <u>10,604</u> | <u>27,102</u> |

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA GOVERNMENT SECURITIES LIQUID FUND

Statement of Movement in Unit Holders' Fund For the year ended 30 June 2013

| | 2013 | 2012 |
|--|-------------------|-------------------|
| | (Rupees in '000) | |
| Net assets at the beginning of the year | 14,772,225 | 10,810,434 |
| Issue of 1,714,489,482 units including 94,215,869 bonus units (2012: 2,611,058,199 units including 149,017,182 bonus units) | 16,305,586 | 24,964,943 |
| Redemption of 1,948,645,036 units (2012: 2,185,053 units) | (19,648,809) | (22,144,118) |
| | (3,343,223) | 2,820,825 |
| Capital gain / (loss) on sale of investments - net | 12,374 | (2,300) |
| Net unrealised (diminution) on re-measurement of investments classified as financial assets 'at fair value through profit or loss' | (259) | (5,815) |
| Other net income for the year | 1,061,450 | 1,492,596 |
| | 1,073,565 | 1,484,481 |
| Element of income and capital gains included in prices of units issued less those in units redeemed - net | 43,024 | (27,777) |
| Distributions of bonus units during the year | | |
| Interim distributions | 946,398 | 1,234,910 |
| Final distribution | - | 267,810 |
| Final distribution during the year | | |
| Final distribution for the year ended 30 June 2012: Nil (2011: 2.757% per unit) | | |
| - Cash distribution | - | (19,861) |
| - Bonus units | - | (267,810) |
| Interim distributions during the year | | |
| - Re 0.0844 per unit declared on 30 July 2012 (2012: Re 0.908 per unit declared on 2 August 2011) | | |
| - Cash distribution | (34,305) | (6,685) |
| - Issue of bonus units | (91,004) | (103,576) |
| - Re 0.0824 per unit declared on 28 August 2012 (2012: Re 0.0908 per unit declared on 06 September 2011) | | |
| - Cash distribution | (33,492) | (7,440) |
| - Issue of bonus units | (87,139) | (100,940) |
| - Re 0.0804 per unit declared on 28 September 2012 (2012: Re 0.0908 per unit declared on 03 October 2011) | | |
| - Cash distribution | (32,678) | (6,988) |
| - Issue of bonus units | (76,400) | (84,617) |
| - Re 0.0754 per unit declared on 30 October 2012 (2012: Re 0.0928 per unit declared on 02 November 2011) | | |
| - Cash distribution | (19) | (53,081) |
| - Issue of bonus units | (104,654) | (87,115) |
| - Re 0.0704 per unit declared on 28 November 2012 (2012: Re 0.0887 per unit declared on 02 December 2011) | | |
| - Cash distribution | (49) | (47,897) |
| - Issue of bonus units | (97,253) | (75,674) |
| - Re 0.0653 per unit declared on 28 December 2012 (2012: Re 0.0887 per unit declared on 03 January 2011) | | |
| - Cash distribution | (45) | (6,167) |
| - Issue of bonus units | (89,672) | (130,006) |
| - Re 0.0684 per unit declared on 29 January 2013 (2012: 0.0887 per unit declared on 30 January 2012) | | |
| - Cash distribution | (10) | (8,803) |
| - Issue of bonus units | (88,873) | (128,939) |
| - Re 0.0643 per unit declared on 27 February 2013 (2012: 0.0887 per unit declared on 28 February 2012) | | |
| - Cash distribution | (6) | (13,193) |
| - Issue of bonus units | (83,418) | (127,516) |
| - Re 0.0583 per unit declared on 28 March 2013 (2012: 0.0887 per unit declared on 29 March 2012) | | |
| - Cash distribution | (10) | (14,936) |
| - Issue of bonus units | (74,654) | (124,851) |
| - Re 0.0623 per unit declared on 29 April 2013 (2012: 0.0887 per unit declared on 27 April 2012) | | |
| - Cash distribution | (11) | (53,733) |
| - Issue of bonus units | (56,656) | (86,333) |
| - Re 0.0684 per unit declared on 29 May 2013 (2012: 0.0887 per unit declared on 30 May 2012) | | |
| - Cash distribution | (8) | (62,875) |
| - Issue of bonus units | (51,128) | (85,695) |
| - Re 0.0704 per unit declared on 28 June 2013 (2012: 0.0928 per unit declared on 27 June 2012) | | |
| - Cash distribution | (8) | (41,856) |
| - Issue of bonus units | (45,547) | (99,648) |
| | (1,047,039) | (1,846,235) |
| Element of loss and capital losses included in prices of units issued less those in units redeemed - net | (43,024) | 27,777 |
| Net assets at the end of the year | <u>12,401,926</u> | <u>14,772,225</u> |
| Net assets value per unit at beginning of the year | <u>10.0523</u> | <u>10.3594</u> |
| Net assets value per unit at end of the year | <u>10.0389</u> | <u>10.0523</u> |

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA GOVERNMENT SECURITIES LIQUID FUND

Cash Flow Statement For the year ended 30 June 2013

| Note | 2013 (Rupees in '000) | 2012 |
|--|---------------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for the year | 1,073,565 | 1,484,481 |
| Adjustments | | |
| Unrealised diminution on remeasurement of investments classified as financial assets at fair value through profit or loss - net | 259 | 5,815 |
| Amortisation of preliminary expenses and floatation costs | 991 | 991 |
| | <u>1,074,815</u> | <u>1,491,287</u> |
| Decrease / (increase) in assets | | |
| Investments | 8,533,546 | (3,397,609) |
| Profit receivable | 33,940 | 4,930 |
| Receivable from a connected person | (5,846,012) | - |
| Advance, prepayment and other receivables | (12) | 293 |
| Net decrease / (increase) in assets | <u>2,721,462</u> | <u>(3,392,386)</u> |
| (Decrease) / increase in liabilities | | |
| Payable to the NBP Fullerton Asset Management Limited - Management Company | (10,768) | 7,980 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | (574) | 324 |
| Payable to Securities and Exchange Commission of Pakistan | (1,266) | 4,138 |
| Payable on redemption of units | (25,501) | - |
| Accrued expenses and other liabilities | (20,578) | 72,647 |
| Net (decrease) / increase in assets | <u>(58,687)</u> | <u>85,089</u> |
| Net cash flows from / (used in) operating activities | <u>3,737,590</u> | <u>(1,816,010)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Receipts from issuance of units | 16,305,586 | 24,964,943 |
| Payments against redemption of units | (19,648,809) | (22,122,245) |
| Distributions paid | (100,641) | (343,515) |
| Net cash flows (used in) / from financing activities | <u>(3,443,864)</u> | <u>2,499,183</u> |
| Net increase in cash and cash equivalents | <u>293,726</u> | <u>683,173</u> |
| Cash and cash equivalents at beginning of the year | 1,556,170 | 872,997 |
| Cash and cash equivalents at end of the year | <u>4</u> <u>1,849,896</u> | <u>1,556,170</u> |

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA GOVERNMENT SECURITIES LIQUID FUND

Notes to and forming part of the Financial Statements For the year ended 30 June 2013

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Government Securities Liquid Fund (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited (NAFA) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was approved by the Securities and Exchange Commission of Pakistan (SECP) on April 10, 2009 in accordance with 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 SECP. The registered office of the Management Company was situated at 9th Floor, Adamjee House, I.I.Chundrigar Road, Karachi. From 4 February 2013, the principal office of the Management Company is shifted to 7th floor, Clifton Diamond Building, Block No. 4, Scheme No. 5, Clifton, Karachi. The Management Company is also the member of MUFAP.

The Fund is an open-ended mutual fund and is listed on the Lahore Stock Exchange. Units are offered for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering them to the Fund. The Fund is categorised as an Open-End "Money Market Scheme" as per the criteria laid down by Securities and Exchange Commission of Pakistan for categorisation of Collective Investment Schemes (CIS).

The objective of the Fund is to generate optimal return with minimum risk, to provide easy liquidity and reasonable income to its unit holders by investing primarily in short-term Government Securities.

The Pakistan Credit Rating Agency (PACRA) has assigned a stability rating of AAA(f) to the Fund and an asset manager rating of AM2 to the Management Company.

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Accounting convention

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

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Fund's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest thousand rupees, except otherwise stated.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise their judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments and impairment thereagainst (note 3.1.1 and 3.1.5).

NAFA GOVERNMENT SECURITIES LIQUID FUND

2.5 Standards, interpretations and amendments which became effective during the year

Following are the amendments of approved accounting standards which became effective for the current period:

- IAS 1 - Presentation of Financial Statements – Presentation of items of other comprehensive income (Amendment)
- IAS 12 - Deferred tax on investment property (Amendment)

The adoption of the above amendments of the standards did not have any impact on the financial statements except for additional disclosures as required by IAS 1 amendment.

2.6 Standards, Interpretations and Amendments not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2013:

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statements of the Fund.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Fund.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Fund.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement. The amendment is not likely to have significant impact on financial statements of the Fund.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. The amendment is not likely to have significant impact on financial statements of the Fund.

Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following four standards, with consequential amendments to other standards and interpretations. The amendment is not likely to have significant impact on financial statements of the Fund.

- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period - which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the ‘third statement of financial position’, when required, is only required if the effect of restatement is material to statement of financial position.
- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of ‘property, plant and equipment’ in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories.
- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.
- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

NAFA GOVERNMENT SECURITIES LIQUID FUND

- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Fund.
- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
- IAS 39 Financial Instruments: Recognition and Measurement- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after 1 January 2014). The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).
- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as set out below are consistently applied for all periods presented in these financial statements.

3.1 Financial assets

3.1.1 Classification

The Fund classifies its financial assets in the following categories: loans and receivables, at fair value through profit or loss, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. The management determines the appropriate classification of its financial assets in accordance with the requirement of International Accounting Standard (IAS)39: ' Financial Instruments: Recognition and Measurement', at the time of initial recognition and re-evaluates this classification on a regular basis.

a) Loans and receivables

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

b) Financial assets at fair value through profit or loss

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

c) Held to maturity

Financial assets with fixed or determinable maturity where management has both the positive intent and ability to hold till maturity are classified as held to maturity.

d) Available for sale

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

3.1.2 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.

3.1.3 Initial recognition and measurement

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

3.1.4 Subsequent measurement

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

NAFA GOVERNMENT SECURITIES LIQUID FUND

a) Basis of valuation of Government Securities

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Market Association of Pakistan in accordance with the requirements of the NBFC Regulations.

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

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

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

3.1.5 Impairment of financial assets

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

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

3.1.6 Derecognition

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

3.1.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the statement of assets and liabilities when there is a legally enforceable right to set off the recognised amount and the Fund intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.2 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

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

3.3 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund and the NBFC Regulations.

3.4 Provisions

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

3.5 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 among the unit holders.

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

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset if any to the extent that it is probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of taxation in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

NAFA GOVERNMENT SECURITIES LIQUID FUND

3.6 Proposed distribution

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared. Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, requires that the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains / loss to the unit holders.

3.7 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that date. 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.

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

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

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created. The 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' account is credited with the amount representing net income / (loss) and capital gains / (losses) accounted for in the net assets value and included in the sale proceeds of units. Upon redemption of units, the 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' account is debited with the amount representing net income / (loss) and capital gains / (losses) accounted for in the net assets value and included in the redemption price.

The 'element of income / (loss) and capital gains / (losses) in prices of units issued less those in units redeemed' during the year is included in the amount available for distribution to the unit holders.

3.9 Earnings per unit

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

3.10 Net Assets Value Per Unit

The Net Asset Value 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 year end.

3.11 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which transactions take place.
- Unrealised capital gains / (losses) arising on revaluation of investments classified as financial assets 'at fair value through profit or loss' are included in the income statement in the period in which they arise.
- Discount on purchase of Market Treasury Bills is amortised to income statement using the straight line method.
- Profit on bank deposits, term deposit receipts, reverse repo transactions and certificates of investments is recognised using the effective interest method.

3.12 Cash and cash equivalents

Cash and cash equivalent comprise of bank balances and those investments which are readily convertible to known amount of cash subject to an in significant risk of significant changes of values and have maturities of less than three months from the date of acquisition.

3.13 Foreign currency translation

Transactions in foreign currencies are translated into Rupees at rates of exchange on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at the rates of exchange ruling on the balance sheet date. All other exchange differences are charged to income statement.

| | Note | 2013 | 2012 |
|------------------------|------|------------------|------------------|
| (Rupees in '000) | | | |
| 4 BANK BALANCES | | | |
| In current accounts | 4.1 | 691 | 6,191 |
| In savings accounts | 4.2 | 549,205 | 849,979 |
| Term deposit receipts | | <u>1,300,000</u> | <u>700,000</u> |
| | | <u>1,849,896</u> | <u>1,556,170</u> |

These accounts carry a rate of return ranging from 6% to 12% per annum (2012: 6% to 11% per annum).

These deposits carry a rate of return ranging from 9.5% to 9.8% per annum (2012: 11.9% to 13.75% per annum).

NAFA GOVERNMENT SECURITIES LIQUID FUND

| | Note | 2013 | 2012 |
|---|------|------------------|-------------------|
| | | (Rupees in '000) | |
| 5 INVESTMENTS | | | |
| Financial assets 'At fair value through profit or loss' - held for trading | | | |
| Investment in government securities | 5.1 | 4,635,268 | 11,229,670 |
| Loans and receivables | | | |
| Investment in certificate of investments | 5.2 | 150,007 | 159,042 |
| Investment in reverse repo | | - | 1,499,368 |
| | | <u>4,785,275</u> | <u>13,319,080</u> |

5.1 Investment in government securities - Market Treasury Bills

| Issue date | Tenor | Face value | | | | Market value as at June 30, 2013 | Market value as a percentage of net assets | Market value as a percentage of total investment |
|--|-----------|--------------------|---------------------------|---------------------------------|---------------------|----------------------------------|--|--|
| | | As at July 1, 2012 | Purchases during the year | Sales / matured during the year | As at June 30, 2013 | | | |
| Market Treasury Bills ----- Rupees in '000 ----- | | | | | | | | |
| 12 January 2012 | 6 Months | 665,000 | - | 665,000 | - | - | - | - |
| 26 January 2012 | 6 Months | 450,000 | - | 450,000 | - | - | - | - |
| 11 August 2011 | 12 Months | 945,000 | 469,000 | 1,414,000 | - | - | - | - |
| 19 April 2012 | 3 Months | 720,000 | 1,500,000 | 2,220,000 | - | - | - | - |
| 28 July 2011 | 12 Months | 454,000 | - | 454,000 | - | - | - | - |
| 3 May 2012 | 3 Months | 1,688,000 | 60,000 | 1,748,000 | - | - | - | - |
| 17 May 2012 | 3 Months | 2,342,500 | 150,000 | 2,492,500 | - | - | - | - |
| 31 May 2012 | 3 Months | 2,424,000 | 5,000 | 2,429,000 | - | - | - | - |
| 14 June 2012 | 3 Months | 478,000 | 123,000 | 601,000 | - | - | - | - |
| 8 September 2011 | 12 Months | 500,000 | 100,000 | 600,000 | - | - | - | - |
| 8 March 2012 | 6 Months | 500,000 | 860,000 | 1,360,000 | - | - | - | - |
| 28 June 2012 | 3 Months | 212,500 | 212,200 | 424,700 | - | - | - | - |
| 9 February 2012 | 12 Months | - | 50,000 | 50,000 | - | - | - | - |
| 25 August 2011 | 12 Months | - | 689,000 | 689,000 | - | - | - | - |
| 26 January 2012 | 12 Months | - | 292,800 | 292,800 | - | - | - | - |
| 17 May 2012 | 6 Months | - | 200,000 | 200,000 | - | - | - | - |
| 14 July 2011 | 12 Months | - | 25,000 | 25,000 | - | - | - | - |
| 3 November 2011 | 12 Months | - | 1,809,000 | 1,809,000 | - | - | - | - |
| 23 February 2012 | 6 Months | - | 82,905 | 82,905 | - | - | - | - |
| 6 October 2011 | 12 Months | - | 526,300 | 526,300 | - | - | - | - |
| 9 February 2012 | 6 Months | - | 200,000 | 200,000 | - | - | - | - |
| 12 July 2012 | 3 Months | - | 4,656,450 | 4,656,450 | - | - | - | - |
| 12 July 2012 | 6 Months | - | 2,540,000 | 2,540,000 | - | - | - | - |
| 26 July 2012 | 3 Months | - | 1,621,275 | 1,621,275 | - | - | - | - |
| 26 July 2012 | 6 Months | - | 4,134,000 | 4,134,000 | - | - | - | - |
| 20 October 2011 | 12 Months | - | 700,000 | 700,000 | - | - | - | - |
| 28 June 2012 | 6 Months | - | 500,000 | 500,000 | - | - | - | - |
| 9 August 2012 | 3 Months | - | 4,554,600 | 4,554,600 | - | - | - | - |
| 9 August 2012 | 6 Months | - | 1,896,000 | 1,896,000 | - | - | - | - |
| 23 August 2012 | 3 Months | - | 2,014,700 | 2,014,700 | - | - | - | - |
| 23 August 2012 | 6 Months | - | 4,200,000 | 4,200,000 | - | - | - | - |
| 17 November 2011 | 12 Months | - | 2,050,000 | 2,050,000 | - | - | - | - |
| 6 September 2012 | 3 Months | - | 1,399,000 | 1,399,000 | - | - | - | - |
| 6 September 2012 | 6 Months | - | 1,657,000 | 1,657,000 | - | - | - | - |
| 14 June 2012 | 6 Months | - | 5,200,000 | 5,200,000 | - | - | - | - |
| 20 September 2012 | 3 Months | - | 1,802,000 | 1,802,000 | - | - | - | - |
| 20 September 2012 | 6 Months | - | 1,044,800 | 1,044,800 | - | - | - | - |
| 4 October 2012 | 3 Months | - | 1,118,500 | 1,118,500 | - | - | - | - |
| 4 October 2012 | 6 Months | - | 822,350 | 822,350 | - | - | - | - |
| 18 October 2012 | 3 Months | - | 1,680,000 | 1,680,000 | - | - | - | - |
| 18 October 2012 | 6 Months | - | 2,850,000 | 2,850,000 | - | - | - | - |
| 1 November 2012 | 3 Months | - | 969,050 | 969,050 | - | - | - | - |
| 1 November 2012 | 6 Months | - | 2,503,000 | 2,503,000 | - | - | - | - |
| 15 November 2012 | 3 Months | - | 1,412,500 | 1,412,500 | - | - | - | - |
| 15 November 2012 | 6 Months | - | 1,750,000 | 1,750,000 | - | - | - | - |
| 29 November 2012 | 3 Months | - | 1,292,900 | 1,292,900 | - | - | - | - |
| 13 December 2012 | 3 Months | - | 1,659,000 | 1,659,000 | - | - | - | - |
| 14 June 2012 | 12 Months | - | 500,000 | 500,000 | - | - | - | - |
| 10 January 2013 | 3 Months | - | 3,022,400 | 3,022,400 | - | - | - | - |
| 24 January 2013 | 3 Months | - | 511,700 | 511,700 | - | - | - | - |
| 24 January 2013 | 6 Months | - | 5,000 | 5,000 | - | - | - | - |
| 21 February 2013 | 3 Months | - | 1,814,000 | 1,814,000 | - | - | - | - |
| 5 April 2012 | 12 Months | - | 3,000 | 3,000 | - | - | - | - |
| 7 March 2013 | 3 Months | - | 727,000 | 727,000 | - | - | - | - |
| 21 March 2013 | 3 Months | - | 4,900,000 | 4,900,000 | - | - | - | - |
| 7 February 2013 | 3 Months | - | 435,000 | 435,000 | - | - | - | - |
| 4 April 2013 | 3 Months | - | 3,100,000 | 3,100,000 | - | - | - | - |
| 4 April 2013 | 6 Months | - | 250,000 | 250,000 | - | - | - | - |
| 18 April 2013 | 6 Months | - | 250,000 | 250,000 | - | - | - | - |
| 2 May 2013 | 3 Months | - | 250,000 | 250,000 | - | - | - | - |
| 16 May 2013 | 6 Months | - | 200,000 | 200,000 | - | - | - | - |
| 30 May 2013 | 6 Months | - | 250,000 | 250,000 | - | - | - | - |
| 13 June 2013 | 6 Months | - | 250,000 | 250,000 | - | - | - | - |
| 10 January 2013 | 6 Months | - | 100,000 | 95,275 | 4,725 | 4,712 | 0.04% | 0.10% |
| 26 July 2012 | 12 Months | - | 2,500,000 | - | 2,500,000 | 2,484,583 | 20% | 53.60% |
| 18 April 2013 | 3 Months | - | 9,000 | 2,200 | 6,800 | 6,782 | 0.05% | 0.15% |
| 12 July 2012 | 12 Months | - | 2,600,000 | 455,000 | 2,145,000 | 2,139,191 | 17% | 46.15% |
| | | | | | | <u>4,635,268</u> | | <u>100%</u> |
| | | | | | | <u>4,635,527</u> | | |

Carrying value before fair value adjustment as at June 30, 2013

5.1.1 These carry a rate of return ranging from 8.25% to 12% (2012: 11.27% to 13.85%) per annum.

NAFA GOVERNMENT SECURITIES LIQUID FUND

5.2 Investment in Certificates of Investment - Loans and Receivables

This represents certificates of investments of Pak Oman Investment Company carrying mark up rate of 9.45% and will mature on 25 September 2013.

| | Note | 2013 (Rupees in '000) | 2012 |
|---|------|--------------------------|---------------------|
| 5.3 Net unrealised diminution in value of investments at fair value through profit or loss | | | |
| Market value of investments | 5.1 | 4,635,268 | 11,229,670 |
| Less: carrying value of investments | 5.1 | <u>(4,635,527)</u> | <u>(11,235,485)</u> |
| | | <u>(259)</u> | <u>(5,815)</u> |

6 PROFIT RECEIVABLES

| | | | |
|--------------------------------------|--|---------------|---------------|
| Profit on savings deposits | | 1,187 | 2,739 |
| Profit on money market placements | | - | 39,849 |
| Profit on certificates of investment | | 233 | 7,749 |
| Profit on term deposit receipts | | <u>15,450</u> | <u>473</u> |
| | | <u>16,870</u> | <u>50,810</u> |

7 ADVANCE, PREPAYMENT AND OTHER RECEIVABLE

| | | | |
|--|--|--------------|--------------|
| Advance tax | | 3 | 3 |
| Prepaid rating fee | | 122 | 110 |
| Receivable from the Management Company | | <u>6,980</u> | <u>6,980</u> |
| | | <u>7,105</u> | <u>7,093</u> |

8 RECEIVABLE FROM A CONNECTED PERSON

This represents amount receivable from NAFA Money Market Fund on behalf of National Bank of Pakistan (NBP) on account of conversion / switching of units on 29 June 2013 based on request of NBP. The amount has been received on 2 July 2013.

9 PRELIMINARY EXPENSES AND FLOATATION COSTS

| | | | |
|------------------------------------|-----|------------|--------------|
| Opening balance | 9.1 | 1,858 | 2,849 |
| Less: amortisation during the year | | <u>991</u> | <u>991</u> |
| Balance at end of the year | | <u>867</u> | <u>1,858</u> |

9.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from 16 May 2009 as per the requirements set out in the Trust Deed of the Fund.

10 PAYABLE TO THE MANAGEMENT COMPANY

| | | | |
|---|-----------|--------------|---------------|
| Management Company's remuneration | 10.1 | 6,729 | 16,553 |
| Sindh Sales Tax and Federal Excise Duty on management fee | 10.2&10.3 | <u>1,704</u> | <u>2,648</u> |
| | | <u>8,433</u> | <u>19,201</u> |

10.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of 1.25% per annum for the period from 1 July 2012 to 23 June 2013 (1.25% per annum for the year from 1 July 2011 to 30 June 2012). Effective from 24 June 2013, the Management fee of the Fund has been reduced from 1.25% p.a. to 10% of Gross earnings of the fund (subject to Upper Cap of 1.25% & Lower Cap of 1% of Average Annual Net Asset). The fee shall be calculated on a daily basis.

NAFA GOVERNMENT SECURITIES LIQUID FUND

10.2 The Sindh Provincial Government has levied Sindh Sales Tax at the rate of 16% on the remuneration of the Management Company through Sindh Sales Tax on Services Act, 2011, effective from 1 July 2011.

10.3 With effect from 13 June 2013, the Federal Government has levied Federal Excise Duty at the rate of 16% on the remuneration of the Management Company through Finance Act 2013.

11 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at 31 March 2013 is as follows:

| Net Assets | Tariff per annum |
|---|---|
| Upto Rs 1,000 million | Rs 0.7 million or 0.15% p.a. of NAV, whichever is higher |
| On an amount exceeding Rs 1,000 million | Rs 1.5 million plus 0.075% p.a. of NAV exceeding Rs. 1,000 million. |

Tariff structure of trustee was revised from 1 April 2013 is as follows:

| Net Assets | Tariff per annum |
|---------------------------------|--|
| Upto Rs 1,000 million | 0.15% p.a of Net Assets |
| 1,000 million to 10,000 million | Rs.1.5 million plus 0.075% p.a. of Net Assets exceeding Rs. 1,000 million |
| Over 10,000 million | Rs.8.25 million plus 0.06% p.a. of Net Assets exceeding Rs. 10,000 million |

12 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the NBFC Regulations, a collective investment scheme categorized as money market scheme is required to pay an annual fee to SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund. The fee is paid annually in arrears.

| | Note | 2013 | 2012 |
|---|------|---------------|----------------|
| (Rupees in '000) | | | |
| 13 ACCRUED EXPENSES AND OTHER LIABILITIES | | | |
| Auditors' remuneration payable | | 315 | 284 |
| Payable to brokers | | 253 | 323 |
| Distribution payable | | 8 | 41,855 |
| Bank charges | | 57 | 208 |
| Provision for workers' welfare fund | 17 | 84,628 | 62,719 |
| Others | | 285 | 735 |
| | | <u>85,546</u> | <u>106,124</u> |

14 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at 30 June 2013.

| | 2013 | 2012 |
|---|----------------------|----------------------|
| (Number of units) | | |
| 15 NUMBER OF UNITS IN ISSUE | | |
| Total units in issue at the beginning of the year | 1,469,543,330 | 1,043,538,317 |
| Add: units issued during the year | 1,620,273,613 | 2,462,041,017 |
| Add: bonus units issued during the year | 94,215,869 | 149,017,182 |
| Less: units redeemed during the year | (1,948,645,036) | 2,185,053,186 |
| Total units in issue at the end of the year | <u>1,235,387,776</u> | <u>1,469,543,330</u> |

NAFA GOVERNMENT SECURITIES LIQUID FUND

| | 2013 | 2012 |
|----------------------------------|------------------|------|
| | (Rupees in '000) | |
| 16 AUDITORS' REMUNERATION | | |
| Audit fee | 280 | 254 |
| Half yearly review | 112 | 102 |
| Out of pocket expenses | 48 | 41 |
| | 440 | 397 |

17 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds 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 Honorable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication.

Subsequent to the year ended 30 June 2010, 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 14 December 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 Court.

During the year 2012, the Honorable 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, declared the said amendments as unlawful and unconstitutional. In March 2013, a larger bench of the Sindh High Court (SHC) in various Ponsitional Petitions declared that amendments introduced in the WWF Ordinance, 1971 through Finance Act 2006 and 2008 respectively do not suffer from any constitutional or legal infirmity. However, the Honourable High Court of Sindh has not addressed the other amendments made in WWF Ordinance 1971 about applicability of WWF to the CISs which is still pending before the court.

In view of above stated facts and considering the uncertainty on the applicability of WWF to mutual funds due to show cause notices issued to a number of mutual funds, the management company as a matter of abundant caution has decided to continue to maintain the provision for WWF for the year ended 30 June 2013. As at 30 June 2013 the management has maintained provision against Workers' Welfare Funds' amounting to Rs. 84.628 million, if the same were not made the net asset value per unit of the Fund would have been higher by Rs. 0.0685.

18 TAXATION

The Fund's income 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 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, as per regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income other than unrealized capital gains / loss to the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current period as the management company has declared and distributed sufficient accounting income of the Fund for the year ending 30 June 2013 as reduced by capital gains (whether realised or unrealised) to its unit holders. Accordingly, no tax liability has been recorded in the current year.

19 FINANCIAL INSTRUMENTS BY CATEGORY

| | -----June 30,2013----- | | |
|--|--|---|-----------|
| | Loans and receivables | Assets at fair value through profit or loss | Total |
| | ------(Rupees in '000)----- | | |
| Assets | | | |
| Bank balances | 1,849,896 | - | 1,849,896 |
| Investments | 150,007 | 4,635,268 | 4,785,275 |
| Profit receivable | 16,870 | - | 16,870 |
| Other receivables | 6,980 | - | 6,980 |
| | 2,023,753 | 4,635,268 | 6,659,021 |
| | | | |
| | -----June 30,2013----- | | |
| | Liabilities at fair value through profit or loss | Other financial liabilities | Total |
| | ------(Rupees in '000)----- | | |
| Liabilities | | | |
| Payable to the NBP Fullerton Asset Management Limited - Management Company | - | 8,433 | 8,433 |
| Payable to Central Depository Company of Pakistan Limited -Trustee | - | 482 | 482 |
| Payable on redemption of units | - | 10 | 10 |
| Accrued expenses and other liabilities | - | 918 | 918 |
| | - | 9,843 | 9,843 |

NAFA GOVERNMENT SECURITIES LIQUID FUND

| | 2013 | 2012 |
|---|------------------|---------|
| | (Rupees in '000) | |
| Alexandra Fund Management Pte. Limited - Sponsor | | |
| Redemption of Nil units (2012: 2,614,286 units) | - | 26,573 |
| Bonus Issued Nil units (2012: 136,972 units) | - | - |
| Chief Executive Officer | | |
| Issue of 103,698 units (2012: 99,182 units) | 1,047 | 1,000 |
| Redemption of 15,011 units (2012: 677,813 units) | 151 | 6,880 |
| Bonus of 9,352 units (2012: 39,431 units) | - | - |
| Chief Financial Officer | | |
| Issue of Nil units (2012: 142,673 units) | - | 1,441 |
| Redemption of 98,171 units (2012: 54,707 units) | 989 | 556 |
| Bonus of 6,941 units (2012: 7,955) | - | - |
| NAFA Provident Fund Trust - Provident Fund | | |
| Issue of 605,070 units (2012: 1,951,079 units) | 6,101 | 19,744 |
| Redemption of 734,027 units (2012: 1,835,016 units) | 7,404 | 18,580 |
| Bonus of 36,841 units (2012: 53,704 units) | - | - |
| Employees of the Management Company | | |
| Issue of 1,892,502 units (2012: 3,494,535 units) | 19,076 | 35,421 |
| Redemption of 1,916,980 units (2012: 3,584,551 units) | 19,316 | 36,353 |
| Bonus of 54,875 units (2012: 83,427 units) | - | - |
| Mr. Kamal A. Chinoy - Director | | |
| Bonus of 6,555 units (2012: 9,305) | - | - |
| NBP Employees Pension Fund | | |
| Bonus of 1,174,362 units (2012: 1,667,087 units) | - | - |
| NBP Endowment Funds Students Loan Scheme | | |
| Issue of 641,906 units (2012: 15,675,824 units) | 6,500 | 158,970 |
| Redemption of 2,188,010 units (2012: Nil units) | 22,000 | - |
| Bonus of 2,828,094 units (2012: 2,724,444 units) | - | - |
| NBP Exchange Company Limited | | |
| Issue of 3,167 units (2012: 109,634 units) | 32 | 1,107 |
| Redemption of 24,541,962 units (2012: Nil units) | 247,778 | - |
| Bonus of 1,169,408 units (2012: 2,912,081 units) | - | - |
| NBP Leasing Limited Employees Provident Fund | | |
| Issue of 125,438 units (2012: 157,422) | 1,268 | 1,598 |
| Redemption of 198,421 units (2012: 92,000) | 1,995 | 929 |
| Bonus of 4,593 units (2012: 6,364) | - | - |
| International Industries Limited - Employee Provident Fund | | |
| Bonus Issue of 181,881 units (2012: Nil Units) | - | - |
| Issue of 3,259,838 units (2012: Nil Units) | 32,868 | - |
| Redemption of 3,542,252 units (2012: Nil units) | 35,729 | - |
| T-Bills purchased during the period | 25,566 | 15,139 |
| T-Bills sold during the period | 12,898 | - |
| International Industries Limited - Employee Graduity Fund | | |
| Bonus Issue of 251,661 Units (2012: Nil units) | - | - |
| Issued of 3,393,355 units (2012: Nil units) | 34,202 | - |
| Redemption of 4,038,199 units (2012: Nil units) | 40,726 | - |
| T-Bills purchased during the period | 34,645 | 18,055 |
| T-Bills sold during the period | 10,417 | - |
| International Steels Limited - Employees Provident Fund | | |
| Bonus Issue of 45,562 units (2012: Nil Units) | - | - |
| Issued of 838,721 units (2012: Nil units) | 8,457 | - |
| Redemption of 1,075,392 units (2012: Nil Units) | 10,850 | - |
| T-Bills purchased during the period | 9,231 | - |
| T-Bills sold during the period | 4,952 | - |

NAFA GOVERNMENT SECURITIES LIQUID FUND

| | 2013 | 2012 |
|--|-------------------------|-------------|
| | (Rupees in '000) | |
| International Steels Limited - Employees Graduity Fund | | |
| Bonus Issue of 23,915 units (2012: Nil Units) | - | - |
| Issued of 636,445 units (2012: Nil Units) | 6,424 | - |
| Redemption of 443,939 units (2012: Nil Units) | 4,478 | - |
| T-Bills purchased during the period | 6,070 | - |
| T-Bills sold during the period | 1,491 | - |
| Fauji Oil Terminal & Distribution Co. Ltd. | | |
| Redemption of 2,980,744 units (2012: Nil Units) | 30,000 | - |
| Bonus Issue of 439,283 units (2012: Nil units) | - | - |
| Pak Arab Refinery Limited - Supervisory Staff Gratuity Fund | | |
| T-Bills purchased during the period | 62,245 | - |
| T-Bills sold during the period | 26,292 | - |
| Telenor Pakistan Private Limited - Employee Provident Fund | | |
| T-Bills purchased during the period | 45,754 | 34,298 |
| T-Bills sold during the period | 3,567 | - |
| Thal Limited Employees Provident Fund | | |
| T-Bills purchased during the period | 40,964 | - |
| T-Bills sold during the period | 49,083 | - |
| Thal Limited Employees Retirement Benefit Fund | | |
| T-Bills purchased during the period | 1,971 | - |
| T-Bills sold during the period | 2,851 | - |
| NAFA Savings Plus Fund | | |
| T-Bills purchased during the period | - | 14,921 |
| NAFA Asset Allocation Fund | | |
| T-Bills purchased during the period | 38,910 | - |
| NAFA Financial Sector Income Fund | | |
| T-Bills purchased during the period | 49,414 | - |
| NAFA Money Market Fund | | |
| T-Bills purchased during the period | 1,980,474 | - |
| T-Bills sold during the period | 1,783,503 | - |
| Gul Ahmed Textile Mills Limited - EPF | | |
| Redemption of 623,670 units (2012: Nil) | 6,290 | - |
| Bonus Units Issued 19,618 (2012: Nil) | - | - |
| Summit Bank Limited | | |
| Bank Profit | 487 | - |
| 20.6 Amounts outstanding as at period end | 2013 | 2012 |
| | (Rupees in '000) | |
| NBP Fullerton Asset Management Limited - Management Company | | |
| Receivable from the Management Company | 6,980 | 6,980 |
| Remuneration payable | 6,729 | 16,553 |
| FED Payable on remuneration | 627 | - |
| Sindh Sales Tax Payable on remuneration | 1,077 | 2,648 |
| Units held: 14,521,954 units (2012: 1,867,379 units) | 145,784 | 18,771 |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Remuneration payable | 482 | 1,056 |
| National Bank of Pakistan - Sponsor | | |
| Units held: 617,634,266 units (2012: 406,203,924 units) | 6,200,369 | 4,083,284 |
| Balance in current account | 691 | 6,191 |
| Balance in saving account | 11,771 | 10,256 |
| Term deposit receipt | 500,000 | - |
| Chief Executive Officer | | |
| Units held: 199,285 units (2012: 101,246 units) | 2,001 | 1,018 |

NAFA GOVERNMENT SECURITIES LIQUID FUND

| | 2013 (Rupees in '000) | 2012 |
|--|--------------------------|---------|
| Chief Financial Officer Units held: 43,443 units (2012: 134,673 units) | 436 | 1,354 |
| Mr. Kamal A. Chinoy - Director Units held: 81,019 units (2012: 74,465 units) | 813 | 749 |
| NAFA Provident Fund Trust - Provident Fund Units held: 493,166 units (2012: 585,583 units) | 4,951 | 5,883 |
| Employees of the Management Company Units held: 651,128 units (2012: 670,624 units) | 6,537 | 6,741 |
| NBP Employees Pension Fund Units held: 14,515,794 units (2012: 13,341,432 units) | 145,723 | 134,112 |
| NBP Endowment Funds Students Loan Scheme Units held: 32,943,276 units (2012: 31,661,286 units) | 330,714 | 318,269 |
| NBP Exchange Company Limited Units held: Nil units (2012: 23,369,387 units) | - | 234,916 |
| NBP Leasing Limited Employees Provident Fund Units held: 10,191 units (2012: 78,581 units) | 102 | 790 |
| NAFA Money Market Fund Amount receivable due to transfer of units on behalf of NBP | 5,846,012 | - |
| Fauji Oil Terminal & Distribution Co. Ltd. Units held: 2,686,640 units (2012: units) | 26,968 | - |
| International Steels Limited - Employees Provident Fund Units held: 457,214 units (2012: 648,322 units) | 4,589 | 6,517 |
| International Steels Limited - Employees Graduity Fund Units held: 502,594 units (2012: 286,172 units) | 5,045 | 2,877 |
| International Industries Limited - Employee Graduity Fund Units held: 5,663,385 units (2012: 3,106,180 units) | 56,848 | 31,224 |
| International Industries Limited - Employee Provident Fund Units held: 2,167,092 units (2012: 2,267,625 units) | 21,753 | 22,795 |
| Summit Bank Limited Balance in Saving Account | 13,956 | - |

21 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

| S. No | Name | Qualification | Experience in years" |
|-------|----------------------|--|----------------------|
| 1 | Dr. Amjad Waheed | MBA / Doctorate in Business Administration / CFA | 25 |
| 2 | Sajjad Anwar | CFA / MBA Finance | 13 |
| 3 | Muhammad Ali Bhabha* | MBA / MS (CS) / CFA / FRM | 18.5 |
| 4 | Syed Suleman Akhtar | CFA | 13 |

*Mr. Muhammad Ali Bhabha is the manager of the Fund. He is also the fund manager of NAFA Income Fund and NAFA Savings Plus Fund.

22 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID / PAYABLE

2013

| | | |
|----|--|-------|
| 1 | Invest Capital Markets Limited | 29.2% |
| 2 | Vector Capital Private Limited | 17.5% |
| 3 | BMA Capital Management Limited | 16.4% |
| 4 | ICON Securities (Pvt.) Limited | 8.2% |
| 5 | J.S. Global Capital Ltd. | 8.2% |
| 6 | Invest & Finance Securities (Pvt) Limited | 5.7% |
| 7 | Summit Capital Pvt Limited | 4.7% |
| 8 | Invest One MArkets Limited | 4.5% |
| 9 | KASB Securities Limited | 1.5% |
| 10 | First Capital Securities Corporation Limited | 1.3% |

NAFA GOVERNMENT SECURITIES LIQUID FUND

2012

| | |
|---|-------|
| 1 JS Global Capital Limited | 24.3% |
| 2 Invest Capital Markets Limited | 16.6% |
| 3 Invest & Finance Securities (Private) Limited | 12.4% |
| 4 BMA Capital Management Limited | 12.0% |
| 5 Vector Capital (Private) Limited | 6.4% |
| 6 Elixir Securities (Private) Limited | 4.8% |
| 7 Global Securities Pakistan Limited | 3.8% |
| 8 Invisor Securities (Private) Limited | 3.4% |
| 9 Alfalah Securities Limited | 3.3% |
| 10 Invest One Markets Limited | 3.1% |

23 PATTERN OF UNIT HOLDING

-----As at June 30, 2013-----

| Category | Number of unit holders | Investment amount | Percentage of total |
|----------------------------------|------------------------|-------------------|---------------------|
| (Rupees in '000) | | | |
| Individuals | 1,601 | 1,087,626 | 8.77% |
| Associated companies / Directors | 7 | 6,827,643 | 55.05% |
| Insurance companies | 6 | 334,965 | 2.70% |
| Banks / DFIs | 2 | 112,147 | 0.90% |
| NBFCs | - | - | 0.00% |
| Retirement funds | 39 | 401,879 | 3.24% |
| Public Limited companies | 18 | 2,054,953 | 16.57% |
| Others | 91 | 1,582,713 | 12.76% |
| | 1,764 | 12,401,926 | 100.00% |

-----As at June 30, 2012-----

| Category | Number of unit holders | Investment amount | Percentage of total |
|----------------------------------|------------------------|-------------------|---------------------|
| (Rupees in '000) | | | |
| Individuals | 1,907 | 1,350,503 | 9.14% |
| Associated companies / Directors | 9 | 4,797,792 | 32.48% |
| Insurance companies | 6 | 591,035 | 4.00% |
| Banks / DFIs | 6 | 1,806,245 | 12.23% |
| NBFCs | 2 | 104,732 | 0.71% |
| Retirement funds | 47 | 550,554 | 3.73% |
| Public Limited companies | 24 | 3,553,619 | 24.06% |
| Others | 103 | 2,017,745 | 13.66% |
| | 2,104 | 14,772,225 | 100.00% |

24 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 37th, 38th, 39th, 40th and 41th Board meetings were held on 9 July 2012, 11 September 2012, 23 October 2012, 26 February 2013 and 26 April 2013 respectively. Information in respect of attendance by Directors in the meetings is given below:

| Name of Director | Number of Meetings | | | Meetings not attended |
|--------------------------|--------------------|----------|---------------|---------------------------------|
| | Held | Attended | Leave granted | |
| Mr. Shahid Anwar Khan*** | 5 | 5 | 0 | |
| Dr. Asif A. Brohi* | 5 | 1 | 4 | 37th, 38th, 40th & 41st meeting |
| Mr. Khalid Mahmood* | 1 | 0 | 1 | 41st meeting |
| Mr. Wah Geok Sum | 5 | 4 | 1 | 41st meeting |
| Mr. Koh Boon San | 5 | 5 | 0 | |
| Mr. Shehryar Faruque | 5 | 4 | 1 | 37th meeting |
| Mr. Kamal Amir Chinoy | 5 | 2 | 3 | 37th, 39th & 41st meeting |
| Mr. Amir Shehzad | 5 | 3 | 2 | 37th & 39th meeting |
| Mr. Asif Hassan**** | 0 | 0 | 0 | |
| Dr Amjad Waheed | 5 | 5 | 0 | |

* Dr. Asif A. Brohi retired from Board with effect from February 26, 2013

** Mr. Khalid Mahmood was co-opted on the Board with effect from April 11, 2013

*** Mr. Shahid Anwar Khan retired from Board with effect from May 20, 2013

**** Mr. Asif Hasan was co-opted on the Board with effect from May 20, 2013

NAFA GOVERNMENT SECURITIES LIQUID FUND

25 FINANCIAL RISK MANAGEMENT

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are based on limits established by the Management Company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the Management Company supervises the overall risk management approach within the Fund.

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

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

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

25.1 Market risk

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

Management of market risk

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

25.2 Currency risk

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

25.3 Interest rate risk

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

(a) Sensitivity analysis for variable rate instruments

Presently, the Fund does not hold any variable rate instrument and is not exposed to cash flow interest rate risk.

(b) Sensitivity analysis for fixed rate instruments

As at 30 June 2013, the Fund holds market term deposit receipts, treasury bills and certificate of investments classified as financial assets 'At fair value through profit or loss' and 'Loans and receivables' respectively, exposing the Fund to fair value interest rate risk. In case of 100 basis point increase in rates announced by the Financial Markets Associate of Pakistan on 30 June 2013 with all other variables held constant, the net income for the year and net assets would have been lower by Rs. 5.398 million (2012: Rs. 12.198 million).

The composition of the Fund's investment portfolio and rates announced by MUFAP is expected to change over time. Therefore, the sensitivity analysis prepared as of 30 June 2013 is not necessarily indicative of the effect on the Fund's net assets due to future movements in interest rates.

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

NAFA GOVERNMENT SECURITIES LIQUID FUND

-----As at June 30, 2013-----

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

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

On-balance sheet financial instruments

Financial Assets

| | | | | | | |
|------------------------------------|-------------|------------|---|---|--------|------------|
| Bank balances | 6% - 12% | 1,849,205 | - | - | 691 | 1,849,896 |
| Investments | 8.25% - 12% | 4,785,275 | - | - | - | 4,785,275 |
| Profit receivable | | - | - | - | 16,870 | 16,870 |
| Other receivables | | - | - | - | 6,980 | 6,980 |
| Receivable from a connected person | | 5,846,012 | - | - | - | 5,846,012 |
| | | 12,480,492 | - | - | 24,541 | 12,505,033 |

Financial Liabilities

| | | | | | | |
|--|--|---|---|---|-------|-------|
| Payable to the NBP Fullerton Asset Management Limited - Management Company | | - | - | - | 8,433 | 8,433 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | | - | - | - | 482 | 482 |
| Payable on redemption of units | | - | - | - | 10 | 10 |
| Accrued expenses and other liabilities | | - | - | - | 918 | 918 |
| | | - | - | - | 9,843 | 9,843 |

On-balance sheet gap

| | | | | | |
|--|------------|---|---|--------|------------|
| | 12,480,492 | - | - | 14,698 | 12,495,190 |
|--|------------|---|---|--------|------------|

Off-balance sheet financial instruments

| | | | | | |
|--|---|---|---|---|---|
| | - | - | - | - | - |
|--|---|---|---|---|---|

Off-balance sheet gap

| | | | | | |
|--|---|---|---|---|---|
| | - | - | - | - | - |
|--|---|---|---|---|---|

Total interest rate sensitivity gap

| | | | | | |
|--|------------|---|---|--------|------------|
| | 12,480,492 | - | - | 14,698 | 12,495,190 |
|--|------------|---|---|--------|------------|

Cumulative interest rate sensitivity gap

| | | | | | |
|--|------------|------------|------------|---|---|
| | 12,480,492 | 12,480,492 | 12,480,492 | - | - |
|--|------------|------------|------------|---|---|

-----As at June 30, 2012-----

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

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

On balance sheet financial instruments

Financial Assets

| | | | | | | |
|-------------------|-------------|------------|---|---|--------|------------|
| Bank balances | 6% - 13.75% | 1,549,979 | - | - | 6,191 | 1,556,170 |
| Investments | 8.25% - 12% | 13,319,080 | - | - | - | 13,319,080 |
| Profit receivable | | - | - | - | 50,810 | 50,810 |
| Other receivables | | - | - | - | 7,093 | 7,093 |
| | | 14,869,059 | - | - | 64,094 | 14,933,153 |

Financial Liabilities

| | | | | | | |
|--|--|---|---|---|--------|--------|
| Payable to the NBP Fullerton Asset Management Limited - Management Company | | - | - | - | 19,201 | 19,201 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | | - | - | - | 1,056 | 1,056 |
| Payable on redemption of units | | - | - | - | 25,511 | 25,511 |
| Accrued expenses and other liabilities | | - | - | - | 43,405 | 43,405 |
| | | - | - | - | 89,173 | 89,173 |

On balance sheet gap

| | | | | | |
|--|------------|---|---|----------|------------|
| | 14,869,059 | - | - | (25,079) | 14,843,980 |
|--|------------|---|---|----------|------------|

Off balance sheet financial instruments

| | | | | | |
|--|---|---|---|---|---|
| | - | - | - | - | - |
|--|---|---|---|---|---|

Off balance sheet gap

| | | | | | |
|--|---|---|---|---|---|
| | - | - | - | - | - |
|--|---|---|---|---|---|

Total interest rate sensitivity gap

| | | | | | |
|--|------------|---|---|----------|------------|
| | 14,869,059 | - | - | (25,079) | 14,843,980 |
|--|------------|---|---|----------|------------|

Cumulative interest rate sensitivity gap

| | | | | | |
|--|------------|------------|------------|---|---|
| | 14,869,059 | 14,869,059 | 14,869,059 | - | - |
|--|------------|------------|------------|---|---|

NAFA GOVERNMENT SECURITIES LIQUID FUND

25.4 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from yield / interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Fund is not exposed to any price risk as no equity securities are held by the Fund as at 30 June 2013.

25.5 Credit risk

Credit risk arising from the inability of the counterparties to fulfill their obligations in respect of financial instrument contracts, is generally limited to the principal amount and accrued income thereon.

Management of credit risk

The Fund's policy is to enter into financial contracts with reputable counterparties in accordance with the internal risk management policies and investment guidelines approved by the Board of Directors. The IC closely monitors the credit worthiness of the Fund's counterparties (e.g., issuer of the instruments, brokers, banks, etc.) by reviewing their credit ratings, financial statements and press releases on a regular basis. In addition the credit risk is also minimized due to the fact that the Fund only invests in the high quality financial assets government securities. All transactions in government / debt securities are settled / paid upon delivery. The risk of default in such transactions is considered minimal, as delivery of securities is guaranteed by reputable brokers or the transactions are carried with counter parties of high reputation. Further, bank accounts are held only with reputable banks.

Concentration of the credit risk

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

The analysis below summarises the credit quality of the Fund's financial assets as at 30 June 2013.

Balances with banks

Balances with banks

| | 2013 | 2012 |
|-----------|------------------|------------------|
| | (Rupees in '000) | |
| A1+, A-1+ | 1,835,833 | 1,556,140 |
| A1, A-1 | 90 | |
| A2, A-2 | 13,956 | |
| A3 | 17 | 30 |
| | <u>1,849,896</u> | <u>1,556,170</u> |

25.6 Liquidity risk

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

Management of liquidity risk

The Fund is exposed to daily cash redemptions at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

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

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

Maturity analysis for financial liabilities

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

NAFA GOVERNMENT SECURITIES LIQUID FUND

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

-----As at June 30, 2013-----

| Total | Upto three months | Over three months and upto one year | Over one year |
|-------|-------------------|-------------------------------------|---------------|
|-------|-------------------|-------------------------------------|---------------|

(Rupees in '000)

Financial Liabilities (excluding unit holders' fund)

Payable to the NBP Fullerton Asset Management Limited - Management Company
 Payable to Central Depository Company of Pakistan Limited -Trustee
 Payable on redemption of units
 Accrued expenses and other liabilities

| | | | |
|--------------|--------------|---|---|
| 8,433 | 8,433 | - | - |
| 482 | 482 | - | - |
| 10 | 10 | - | - |
| 918 | 918 | - | - |
| <u>9,843</u> | <u>9,843</u> | - | - |

Unit holders' fund

| | | | |
|-------------------|-------------------|---|---|
| <u>12,401,926</u> | <u>12,401,926</u> | - | - |
|-------------------|-------------------|---|---|

-----As at June 30, 2012-----

| Total | Upto three months | Over three months and upto one year | Over one year |
|-------|-------------------|-------------------------------------|---------------|
|-------|-------------------|-------------------------------------|---------------|

(Rupees in '000)

Financial Liabilities (excluding unit holders' fund)

Payable to the NBP Fullerton Asset Management Limited - Management Company
 Payable to Central Depository Company of Pakistan Limited -Trustee
 Payable on redemption of units
 Accrued expenses and other liabilities

| | | | |
|---------------|---------------|---|---|
| 19,201 | 19,201 | - | - |
| 1,056 | 1,056 | - | - |
| 25,511 | 25,511 | - | - |
| 43,405 | 43,405 | - | - |
| <u>89,173</u> | <u>89,173</u> | - | - |

Unit holders' fund

| | | | |
|-------------------|-------------------|---|---|
| <u>14,772,225</u> | <u>14,772,225</u> | - | - |
|-------------------|-------------------|---|---|

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets (e.g. Treasury bills, Terms finance certificates and Sukuks) that are not traded in an active market is determined with reference to the rates quoted by Financial Market Association of Pakistan and MUFAP. The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular 1 of 2009 dated January 6, 2009 issued by the Securities and Exchange Commission of Pakistan (SECP).

If a security is not quoted by MUFAP due to it being 'non-performing status', its values is determined by applying discount in accordance with Circular No. 1 of 2009 and Circular No. 33 of 2012 issued by the SECP.

The estimated fair value of other financial assets and liabilities is considered not significantly different from carrying values as the items are either short term in nature or periodically repriced.

IFRS 7, 'Financial instruments: Disclosures' requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

NAFA GOVERNMENT SECURITIES LIQUID FUND

PERFORMANCE TABLE

| Particulars | For the year ended June 30, 2013 | For the year ended June 30, 2012 | For the year ended June 30, 2011 | For the year ended June 30, 2010 | For the period from April 29, 2009 to June 30, 2009 |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|---|
| Net assets at the year / period ended (Rs '000) | 12,401,926 | 14,772,225 | 10,810,434 | 5,805,378 | 1,415,232 |
| Net income for the year / period ended (Rs '000) | 1,073,565 | 1,484,481 | 1,082,828 | 486,027 | 19,889 |
| Net Asset Value per unit at the year / period ended (Rs) | 10.0389 | 10.0523 | 10.0837 | 10.0241 | 10.0025 |
| Offer Price per unit at year end | 10.0389 | 10.0523 | 10.0837 | 10.0241 | 10.0025 |
| Redemption Price per unit at year end | 10.0389 | 10.0523 | 10.0837 | 10.0241 | 10.0025 |
| Highest offer price per unit (Rs) | 10.0389 | 10.0523 | 10.0837 | 10.0241 | 10.0025 |
| Lowest offer price per unit (Rs) | 9.2414 | 9.0678 | 9.0603 | 9.0731 | 9.8802 |
| Highest redemption price per unit (Rs) | 10.0389 | 10.0523 | 10.0837 | 10.0241 | 10.0025 |
| Lowest redemption price per unit (Rs) | 9.2414 | 9.0678 | 9.0603 | 9.0731 | 9.8802 |
| Total return of the fund | 8.66% | 10.86% | 11.46% | 10.53% | 1.43% |
| Capital growth | 0.16% | 0.16% | 0.96% | 0.53% | 0.03% |
| Income distribution | 8.50% | 10.70% | 10.50% | 10.00% | 1.40% |
| Distribution | | | | | |
| Interim distribution per unit | 0.8504 | 1.0789 | 0.7769 | 0.7503 | - |
| Final distribution per unit | - | - | 0.2757 | 0.2501 | 0.1400 |
| Distribution Dates | | | | | |
| Interim | 30-Jul-12 | 2-Aug-11 | 18-Oct-10 | 28-Oct-09 | - |
| Interim | 28-Aug-12 | 6-Sep-11 | 18-Feb-11 | 17-Feb-10 | |
| Interim | 28-Sep-12 | 3-Oct-11 | 19-Apr-11 | 29-Apr-10 | |
| Interim | 30-Oct-12 | 2-Nov-11 | | | |
| Interim | 28-Nov-12 | 2-Dec-11 | | | |
| Interim | 28-Dec-12 | 3-Jan-12 | | | |
| Interim | 29-Jan-13 | 30-Jan-12 | | | |
| Interim | 27-Feb-13 | 28-Feb-12 | | | |
| Interim | 28-Mar-13 | 29-Mar-12 | | | |
| Interim | 29-Apr-13 | 27-Apr-12 | | | |
| Interim | 29-May-13 | 30-May-12 | | | |
| Interim | 28-Jun-13 | 27-Jun-12 | | | |
| Final | - | - | 4-Jul-11 | 5-Jul-10 | 3-Jul-09 |
| Average annual return of the fund (launch date May 16, 2009) | | | | | |
| (Since inception to June 30, 2013) | 10.42% | | | | |
| (Since inception to June 30, 2012) | | 10.99% | | | |
| (Since inception to June 30, 2011) | | | 11.05% | | |
| (Since inception to June 30, 2010) | | | | 10.68% | |
| (Since inception to June 30, 2009) | | | | | 11.88% |
| Portfolio Composition (Please see Fund Manager Report) | | | | | |
| Weighted average portfolio duration | 09 Days | 35 days | 43 days | 46 days | 90 days |

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