



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

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

ANNUAL REPORT 2014



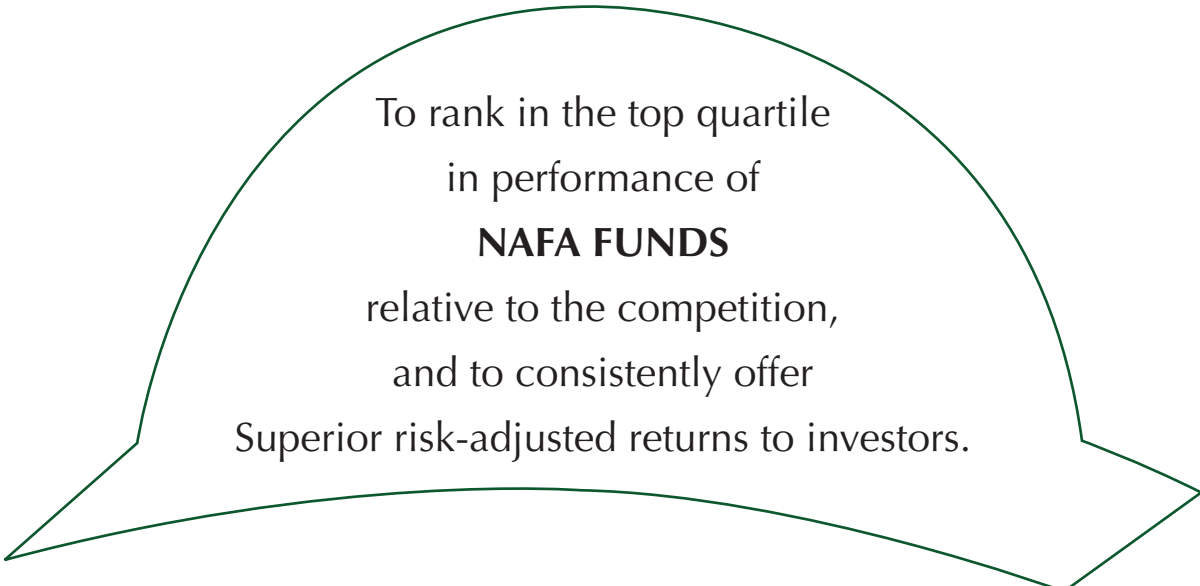
Your investments & "NAFA" grow together



**FULLERTON FUND
MANAGEMENT**

Joint - Venture Partners

MISSION STATEMENT



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

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

FUND'S INFORMATION

Management Company

NBP Fullerton Asset Management Limited – Management Company

Board of Directors of the Management Company

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

Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

Audit & Risk Committee

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

Human Resource Committee

Mr. Nausherwan Adil	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 Shahra-e-Faisal, Karachi.

Bankers to the Fund

Bank Alfalah Limited
Habib Bank Limited
United Bank Limited
Meezan Bank Limited

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

Auditors

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

Legal Advisor

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

Head Office:

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Scheme No. 5, Clifton Karachi.
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(Toll Free): 0800-20001,
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Website: www.nafafunds.com

Lahore Office:

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Muslim Town, Lahore.
UAN: 042-111-111-632
Fax: 92-42-35861095

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Plot No. 395, 396
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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

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Board of Directors



Mr. Nausherwan Adil
Chairman



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. Kamal Amir Chinoy
Director



Mr. Koh Boon San
Director



Mr. Aamir Sattar
Director



Mr. Shehryar Faruque
Director



Mr. Wah Geok Sum
Director



Mr. Abdul Hadi Palekar
Director

Senior Management



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. M. Murtaza Ali
Chief Financial Officer
& Company Secretary



Mr. Sajjad Anwar, CFA
Chief Investment Officer



Mr. Zeeshan
Chief – Strategy &
Business Development



Mr. Samiuddin Ahmed
Country Head Corporate
Marketing & Sales



Mr. Ozair Khan
Chief Technology Officer



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



Mr. Ahmad Nouman CFA, PRM
Head of Risk Management



Syed Suleman Akhtar CFA
Head of Research



Mr. Tahir Lateef
Head of Internal Audit

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

DIRECTORS' REPORT

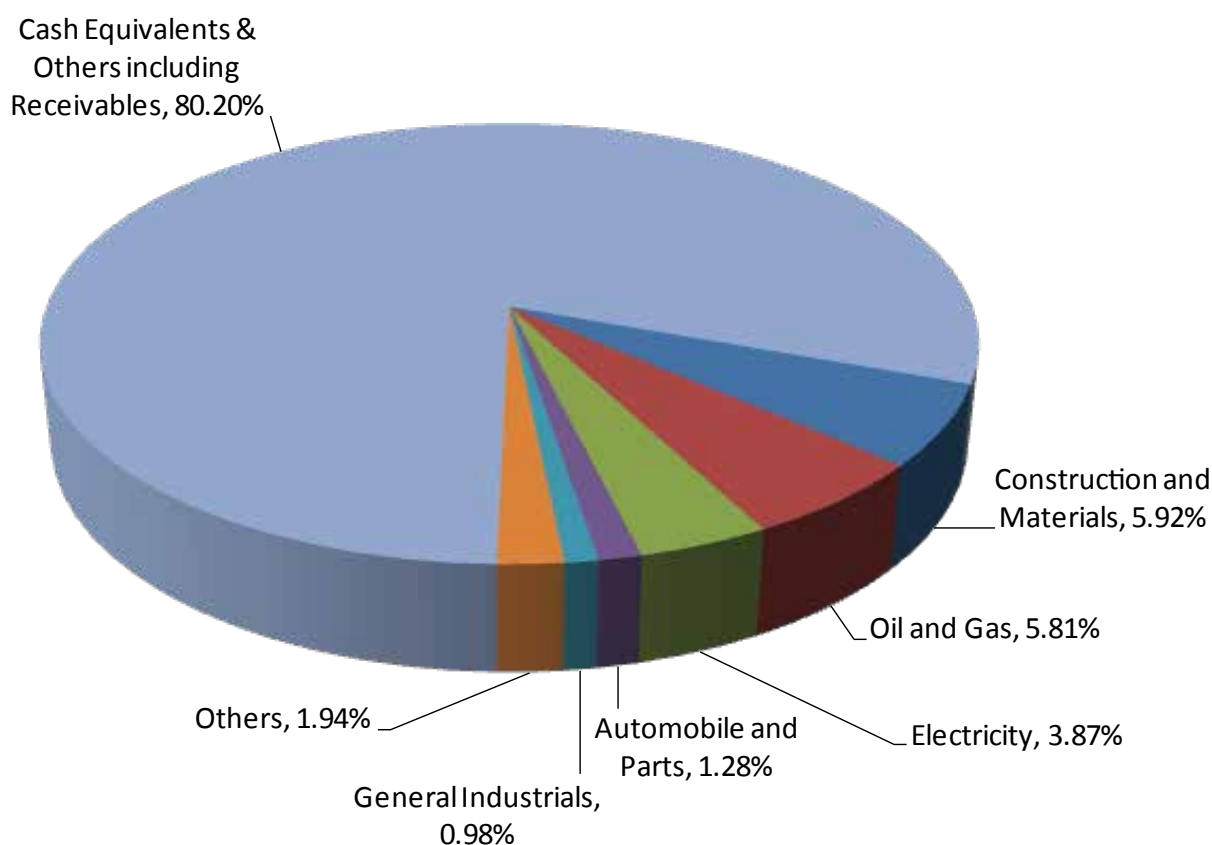
The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the First Annual Report of **NAFA Islamic Principal Protected Fund - II** for the period from June 28, 2014 to June 30, 2014.

Fund's Performance

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

During the period, the unit price of NAFA Islamic Principal Protected Fund - II has increased from Rs. 100 on June 27, 2014 to Rs. 100.1223 on June 30, 2014, thus showing an increase of 0.12%. The Benchmark (Daily weighted return of KMI-30 index & Islamic Bank Deposits based on Funds' actual allocation) return during the same period was 0.35%. Thus, the Fund has underperformed its Benchmark by 0.23% during the period under review. This performance is net of management fee and all other expenses. The size of NAFA Islamic Principal Protected Fund-II is Rs.789 million.

The Fund has earned a total income of Rs.1.48 million during the year. After deducting total expenses of Rs.0.60 million, the net income is Rs.0.88 million. The asset allocation of NAFA Islamic Principal Protected Fund - II as on June 30, 2014 is as follows:



NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

Income Distribution

After excluding unrealized gain, the Fund incurred net loss for the period. Accordingly, no distribution was made during the period.

Taxation

As there was net loss excluding realized and unrealized capital gains for the period, the Fund is not subject to tax under Clause 99 of the Part I of the Second Schedule of the Income Tax Ordinance, 2001.

Auditors

The present auditors, Messrs A.F.Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2015.

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. No meeting of the Board of Directors of the Management Company was held during the period.
11. The detailed pattern of unit holding is disclosed in the note 21 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 18 to these financial statements.

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

Acknowledgement

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

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

On behalf of the Board of
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: September 16, 2014
Place: Karachi.

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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

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

We, Central Depository Company of Pakistan Limited, being the Trustee of NAFA Islamic Principal Protected Fund II (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the period from June 28, 2014 to June 30, 2014 in accordance with the provisions of the following:

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

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

Karachi: October 10, 2014

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE PERIOD FROM JUNE 28, 2014 TO JUNE 30, 2014

This statement is being presented by the Board of Directors of NBP Fullerton Asset Management Limited (Company), the Management Company of **NAFA Islamic Principal Protected Fund - II** (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, 2014, the Board included:

Category	Names
Independent Directors	1. Mr. Kamal Amir Chinoy 2. Mr. Shehryar Faruque
Executive Directors	Dr. Amjad Waheed (Chief Exectuive Officer)
Non- Executive Directors	1. Mr. Nausherwan Adil (Chairman) 2. Mr. Aamir Sattar 3. Mr. Abdul Hadi Palekar 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).
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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancies were occurred on the board during the period.
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 ISLAMIC PRINCIPAL PROTECTED FUND - II

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the 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 the Code requires every listed company to conduct formal orientation for directors. As per the Code, by June 30, 2014 a minimum of two directors should have attended director training program. As at year end, one of the directors has attended 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 the next 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. There was no new appointment of the Chief Financial Officer (CFO) and Company Secretary during the year. However, the Head of Internal Audit left the Company on March 07, 2014 and in his place a new appointment was made on April 08, 2014 with the approval of audit and risk committee including remuneration and terms and conditions. The appointment of the Head of Internal Audit has been ratified by the Board in its meeting held on September 16, 2014, subsequent to the year end.
11. The Directors' report for the period from June 28, 2014 to June 30, 2014 has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in note 18 to the financial statements "Transactions with Connected Persons".
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The committee has formed the terms of reference for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. All the members are non-executive directors and the chairman of the committee is a non-independent director.

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

18. The Board has set up an effective internal audit function.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. Since there is no practical implication of closed period on the announcement of interim and final results of open end Fund. Therefore, there was no 'closed period' prior to the announcement of interim/final results.
22. Material / price sensitive information has been disseminated amongst all market participants at once through stock exchange.
23. We confirm that all other material principles contained in the CCG have been complied with. While the Code of Corporate Governance requires that a mechanism shall be put in place for the annual evaluation of the Board's own performance by April 2014, the Management Company is in the process of preparing a framework for this purpose and eventual approval by the Board of Directors of the Management Company.

For and behalf of the board

Karachi
September 16, 2014

Dr. Amjad Waheed
Chief Executive Officer

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

FUND MANAGER REPORT

NAFA Islamic Principal Protected Fund-II

NAFA Islamic Principal Protected Fund-II is a Shariah Compliant Capital Protected fund

Investment Objective of the Fund

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

Benchmark

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

Fund performance review

This is the first annual report of the Fund. The Fund has gradually built its position in equities and its current stock exposure stands at around 19.8%. Key holdings of the Fund belong to Oil and Gas, Construction and Materials, and Electricity sectors. The Fund can invest up to 100% in equities. We are confident that the Fund will generate good returns considering the positive outlook of the market and built in dynamic equity allocation mechanism of the Fund. The Net Asset Value (NAV) of NIPPF-II stands at Rs 789mn.

NIPPF-II was around 19.8% invested in equities at the end of the year.

The solid performance of the stock market was driven by positive developments on the economic front, such as Pakistan's entry into a fresh IMF program, significant improvement in country's external account which buttressed foreign exchange reserves and Pak rupee, controlled inflation, lower fiscal deficit and higher GDP growth supported by a revival in the industrial sector. The improvements on the economic front coupled with increase in Pakistan's weight in the MSCI Frontier Market Index resulted in sizable foreign buying in the local bourse, helping the Index touch new highs.

Due to a precarious external account position and expected increase in inflation, SBP increased the Policy Rate by 100 bps to 10% during FY14. The yields on bonds in the secondary market remained on the higher side due to increase in interest rates and tight liquidity conditions. On the corporate debt sphere, we have witnessed some increase in primary issuance of corporate debt amid a pick-up in economic activity. However, return on Islamic deposits remained capped due to excess liquidity with Islamic financial instruments because of limited new Ijara Sukuk issues by the government.

Particulars	30-Jun-14
Equities / Stocks	19.80%
Cash Equivalents	89.71%
Other Net (Liabilities) / Assets	-9.51%
Total	100.00%

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

Unit Holding Pattern of NAFA Islamic Principal Protection Fund-II as on June 30, 2014

Size of Unit Holding (Units)		No. of Unit Holders
1	1,000	86
1,001	5,000	213
5,001	10,000	116
10,001	50,000	78
50,001	100,000	12
100,001	500,000	11
500,001	1,000,000	1
Total		517

During the period under question:

- There have been no significant changes in the state of affairs of the Fund
- The Management Company or its delegates did not receive any soft commission (i.e. goods and services) from its broker(s)/dealer(s) by virtue of transactions conducted by the Fund.

Workers' Welfare Fund (WWF)

The scheme has maintained provision against Workers' Welfare Fund's liability to the tune of Rs.17,796/- If the same were not made the NAV per unit/return of scheme would have been higher by Rs 0.0023/0.00%. For details investors are advised to read the Note 15 of the Financial Statements of the Scheme for the year ended June 30, 2014.

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

NAFA Islamic Principal Protected Fund-II (the Fund) has fully complied with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for its placements made during the period June 28, 2014 to June 30, 2014. This has been duly confirmed by the Shariah Advisor of the Fund.

For and behalf of the board

Karachi
September 16, 2014

Chief Executive Officer

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

Report of the *Shar'iah Advisor* – NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

September 15, 2014/Dhul-Qa'dah 19, 1435 A.H

Alhamdulillah, the period from June 2014 was the inaugural year of operations of NAFA Islamic Principal Protected Fund (NIPPF – II). This report is being issued in accordance with clause 5.D.3 of the Trust Deed of the Fund. The scope of the report is to express an opinion on fulfillment of the Shariah Compliance requirements for launching of the fund.

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

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

In light of the above, we hereby certify that nothing has come to our attention which causes to believe that the overall operations of NIPPF – II for the period ended June 30, 2014 are not in compliance with the *Shari'ah* principles.

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

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

Bilal Ahmed Qazi
Shar'iah Advisor

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of NBP Fullerton Asset Management Limited, the Management Company of **NAFA Islamic Principal Protected Fund II** (the Fund) for the period from June 28, 2014 to June 30, 2014 to comply with the Listing Regulation No.35 (Chapter XI) of the Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company (**NBP Fullerton Asset Management Limited**) of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

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

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of the Fund's related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code as applicable to the Fund for the period from June 28, 2014 to June 30, 2014.

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

Paragraph reference	Description
9	Upto June 30, 2014, only one director has obtained the director's training program as against the requirement of at least two directors till June 30, 2014.
21	No closed period was determined prior to the announcement of interim / final results.
23	The Management Company has not set up a mechanism for the annual evaluation of the Board's own performance.

A.F. Ferguson & Co. Chartered Accountants
Dated: September 16, 2014
Karachi

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **NAFA Islamic Principal Protected Fund - II** (hereinafter referred to as the 'Fund'), which comprise the statement of assets and liabilities as at June 30, 2014, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the period from June 28, 2014 to June 30, 2014 and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

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

Auditors' responsibility

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the financial position of the Fund as at June 30, 2014 and of its financial performance, cash flows and transactions for the period from June 28, 2014 to June 30, 2014 in accordance with the approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

A.F. Ferguson & Co. Chartered Accountants
Engagement Partner: **Rashid A. Jafer**
Dated: September 18, 2014
Karachi

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2014

	Note	As at June 30, 2014 (Rupees in '000)
ASSETS		
Balances with banks	4	710,807
Investments	5	156,906
Profit receivable	6	480
Advances and deposits	7	102,600
Preliminary expenses and floatation costs	8	2,306
Total assets		973,099
LIABILITIES		
Payable to the Management Company	9	24,309
Payable to the Central Depository Company of Pakistan Limited - Trustee	10	8
Payable to the Securities and Exchange Commission of Pakistan	11	5
Payable against redemption of units		145
Payable against purchase of investments		155,911
Accrued expenses and other liabilities	12	350
Total liabilities		180,728
NET ASSETS		792,371
UNIT HOLDERS' FUNDS (AS PER STATEMENT ATTACHED)		792,371
CONTINGENCIES AND COMMITMENTS	13	
		Number of units
NUMBER OF UNITS IN ISSUE		7,914,029
		Rupees
NET ASSET VALUE PER UNIT	3.12	100.1223

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

INCOME STATEMENT FOR THE PERIOD FROM JUNE 28, 2014 TO JUNE 30, 2014

	Note	For the period from June 28, 2014 to June 30, 2014 Rupees in '000
INCOME		
Profit on bank deposits		480
Unrealised appreciation in the value of investments classified as 'at fair value through profit or loss' - net	5.2	995
Total Income		1,475
EXPENSES		
Remuneration of the Management company	9.1	122
Sindh Sales Tax on Management Company's remuneration	9.2	23
Federal Excise Duty on Management Company's remuneration	9.3	20
Remuneration of the Central Depository Company of Pakistan Limited - Trustee	10.1	8
Annual fee to the Securities and Exchange Commission of Pakistan	11.1	5
Amortisation of preliminary expenses and floatation costs	8	10
Auditors' remuneration	14	80
Annual listing fee		20
Printing charges		50
Securities transaction cost		167
Settlement and bank charges		68
Others		8
Total Expenses		581
Net Income from operating activities		894
Provision for Workers' Welfare Fund	15	(18)
Net income for the period before taxation		876
Taxation	17	-
Net income for the period after taxation		876
Earnings per unit	3.13	

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM JUNE 28, 2014 TO JUNE 30, 2014

	For the period from June 28, 2014 to June 30, 2014 Rupees in '000
Net income for the period after taxation	876
Other comprehensive income for the period	-
Total comprehensive income for the period	<u><u>876</u></u>

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

DISTRIBUTION STATEMENT FOR THE PERIOD FROM JUNE 28, 2014 TO JUNE 30, 2014

	For the period from June 28, 2014 to June 30, 2014 Rupees in '000
Undistributed income brought forward	-
Net income for the period after taxation	876
Element of income and capital gains included in prices of units issued less those in units redeemed	92
Undistributed income carried forward	<u>968</u>
Undistributed income comprising of :	
Realised loss	(27)
Unrealised income	995
	<u>968</u>

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND FOR THE PERIOD FROM JUNE 28, 2014 TO JUNE 30, 2014

For the period
from June 28,
2014 to June
30, 2014
Rupees in '000

Net assets at the beginning of the year	-
Issue of 7,915,476 units	791,640
Redemption of 1,447 units	(145)
	791,495
Net element of income and capital gains included in prices of units issued less those in units redeemed - transferred to distribution statement	92
Unrealised appreciation in the value of investments 'at fair value through profit or loss' - net Other net loss for the period	995 (119)
	876
Element of income and capital gains included in prices of prices of units issued less those in units redeemed	(92)
Net assets at the end of the period	792,371

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

CASH FLOW STATEMENT FOR THE PERIOD FROM JUNE 28, 2014 TO JUNE 30, 2014

For the period
from June 28,
2014 to June
30, 2014
Rupees in '000

CASH FLOW FROM OPERATING ACTIVITIES

Net income for the period before taxation 876

Adjustments

Unrealised appreciation on re-measurement of investments
'classified as 'financial assets at fair value through profit or loss' - net (995)
Amortisation of preliminary expenses and floatation costs 10
(109)

(Increase) / decrease in assets

Investments (155,911)
Profit receivable (480)
Advances and deposits (102,600)
(258,991)

Increase / (decrease) in liabilities

Payable to the Management Company 21,993
Payable to the Central Depository Company of Pakistan Limited -Trustee 8
Payable to the Securities and Exchange Commission of Pakistan 5
Payable against redemption of units 145
Payable against purchase of investments 155,911
Accrued expenses and other liabilities 350
178,412

Net cash used in operating activities (80,688)

CASH FLOW FROM FINANCING ACTIVITIES

Receipts from issue of units 791,640
Payments on redemption of units (145)
Net cash generated from financing activities 791,495

Net increase in cash and cash equivalents during the period 710,807
Cash and cash equivalents at the beginning of the period -

Cash and cash equivalents at the end of the period 710,807

The annexed notes 1 to 26 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM JUNE 28, 2014 TO JUNE 30, 2014

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Islamic Principal Protected Fund-II (the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited as Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on May 07, 2014 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on May 15, 2014. under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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

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

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

The Pakistan Credit Rating Agency (PACRA) has assigned an asset manager rating of AM2 to the Management Company. The Fund has not yet been rated.

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

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

2 BASIS OF PREPARATION

2.1 Statement of Compliance

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

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

There are certain new and amended standards and interpretations that are mandatory for the accounting periods beginning on or after July 1, 2014 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.3 Critical accounting estimates and judgments

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

2.4 Accounting Convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value.

2.5 Functional and Presentation Currency

These financial statements are presented in Pak Rupees, which is the Fund's functional and presentation currency.

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Cash and cash equivalents

Cash and cash equivalents include deposits with banks and other short term highly liquid investments with original maturities of three months or less.

3.2 Financial assets

3.2.1 Classification

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

Investments are classified as follows:

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

c) Available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables or (b) financial assets at fair value through profit or loss.

3.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

3.2.3 Initial recognition and measurement

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

3.2.4 Subsequent measurement

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

Subsequent to initial recognition, financial assets designated by the management as "at fair value through profit or loss" and "available for sale" are valued as follows:

- Basis of valuation of equity securities

The investment of the Fund in equity securities is valued on the basis of closing quoted market prices available at the stock exchange. A security listed on the stock exchange for which no sale is reported on the reporting date is valued at its last sale price on the next preceding date on which such exchange is open and if no sale is reported for such date the security is valued at an amount neither higher than the closing asked price nor lower than the closing bid price.

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

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

b) Loans and receivables

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

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

3.2.5 Impairment

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

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

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

3.2.6 Derecognition

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

3.3 Financial liabilities

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

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

3.4 Offsetting of financial assets and liabilities

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

3.5 Provisions

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

3.6 Preliminary expenses and floatation costs

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

3.7 Taxation

Current

The income of the Fund is exempt from Income Tax as per clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders.

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

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

Deferred

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and the amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to avail the tax exemption 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.

3.8 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that 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, as per the constitutive documents, applicable to units for which the distributors receive redemption requests during business hours of that day. The redemption price represents 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.

3.9 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.

Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed is determined based on the income earned and on unrealised appreciation / (diminution) arising during the year on available for sale securities. The amount so determined is taken directly to the Distribution Statement.

3.10 Proposed distributions

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

3.11 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised appreciation / (diminution) in the value of investments classified as 'financial assets at fair value through profit or loss' are included in the Income Statement in the period in which they arise.
- Profit on bank deposits and term deposit receipts is recognised on an accrual basis.

3.12 Net asset value per unit

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

3.13 Earnings per unit (EPU)

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

	Note	As at June 30, 2014 Rupees in '000
4 BALANCES WITH BANKS		
Saving accounts	4.1	493,403
Current accounts		<u>217,404</u>
		<u>710,807</u>
4.1 These carry profits at the rates ranging from 6.5% to 8.7% per annum.		
5 INVESTMENTS		
'Financial assets at fair value through profit or loss' - held for trading		
- Investment in listed equity securities	5.1	<u>156,906</u>

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

5.1 Listed equity securities

All shares have a nominal face value of Rs.10 each except for the shares of Thal Limited which have a face value of Rs.5 and K-Electric Limited which have a face value of Rs. 3.5 each.

Name of the investee company	Number of shares				Market value as at June 30, 2014	Market Value as a percentage of		
	Purchases during the period	Bonus / Right Issue	Sales / *Matured during the year	As at June 30, 2014		Net assets	Total investments	Paid up capital of the investee company
					(Rupees in '000)	------%-----		
Oil & Gas								
Oil and Gas Development Company Limited	29,400	-	-	29,400	7,682	0.97	4.90	0.00
Pakistan Oilfields Limited	23,500	-	-	23,500	13,496	1.70	8.60	0.01
Pakistan Petroleum Limited	68,000	-	-	68,000	15,255	1.93	9.72	0.00
Pakistan State Oil Company Limited	24,600	-	-	24,600	9,566	1.21	6.10	0.01
Construction and Materials								
D.G. Khan Cement Company Limited	88,000	-	-	88,000	7,740	0.98	4.93	0.02
Lucky Cement Limited	39,000	-	-	39,000	16,002	2.02	10.20	0.01
Maple Leaf Cement Factory Limited	253,000	-	-	253,000	7,603	0.96	4.85	0.05
Pioneer Cement Limited	334,000	-	-	334,000	15,584	1.97	9.93	0.15
General Industrials								
Ghani Glass Limited	6,000	-	-	6,000	324	0.04	0.21	0.00
Thal Limited	36,000	-	-	36,000	7,466	0.94	4.76	0.09
Automobile and Parts								
Ghandhara Nissan Limited	59,000	-	-	59,000	2,373	0.30	1.51	0.13
Pak Suzuki Motor Company Limited	28,400	-	-	28,400	7,778	0.98	4.96	0.03
Personal Goods								
Nishat Mills Limited	69,000	-	-	69,000	7,722	0.97	4.92	0.02
Fixed Line Telecommunication								
Pakistan Telecommunication Company Limited	300,000	-	-	300,000	7,641	0.96	4.87	0.01
Electricity								
K-Electric Limited	450,000	-	-	450,000	3,821	0.48	2.44	0.00
The Hub Power Company Limited	230,000	-	-	230,000	13,510	1.71	8.61	0.02
Kot Addu Power Company Limited	226,000	-	-	226,000	13,343	1.68	8.49	0.03
					2,263,900	156,906	19.80	100.00
Carrying value as at June 30, 2014					155,911			

Note

As at June 30, 2014
Rupees in '000

5.2 Unrealised appreciation in the value of investments classified as financial assets 'at fair value through profit or loss' - net

Market value of investments	156,906
Less: Carrying value of investments	(155,911)
	<u>995</u>

6 PROFIT RECEIVABLE

Accrued profit on saving accounts	<u>480</u>
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7 ADVANCES AND DEPOSITS

Security deposit with the National Clearing Company of Pakistan Limited	2,500
Security deposit with the Central Depository Company of Pakistan Limited	100
Advance against NCCPL Exposure	100,000
	<u>102,600</u>

8 PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs incurred	8.1	2,316
Less: Amortisation during the period		(10)
Closing balance		<u>2,306</u>

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

- 8.1 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 two years commencing from June 28, 2014 as per the requirements set out in the Trust Deed.

	Note	As at June 30, 2014 Rupees in '000
9 PAYABLE TO THE MANAGEMENT COMPANY		
Remuneration of the Management Company	9.1	122
Sindh Sales Tax on remuneration of Management Company	9.2	23
Federal Excise Duty on remuneration of Management Company	9.3	20
Sindh Sales Tax and FED payable on sales load		4,927
Sales load payable		14,255
Expense paid by the Management Company on behalf of the Fund		
- Preliminary expenses and floatation costs		2,316
- Other payable		2,606
- Initial deposit on opening of bank accounts		20
- Listing fee		20
		<u>24,309</u>

- 9.1 Under the provisions of the NBFC Regulations, the Management Company of the Fund is entitled to a remuneration during the first two 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. Currently, the Management Company has charged its remuneration at the rate of 2% per annum.

- 9.2 The Provincial Government of Sindh has levied Sindh sales tax at the rate of 16% on the remuneration of the Management Company through the Sindh Sales Tax on Services Act, 2011.

- 9.3 The Finance Act, 2013 has enlarged the scope of Federal Excise Duty (FED) on financial services to include Asset Management Companies (AMCs) with effect from June 13, 2013. As the asset management services rendered by the Management Company of the Fund are already subject to provincial sales tax on services levied by the Sindh Revenue Board, which is being charged to the Fund, the Management Company is of the view that further levy of FED is not justified.

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

Pending decision of the SHC, the Fund is not making payments for FED. However, the Fund, as a matter of abundant caution, has made full provision in respect of FED effective June 28, 2014. Since the Fund started its operations from the same date, it has provided for FED aggregating to Rs 0.02 million. Had the provision not been made the net asset value per unit of the Fund as at June 30, 2014 would have been higher by Re 0.0024 per unit.

	Note	As at June 30, 2014 Rupees in '000
10 PAYABLE TO THE TRUSTEE	10.1	<u>8</u>

- 10.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff structure specified therein, based on the daily net assets of the Fund. The fee is paid on a monthly basis in arrears at the rate of 0.13% of net assets.

	Note	As at June 30, 2014 Rupees in '000
11 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN		

Annual fee	11.1	<u>5</u>
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- 11.1 Under the provisions of the NBFC Regulations, a collective investment scheme categorised as Shariah Compliant Capital Protected scheme is required to pay an annual fee to SECP at an amount equal to 0.075 percent of the average annual net assets of the fund. The Fund has been categorised as Shariah Compliant Capital Protected by the Management Company.

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

	Note	As at June 30, 2014 Rupees in '000
12 ACCRUED EXPENSES AND OTHER LIABILITIES		
Auditors' remuneration		80
Provision for workers' welfare fund	15	18
Brokerage		167
Settlement charges		20
Bank charges		15
Printing charges		50
		<u>350</u>

13 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2014.

For the period
from June 28,
2014 to June
30, 2014
Rupees in '000

14 AUDITORS' REMUNERATION

Annual audit fee and other certification	75
Out of pocket expenses	5
	<u>80</u>

15 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 connection, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication.

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

During the year ended June 30, 2012, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008, had declared the said amendments as unlawful and unconstitutional. In March 2013, a larger bench of the Honourable Sindh High Court (SHC) passed an order declaring that the amendments introduced in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 do not suffer from any constitutional or legal infirmity. However, the Honourable High Court of Sindh has not addressed the other amendments made in the WWF Ordinance 1971 about applicability of WWF to the CISs which is still pending before the Court. In a recent judgment, the Peshawar High Court (PHC) has also held these amendments to be ultra vires as they lacked the essential mandate to be introduced and passed through the Money Bill under the Constitution. Without prejudice to the above, the Management Company, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs 0.018 million in these financial statements. Had the same not been made the net asset value per unit of the Fund as at June 30, 2014 would have been higher by Rs 0.0022 per unit.

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

16 FINANCIAL INSTRUMENTS BY CATEGORY

	-----as at June 30, 2014-----		
	Loans and receivables	Financial assets 'at fair value through profit or loss'	Total
	----- Rupees in '000 -----		
Financial assets			
Balances with banks	710,807	-	710,807
Investments	-	156,906	156,906
Profit receivable	480	-	480
Advances and deposits	102,600	-	102,600
	<u>813,887</u>	<u>156,906</u>	<u>970,793</u>
	-----as at June 30, 2014-----		
	At fair value through profit or loss	Amortised cost	Total
	----- Rupees in '000 -----		
Financial liabilities			
Payable to the Management Company	-	24,309	24,309
Payable to the Central Depository Company of Pakistan Limited - Trustee	-	8	8
Payable against redemption of units	-	145	145
Payable against purchase of investments	-	155,911	155,911
Accrued expenses and other liabilities	-	332	332
	<u>-</u>	<u>180,705</u>	<u>180,705</u>

17 TAXATION

The income of the Fund is exempt from income tax under Clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed to the unit holders. The Fund has not recorded provision for taxation as the Fund does not have any accounting income for the period after reduction of capital gains, whether realised or unrealised.

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

18 TRANSACTIONS WITH CONNECTED PERSONS

- 18.1 Connected persons include NBP Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Trustee, National Bank of Pakistan, and Alexandra Fund Management Pte. Limited being the sponsors, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.
- 18.2 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 18.3 Remuneration and front-end load payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.
- 18.4 Remuneration payable to the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

For the period
from June 28,
2014 to June
30, 2014
Rupees in '000

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

NBP Fullerton Asset Management Limited - Management Company

Remuneration for the period	122
Sindh Sales Tax on remuneration of Management Company	23
Federal Excise Duty on remuneration of Management Company	20
Expenses paid by the Management Company on behalf of the Fund	
- Preliminary expenses and floatation costs	2,316
- Initial deposit on opening of bank accounts	20
- Listing fee	20
- Front-end load	14,255

Central Depository Company of Pakistan Limited - Trustee

Remuneration for the period	8
CDS charges	20

The Trustees - The Mama Parsi Girls Secondary School

Issue of 868,503 units	90,504
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Employees of the Management Company

Issue of 1,507 units	151
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Taurus Securities Limited

Brokerage expense	23
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As at June 30,
2014
Rupees in '000

18.6 Amounts outstanding as at period end

NBP Fullerton Asset Management Limited - Management Company

Management fee payable	122
Sindh Sales Tax payable on remuneration of Management Company	23
Federal Excise Duty payable on remuneration of Management Company	20
Sindh Sales Tax and FED payable on sales load	4,927
Other payable	2,606
Preliminary expenses and floatation costs	2,316
Initial deposit on opening of bank accounts	20
Listing fee	20
Sales load payable	14,255

Central Depository Company of Pakistan Limited - Trustee

Remuneration payable	8
CDS charges payable	20
Security deposit	100

The Trustees - The Mama Parsi Girls Secondary School

Units held: 868,503 units	86,957
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Employees of the Management Company

Units held: 1,507 units	151
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Taurus Securities Limited

Brokerage payable	23
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NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

19 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

-----2014-----			
S.No.	Name	Qualification	Experience in years
1	Dr. Amjad Waheed	MBA / Doctorate in Business Administration / CFA	26
2	Sajjad Anwar*	CFA / MBA Finance	14
3	Muhammad Ali Bhabha	CFA / MBA / FRM	19
4	Syed Suleman Akhtar	CFA / MBA Finance	14
5	Asim Wahab Khan	CFA	8
6	Muhammad Imran	CFA / ACCA	8

19.1 *Mr. Sajjad Anwar is the manager of the Fund. He is also the fund manager of NAFA Islamic Principal Protected Fund - I.

20 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID 2014

1	Optimus Capital Management Limited	23.58%
2	KASB Securities Limited	20.98%
3	Topline Securities (Private) Limited	19.44%
4	Aqeel Karim Dehdi Securities (Private) Limited	17.27%
5	Taurus Securities Limited	14.05%
6	Elixir Securities Pakistan (Private) Limited	4.68%

21 PATTERN OF UNIT HOLDING

-----2014-----			
Category	Number of unit holders	Investment amount	Percentage of Investment
Rupees in '000			
Individuals	489	465,797	58.79%
Banks / DFIs	1	4,006	0.51%
Retirement funds	17	126,656	15.98%
Others	10	195,911	24.72%
	<u>517</u>	<u>792,370</u>	<u>100.00%</u>

22 FINANCIAL RISK MANAGEMENT

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

22.1 Market risk

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

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

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

22.1.1 Currency risk

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

22.1.2 Yield / interest rate risk

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

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

a) Sensitivity analysis for variable rate instruments

Presently, the Fund does not hold any variable rate instrument except for balances in saving accounts the interest rate of which in certain circumstances is 6.5% to 8.7%.

b) Sensitivity analysis for fixed rate instruments

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

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

----- As at June 30, 2014 -----					
Interest rate	Total	Exposed to yield/interest rate risk			Not exposed to Yield / Interest rate risk
		Upto three months	More than three months and upto one year	More than one year	
%		(Rupees in '000)			

On-balance sheet financial instruments

Financial assets

Balances with banks	6.5 - 8.7	710,807	493,403	-	-	217,404
Investments		156,906	-	-	-	156,906
Profit receivable		480	-	-	-	480
Advances and deposits		102,600	-	-	-	102,600
		970,793	493,403	-	-	477,390

Financial liabilities

Payable to the Management Company		24,309	-	-	-	24,309
Payable to the Trustee		8	-	-	-	8
Payable on redemption of units		145	-	-	-	145
Payable against purchase of investments		155,911	-	-	-	155,911
Accrued expenses and other liabilities		332	-	-	-	332
		180,705	-	-	-	180,705

On-balance sheet gap

		790,088	493,403	-	-	296,685
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Off-balance sheet financial instruments

		-	-	-	-	-
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Off-balance sheet gap

		-	-	-	-	-
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Total interest rate sensitivity gap

		790,088	493,403	-	-	296,685
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22.1.3 Price risk

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

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

In case of 5% increase / decrease in KMI 30 index on June 30, 2014, net income for the period would increase / decrease by Rs 6.035 million and net assets of the Fund would increase / decrease by the same amount as a result of gains / losses on equity securities at fair value through profit or loss.

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

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

22.2 Credit risk

Credit risk represents the risk of a loss if counterparties fail to perform as contracted. The Fund's credit risk is primarily attributable to balances with banks, its investment in term finance certificates, receivable against sale of investments, dividend receivable and profit receivable on balances with banks. The credit risk on liquid funds is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by the investment Committee) require the Fund to invest in debt securities that have been rated by a well known rating agency. Credit risk on dividends receivable is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using the central clearing company. The risk of default is considered minimal due to inherent systematic measures taken therein.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. The Fund does not expect to incur material credit losses on its financial assets.

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

Bank balances by rating category	2014 Percentage
	<u>100.00%</u>
A1+	

22.2.1 Concentration of credit risk

The Fund mainly deals in equity securities which are primarily subject to price risk. The 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 other financial instruments comprise of bank balances which are broadly diversified and kept with credit-worthy counterparties / banks and financial institutions thereby mitigating any significant concentrations of credit risk.

The Fund's major asset balance is held with a Bank. The management believes that this is a credit-worthy counterparty.

22.3 Liquidity risk

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

The Fund is exposed to the daily settlement of equity securities and to daily cash redemptions, if any. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund's policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily realised. The Fund's listed securities are considered readily realisable as they are liquid shares listed on the Stock Exchanges.

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

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

----- June 30, 2014-----			
Total	Upto three months	Over three months and upto one year	Over one year
------(Rupees in '000)-----			
Financial liabilities			
Payable to the Management Company	24,309	19,347	-
Payable to the Trustee	8	8	-
Payable against redemption of units	145	145	-
Payable against purchase of investments	155,911	155,911	-
Accrued expenses and other liabilities	332	332	-
	180,705	175,743	4,962

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

23 UNIT HOLDERS' FUND RISK MANAGEMENT

The Unit Holders' Fund is represented by redeemable units. These units are entitled to distributions and to payment of a proportionate share, based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the 'Statement of Movement in Unit holders' Fund'.

The Fund has no restrictions on the subscription and redemption of units. As required under the NBFC Regulations, every open end scheme shall maintain fund size (i.e. net assets of the Fund) of Rs 100 million at all times during the life of the scheme. The Fund has maintained and complied with the requirement of minimum fund size during the current period.

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets to meet unexpected losses or opportunities.

In accordance with the risk management policies stated in note 22, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

24 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 the fair value estimates.

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

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

According to the amendments to International Financial Reporting Standard 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, an entity shall 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, whether directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2) ; and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

Investments carried at fair value are categorised as follows:

	-----As at June 30, 2014-----			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
ASSETS				
Investment in listed equity securities - at fair value through profit or loss	156,906	-	-	156,906

25 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 16, 2014.

26 GENERAL

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

For NBP Fullerton Asset Management Limited
(Management Company)

Chief Executive

Director

NAFA ISLAMIC PRINCIPAL PROTECTED FUND - II

PERFORMANCE TABLE

Particulars	For the period from June 28, 2014 to June 30, 2014
Net assets at the year / period ended (Rs '000)	792,371
Net income for the year / period ended (Rs '000)	876
Net Asset Value per unit at the year / period ended (Rs)	100.1223
Offer Price per unit at year end	104.164
Redemption Price per unit at year end	100.1223
Highest offer price per unit (Rs)	104.1640
Lowest offer price per unit (Rs)	104.0630
Highest redemption price per unit (Rs)	100.1223
Lowest redemption price per unit (Rs)	100.0252
Total return of the fund	0.12%
Capital growth	0.12%
Income distribution	0.00%
Distribution	
Interim distribution per unit	0.0000
Final distribution per unit	
Distribution Dates	
Interim	
Final	
Average annual return of the fund (launch date June 28, 2014)	
(Since inception to June 30, 2014)	0.12%
Portfolio Composition (Please see Fund Manager Report)	
Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up	



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