

NAFA ISLAMIC PRINCIPAL PROTECTED FUND-II



ANNUAL REPORT
JUNE 2020



MISSION STATEMENT

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



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FUND'S INFORMATION

Management Company

NBP Fund Management Limited - Management Company

Board of Directors of Management Company

Shaikh Muhammad Abdul Wahid Sethi	Chairman
Dr. Amjad Waheed	Chief Executive Officer
Mr. Saad ur Rahman Khan	Director
Syed Hasan Irtiza Kazmi	Director
Mr. Ali Saigol	Director
Mr. Imran Zaffar	Director
Mr. Khalid Mansoor	Director
Mr. Humayun Bashir	Director
Mr. Saad Amanullah Khan	Director

Company Secretary & COO

Mr. Muhammad Murtaza Ali

Chief Financial Officer

Mr. Khalid Mehmood

Audit & Risk Committee

Mr. Saad Amanullah Khan	Chairman
Syed Hasan Irtiza Kazmi	Member
Mr. Imran Zaffar	Member
Mr. Humayun Bashir	Member

Human Resource Committee

Mr. Khalid Mansoor	Chairman
Shaikh Muhammad Abdul Wahid Sethi	Member
Mr. Ali Saigol	Member
Mr. Humayun Bashir	Member

Strategy & Business Planning Committee

Mr. Humayun Bashir	Chairman
Mr. Saad ur Rahman Khan	Member
Mr. Ali Saigol	Member
Mr. Imran Zaffar	Member
Mr. Saad Amanullah Khan	Member

Trustee

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

Bankers to the Fund

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



Auditors

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

Legal Advisor

Akhund Forbes
D-21, Block 4, Scheme 5,
Clifton, Karachi 75600, Pakistan.

Head Office:

7th Floor Clifton Diamond Building, Block No. 4,
Scheme No. 5, Clifton Karachi.
UAN: 021 (111-111-632),
(Toll Free): 0800-20002,
Fax: (021) 35825329
Website: www.nbpfunds.com

Lahore Office:

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

Islamabad Office:

1st Floor, Ranjha Arcade
Main Double Road, Gulberg Greens,
Islamabad.
UAN: 051-111-111-632
Fax: 051-4859031

Peshawar Office:

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

Multan Office:

Khan Center, 1st Floor, Abdali Road, Multan.
Phone No. : 061-4540301-6, 061-4588661-2 & 4

Board of Directors



Dr. Amjad Waheed, CFA
Chief Executive Office



Shaikh Muhammad Abdul Wahid Sethi
Chairman



Mr. Khalid Mansoor
Director



Mr. Humayun Bashir
Director



Syed Hasan Irtiza Kazmi
Director



Mr. Ali Saigol
Director



Mr. Saad Amanullah Khan
Director



Mr. Saad ur Rehman
Director



Mr. Imran Zaffar
Director

Senior Management



Mr. Sajjad Anwar, CFA
Chief Investment Officer



Dr. Amjad Waheed, CFA
Chief Executive Officer



Mr. Muhammad Murtaza Ali
Chief Operating Officer &
Company Secretary



Mr. Khalid Mehmood
Chief Financial Officer



Mr. Samiuddin Ahmed
Country Head Corporate Marketing



Mr. Ozair Khan
Chief Technology Officer



Mr. Salim S Mehdi
Chief Innovation & Strategy Officer



Mr. Asim Wahab Khan, CFA
Deputy Chief Investment Officer



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



Mr. Hassan Raza, CFA
Head Of Research



Mr. Waheed Abidi
Head Of Internal Audit



Mr. Zaheer Iqbal, ACA FPFA
Head Of Operations



Mr. Salman Ahmed, CFA
Head Of Product Development



Mr. Saadat Saeed, ACA, CFA
Head Of Investment Risk.



Mr. Shahid Javed
Head Of Operational Risk



Mr. Shahbaz Umer
Head Of Human Resource



DIRECTORS' REPORT

The Board of Directors of NBP Fund Management Limited is pleased to present the Seventh Annual Report of **NAFA Islamic Principal Protected Fund - II (NIPPF-II)** for the year ended June 30, 2020.

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

Fund's Performance

Amid high volatility, FY2019-20 remained a lackluster year for the stock market as the benchmark KMI-30 Index rose by a meagre 1.6% on a year-on-year basis. The market started off the year on a negative note despite positive news-flow surrounding the signing of USD 6 billion Extended Fund Facility (EFF) with the IMF, commencement of Saudi oil facility worth USD 3.3 billion, and USD 500 million inflow from Qatar. The market sentiment was soured by deteriorating Pakistan-India relations over the repeal of article 370 in the Indian-occupied Kashmir. The ensuing panic selling sent the Index to a low of 44,929 points on August 16th that in the process opened-up valuation gap in the broader part of the market. Based on attractive valuations, improving Current Account Deficit (CAD), and expectation of monetary easing by the SBP, the stock market rebounded sharply afterwards. The current account balance turned into surplus in Oct-19 and CAD for FY20 clocked in at USD 3 billion, down by 78% on a YoY basis. Likewise, capital flows from the multilateral agencies and portfolio inflows in the government securities also instilled confidence amongst investors. As a result, the KMI-30 Index surged by a massive 58% from August 16th, 2019 to its recent peak on January 10th, 2020.

Subsequently, concerns over delay of 3rd tranche from the IMF over noncompliance of Performance Criteria under EFF, fear of a mini budget to meet expected revenue shortfalls, and some outflow of hot money from T-Bills weighed on the market sentiments. It was, however, the spread of Coronavirus and the ensuing lockdown/shutdown of the business activity that caused indiscriminate selling in the stock market and within a span of 2 months, the stock market tumbled by 42% from its previous peak. To cushion the economy from the impact of the Coronavirus pandemic, policymakers responded with unprecedented fiscal and monetary policy actions. SBP slashed the Policy Rate by a cumulative 6.25% and to support businesses and keep credit flowing, amendments were made in the prudential regulations for corporates / commercial banks related to loan repayments. The government announced a Rs. 1.2 trillion stimulus package, equivalent to 2.8% of the GDP, which included relief for all sectors of the society including the under privileged, businesses, and the industries. The country received an emergency loan of USD 1.39 billion from the IMF under Rapid Financing Instrument (RFI) and the G20 countries announced relief for debt repayment. Notwithstanding poor and inadequate healthcare infrastructure, relatively low fatality rates and higher recovery rates raised hopes that Pakistan may be spared from the worst as earlier feared. As a result, the market staged a sharp rebound thenceforth and covered almost all the lost ground and managed to close the year with a paltry gain of 1.6% on a YoY basis.

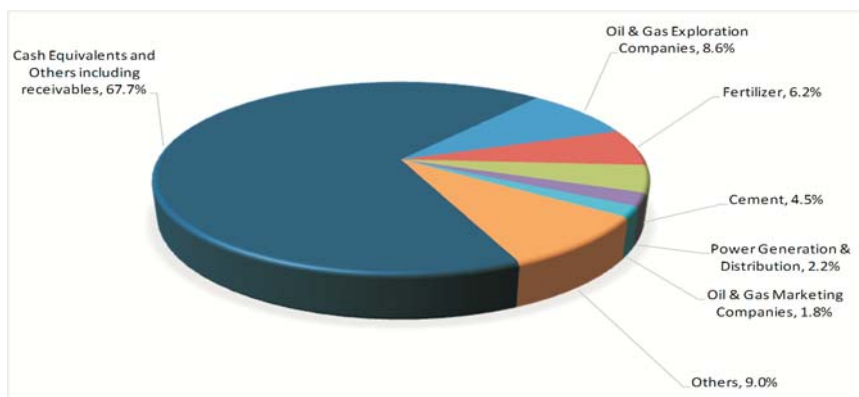
In terms of sector-wise performance during the year, Automobile Parts & Accessories, Cements, Chemicals, Engineering, Fertilizers, Pharmaceuticals, Paper & Board, Technology and Glass & Ceramics sectors performed better than the market, while Commercial Banks, Oil & Gas Exploration, Oil & Gas Marketing, Power Generation & Distribution, and Textile Composite sectors lagged behind. Regarding the market participant-wise activity, Individuals remained major buyers with net inflows of USD 213 million, along with Insurance Companies that accumulated positions worth USD 128 million. On the other hand, Foreign investors were major sellers in the market, offloading positions worth USD 285 million. Similarly, Banks/DFIs and Mutual Funds were also sellers with net outflows of USD 55 million, and USD 50 million, respectively.

During the period under review, the market witnessed a surge in issuance of short-term corporate sukuks and commercial papers to meet the increasing funding need for working capital and also to bridge the fixed capital investments. Building on the ongoing economic stabilization policies and to counter the upside risks to inflation stemming from (i) exchange rate depreciation; (ii) increase in utility prices; and (iii) other measures taken in the federal budget FY20, the SBP increased the Policy Rate by 100 bps to 13.25% in July 2019. After taking a long pause, the State Bank slashed the Policy Rate by 25 bps in its MPC meeting held on March 17th, 2020. To cushion the economy from the Coronavirus-induced disruption, the SBP embarked on aggressive monetary easing, slashing the Policy Rate by a cumulative 625 bps to 7% in a short span of time. Sovereign yields responded to this decrease in the Policy Rate as the yields on T-Bills for 3-month, 6-month, and 12-month decreased by 566 basis points, 580 basis points, and 608 basis points, respectively. SBP held twenty-seven (27) T-Bill auctions during the period under review, realizing a total of Rs. 14,317 billion.



During the period, the unit price of NAFA Islamic Principal Protected Fund - II has increased by 12.0%. The Benchmark return during the same period was increased by 10.0%. Thus, the Fund has outperformed its Benchmark by 2.0% during the period under review. The size of NAFA Islamic Principal Protected Fund-II is Rs. 112 million as of June 30, 2020.

The Fund has earned a total income of Rs. 15.818 million during the year. After deducting total expenses of Rs. 3.477 million, the net income is Rs. 12.341 million. The asset allocation of the Fund as on June 30, 2020 is as follows:



Income Distribution

The Board of Directors of the Management Company has approved interim cash dividend of 9.69% of the opening ex-NAV (9.71% of the par value) for the period ended June 30, 2020.

Taxation

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

Auditors

The present auditors, Messrs KPMG Taseer Hadi & Co., Chartered Accountants, retired and, being eligible, offer themselves for re-appointment for the year ending June 30, 2021.

Directors' Statement in Compliance with best practices contained in the Listed Companies (Code of Corporate Governance) Regulations, 2017

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.
8. A performance table/ key financial data is given in this annual report.



9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held four meetings during the year. The attendance of all directors is disclosed in the note 23 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 22 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 19 to these financial statements.
13. The Company encourages representation of independent non-executive directors on its Board. The Company, being an un-listed company, does not have any minority interest. As at June 30, 2020, the Board included:

Category	Names
Independent Directors	<ol style="list-style-type: none"> 1. Mr. Khalid Mansoor 2. Mr. Saad Amanullah Khan 3. Mr. Humayun Bashir
Executive Director	Dr. Amjad Waheed - Chief Executive Officer
Non-Executive Directors	<ol style="list-style-type: none"> 1. Shaikh Muhammad Abdul Wahid Sethi (Chairman) 2. Mr. Saad ur Rahman Khan 3. Syed Hasan Irtiza Kazmi 4. Mr. Ali Saigol 5. Mr. Imran Zaffar

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 Fund Management Limited

Chief Executive

Director

Date: **September 17, 2020**
 Place: Karachi.



ڈائریکٹرز رپورٹ

NBP فنڈ مینجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز NAFA اسلامک پرنسپل پروٹیکٹڈ فنڈ II - (NIPPF-II) کی ساتویں سالانہ رپورٹ برائے ختمہ سال 30 جون 2020 پیش کرتے ہوئے اظہار مسرت کرتے ہیں۔

NAFA نے 27 جون 2014 کو NAFA اسلامک پرنسپل پروٹیکٹڈ فنڈ II (NIPPF-II) نامی دوسرے اوپن انڈ اسلامک کیپیٹل پروٹیکٹڈ فنڈ کا آغاز کیا۔ فنڈ کا مقصد بنیادی میچورٹی تاریخ، جو آغاز سے دو سالوں کی ہے، پر بنیادی انویسٹمنٹ قدر کو محفوظ رکھتے ہوئے منظور شدہ شریعہ کمپلیٹ ایکویٹیز اور منی مارکیٹ انسٹرومنٹ میں طویل مدت پر یونٹ ہولڈرز کی سرمایہ کاری کے لئے نمو فراہم کرنا ہے۔ فنڈ نے الجالی بنی سہسکرپشن کے لئے بند ہے۔

فنڈ کی کارکردگی

مالی سال 2019-20، اسٹاک مارکیٹ میں انتہائی اتار چڑھاؤ کے باعث مایوس کن سال رہا جیسا کہ KMI-30 انڈیکس میں سالانہ بنیادوں پر 1.6% کا معمولی اضافہ ہوا۔ IMF کے ساتھ 6 بلین ڈالر کی توسیعی فنڈ سہولت (EFF) معاہدہ، 3.3 بلین امریکی ڈالر مالیت کی سعودی تیل کی سہولت کا آغاز، اور قطر سے 500 بلین امریکی ڈالر کی آدھی سیٹھت خبروں کے باوجود مارکیٹ کا آغاز منفی خطوط سے ہوا۔ بھارت کے مقبوضہ کشمیر میں آرٹیکل 370 کی منسوخی پر پاک بھارت تعلقات میں کشیدگی پیدا ہونے سے مارکیٹ کے جذبات میں انتشار پیدا ہوا جو پریشانی کے باعث فروخت کا حامل بنا اور انڈیکس کو 16 اگست کو کم ترین سطح 44,929 پر لے آیا جس نے مارکیٹ کے وسیع حصے میں حصص کی مالیت کو واضح کر دیا۔ پرنسپل مالیت، کرنٹ اکاؤنٹ خسارہ (CAD) میں بہتری اور اسٹیٹ بینک کی مانیٹری میں آسانی کی توقع کی بنا پر اسٹاک مارکیٹ میں تیزی سے بہتری واقع ہوئی۔ کرنٹ اکاؤنٹ بیلنس اکتوبر 2019 میں سرپلس میں تبدیل ہوا اور مالی سال 20 کے لئے کرنٹ اکاؤنٹ خسارہ (CAD) 3 ارب ڈالر رہ گیا، جو سالانہ بنیادوں پر 78 فیصد کم ہوا۔ اسی طرح، کثیرالجہتی ایجنسیوں سے سرمائے کی آمد اور سرکاری سیکورٹیز میں پورٹ فولیو کی آمد نے بھی سرمایہ کاروں میں اعتماد پیدا کیا۔ اس کے نتیجے میں، KMI-30 انڈیکس میں 16 اگست، 2019 سے خلیفہ 58 فیصد اضافے کے ساتھ سے 13 جنوری 2020 کی بلند ترین سطح پر پہنچا۔

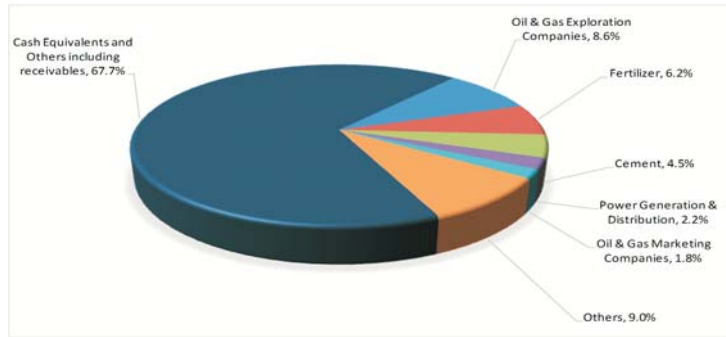
اس کے بعد، EFF کے تحت کارکردگی کے معیار پر عمل پیرا نہ ہونے کے باعث آئی ایم ایف سے تیسری قسط میں تاخیر، متوقع محصولات کی کمی کو پورا کرنے کے لئے منی بجٹ کے اندیشہ اور T-Bills سے ہاٹ منی کے اخراج کے خدشہ کے باعث مارکیٹ کے جذبات معدوم ہو گئے۔ تاہم، کورونا وائرس کے پھیلاؤ اور کاروباری سرگرمیوں میں لاک ڈاؤن/شٹ ڈاؤن کے باعث اسٹاک مارکیٹ میں آزادانہ فروخت ہوئی اور 2 ماہ کے عرصے میں، اسٹاک مارکیٹ اپنے عروج سے 42 فیصد گر گئی۔ معیشت کو کورونا وائرس وبائی مرض کے اثرات سے نجات دلانے کے لئے، پالیسی سازوں نے غیر معمولی مالی اور مالیاتی پالیسی اقدامات اٹھائے۔ اسٹیٹ بینک آف پاکستان نے پالیسی شرح کو مجموعی طور پر 6.25 فیصد تک کم کیا اور کاروباری اداروں کی مدد اور قرضہ جاری رکھنے کے لئے، قرضوں کی ادائیگی سے متعلق کارپوریٹس/تجارتی بینکوں کے انضباطی ضوابط میں ترمیم کی گئی۔ حکومت نے 1.2 ٹریلین روپے کا امدادی پیکج دینے کا اعلان کیا، جو بی ڈی پی کے 2.8 فیصد کے برابر ہے، جس میں معاشرے کے تمام طبقوں کے لئے ریلیف شامل ہے جن میں غیر مراعات یافتہ افراد، کاروبار اور صنعتیں شامل ہیں۔ ریپبلیکن انٹرنیشنل انسٹرومنٹ (RFI) کے تحت ملک کو آئی ایم ایف سے 1.39 بلین امریکی ڈالر کا ہنگامی قرض ملا اور G20 ممالک نے قرضوں کی ادائیگی میں ریلیف کا اعلان کیا۔ صحت کی دیکھ بھال کے ناقص اور نا کافی انفراسٹرکچر کے باوجود نسبتاً کم اموات کی شرح اور صحت یابی کی اعلیٰ شرحوں نے امیدوں کو بڑھایا ہے کہ پاکستان کو بدترین خطرہ سے بچایا جاسکتا ہے جس کا پہلے خدشہ تھا۔ نتیجتاً مارکیٹ نے واضح بہتری دیکھائی اور تقریباً تمام نقصان والے شعبوں کا احاطہ کیا اور سالانہ بنیاد پر 1.6 فیصد کی معمولی اضافے کے ساتھ سال کا اختتام کرنے میں کامیاب رہی۔

زیر جائزہ مالی سال کے دوران شعبہ دارکارکردگی کے لحاظ سے، آٹوموبائل پارٹس اینڈ ایکسیسریز، سیمینٹ، کیمیکلز، انجینئرنگ، کھاد، دواسازی، کاغذ اور بورڈ، بیکنگ لوجی اور گلاس اینڈ سٹریکس کے شعبوں نے مارکیٹ سے بہتر کارکردگی کا مظاہرہ کیا جبکہ کمرشل بینک، آئل اینڈ گیس ایکسپلوریشن، آئل اینڈ گیس مارکیٹنگ، پاور جنریشن اینڈ ڈسٹری بیوٹن، اور ٹیکسٹائل کمپوزٹ کے شعبے مارکیٹ سے پیچھے رہے۔ سرمایہ کار کارکردگی کے تناظر میں، انفرادی سرمایہ کار (ریٹیل) 213 بلین امریکی ڈالر کے خالص انفلو کے ساتھ بڑے خریدار رہے، جبکہ انشورنس کمپنیوں نے 128 بلین امریکی ڈالر کے ساتھ پوزیشن مستحکم کی دوسری جانب غیر ملکی سرمایہ کار 285 بلین ڈالر کے ساتھ بڑے فروخت کنندہ رہے، اسی طرح، بینک/DFIs اور موہیل فنڈز بھی بالترتیب 55 بلین امریکی ڈالر اور 50 بلین امریکی ڈالر کے خالص آؤٹ فلوز کے ساتھ نمایاں فروخت کنندہ رہے۔

زیر جائزہ مدت کے دوران، مارکیٹ میں ورکنگ کیپٹل کی بڑھتی ہوئی فنڈنگ ضروریات کو پورا کرنے اور مخصوص کیپٹل سرمایہ کاری بڑھانے کے لئے مختصر مدتی کارپوریٹ سکوک اور کمرشل پیپرز کے اجراء میں اضافہ ہوا۔ اقتصادی استحکام کی جاری پالیسیوں کی تشکیل اور افراط زر جیسی وجہ (i) زرمبادلہ کی شرح گراؤ، (ii) یوٹی لینی قیمتوں میں اضافہ، اور (iii) وفاقی بجٹ مالی سال 20 میں کئے گئے دیگر اقدامات، کے باعث پیدا ہونے والے خطرات کا مقابلہ کرنے کیلئے اسٹیٹ بینک آف پاکستان نے جولائی 2019 میں پالیسی کی شرح 100bps سے بڑھا کر 13.25 فیصد کر دی۔ طویل وقفے کے بعد، اسٹیٹ بینک آف پاکستان نے 17 مارچ، 2020 کو منعقدہ اپنے MPC اجلاس میں پالیسی کی شرح کو 25bps سے کم کر دیا۔ معیشت کو کورونا وائرس کے اثرات سے نجات دلانے کے لئے، اسٹیٹ بینک آف پاکستان نے جارحانہ مانیٹری پالیسی میں آسانی پیدا کی اور مختصر مدت میں پالیسی کی شرح میں 625bps سے کم کر کے 7 فیصد کر دی۔ پالیسی کی شرح میں کمی کے اثرات گورنمنٹ بانڈ منافع پر بھی اثر انداز

ہونے اور 3 ماہ، 6 ماہ اور 12 ماہ کی T-Bills کے منافع میں بالترتیب bps 580، bps 608 اور bps 608 کی کمی واقع ہوئی۔ SBP نے زیر جائزہ مدت کے دوران سٹائیکس (27) T-Bills نیلامیاں منعقد کیں اور کل 14,317 بلین روپے جمع کئے۔

اس مدت کے دوران، NAFA اسلامک پرنسپل پروٹیکٹڈ فنڈ II کے یونٹ کی قیمت میں 12.0% کا اضافہ ہوا۔ اسی مدت کے دوران بیچ مارک میں اضافہ 10.0% ہوا۔ چنانچہ زیر جائزہ مدت کے دوران فنڈ نے اپنے بیچ مارک سے 2.0% کی بہتر کارکردگی کا مظاہرہ کیا۔ 30 جون 2020 کو NAFA اسلامک پرنسپل پروٹیکٹڈ فنڈ II کا سائز 112 بلین روپے ہے۔ سال کے دوران فنڈ نے 15.818 بلین روپے کی کل آمدنی کمائی۔ 3.477 بلین روپے کے کل اخراجات متہا کرنے کے بعد خالص آمدنی 12.341 بلین روپے ہے۔ 30 جون 2020 کے مطابق فنڈ کی ایسٹ ایلوکیشن حسب ذیل ہے:



آمدنی کی تقسیم

ہیجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز نے سال 30 جون 2020 کے اختتام کے بعد اوپننگ ex-NAV کا 9.69% (بنیادی قدر کا 9.71%) عبوری نقد منافع منقسمہ کی منظوری دی ہے۔

ٹیکسیشن

چونکہ مذکورہ بالا نقد منافع منقسمہ سال کے دوران حاصل ہونے والی آمدنی میں سے سرمایہ کاری پر حاصل ہونے والے محصول شدہ اور غیر محصول شدہ کیپٹل گین منہا کرنے کے بعد 90 فیصد ہے، اس لئے فنڈ پر اکم ٹیکس آرڈیننس 2001 کے دوسرے شیڈول کے حصہ اول کی شق 99 کے تحت ٹیکس لاگو نہیں ہوتا ہے۔

آڈیٹرز

موجودہ آڈیٹرز، میسرز KPMG تاثیر ہادی اینڈ کمپنی، چارٹرڈ اکاؤنٹنٹس، ریٹائر ہو گئے ہیں اور اہل ہونے کی بناء پر 30 جون 2021 کو ختم ہونے والے سال کے لئے اپنے آپ کو دوبارہ تقرری کے لئے پیش کرتے ہیں۔

لسٹڈ کمپنیوں کے کوڈ آف کارپوریشن گورننس ریگولیشنز 2017 ("CCG") کی پیروی میں ڈائریکٹرز اسٹیٹمنٹ

1. ہیجمنٹ کمپنی کی طرف سے تیار کردہ، مالیاتی گوشوارے فنڈ کے معاملات کی کیفیت، اس کی کاروباری سرگرمیوں کے نتائج، کیش فلواؤ اور یونٹ ہولڈرز فنڈز میں تبدیلی کی منصفانہ عکاسی کرتے ہیں۔
2. فنڈ کے اکاؤنٹس کے کھاتے درست انداز میں رکھے ہوئے ہیں۔
3. مالی گوشواروں کی تیاری میں اکاؤنٹنگ کی مناسب پالیسیوں کی مسلسل پیروی کی گئی ہے۔ شماراتی تخمینے مناسب اور معقول نظریات پر مبنی ہیں۔
4. ان مالیاتی گوشواروں کی تیاری میں مالیاتی رپورٹنگ کے بین الاقوامی، معیاروں، جہاں تک وہ پاکستان میں قابل اطلاق ہیں، کی پیروی کی گئی ہے۔
5. انٹرنل کنٹرول کا نظام مستحکم اور موثر طریقے سے نافذ ہے اور اس کی مسلسل نگرانی کی جاتی ہے۔
6. فنڈ کی رواں دواں رہنے کی صلاحیت کے بارے میں کوئی شکوک و شبہات نہیں ہیں۔
7. کارپوریشن گورننس کی اعلیٰ ترین روایات سے کوئی پہلو تہی نہیں کی گئی۔
8. پرفارمنس ٹیبیل / اہم مالیاتی ڈیٹا سالانہ رپورٹ میں شامل ہیں۔
9. ٹیکسوں، ڈیوٹیوں، محصولات اور چارجز کی مد میں واجب الادا سرکاری ادائیگیاں مالیاتی گوشواروں میں پوری طرح ظاہر کر دی گئی ہیں۔
10. اس مدت کے دوران ہیجمنٹ کمپنی کے بورڈ آف ڈائریکٹرز کے چار اجلاس منعقد ہوئے۔ تمام ڈائریکٹرز کی حاضری ان مالیاتی گوشواروں کے نوٹ 23 میں کی گئی ہے۔



- 11 پونٹ ہولڈنگ کا تفصیلی پٹرن مالیاتی گوشواروں کے نوٹ 22 میں ظاہر کیا گیا ہے۔
- 12 ڈائریکٹرز، سی ای او، سی ایف او، کمپنی سیکرٹری اور ان کی شریک حیات اور کم عمر بچوں کی طرف سے کی جانے والی فنڈ کے پونٹس کی تمام خرید و فروخت ان مالیاتی گوشواروں کے نوٹ 19 میں ظاہر کی گئی ہے۔
- 13 کمپنی اپنے بورڈ آف ڈائریکٹرز میں غیر جانبدارانہ ایگزیکٹو ڈائریکٹرز کی نمائندگی کی حوصلہ افزائی کرتی ہے۔ کمپنی ایک غیر فرسٹ شدہ کمپنی ہونے کے ناطہ کوئی منارٹی انٹریٹ نہیں رکھتی۔ 30 جون 2020 کو بورڈ آف ڈائریکٹرز درج ذیل ارکان پر مشتمل ہیں۔

نام	کیٹگری
<ul style="list-style-type: none"> •1 جناب خالد منصور •2 جناب سعد امان اللہ خان •3 جناب ہمایوں بشیر 	غیر جانبدار ڈائریکٹرز
ڈاکٹر امجد وحید (چیف ایگزیکٹو آفیسر)	ایگزیکٹو ڈائریکٹر
<ul style="list-style-type: none"> •1 شیخ محمد عبدالواحد سہٹھی (چیئر مین) •2 جناب سعد الرحمان خان •3 جناب سید حسن ارتضیٰ کاظمی •4 جناب علی سیدگل •5 جناب عمران ظفر 	نان ایگزیکٹو ڈائریکٹرز

اظہار تشکر

بورڈ اس موقع سے فائدہ اٹھاتے ہوئے مینجمنٹ کمپنی پر اعتماد، اعتبار اور خدمت کا موقع فراہم کرنے پر اپنے قابل قدر پونٹ ہولڈرز کا شکریہ ادا کرتا ہے۔ یہ سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور اسٹیٹ بینک آف پاکستان کی سرپرستی اور رہنمائی کے لئے ان کے مخلص رویہ کا بھی اعتراف کرتا ہے۔

بورڈ اپنے اسٹاف اور ڈسٹری بیوٹرز کی طرف سے سخت محنت، لگن اور عزم کے مظاہرے پر اپنا خراج تحسین بھی ریکارڈ پر لانا چاہتا ہے۔

منجانب بورڈ آف ڈائریکٹرز

NBP فنڈ مینجمنٹ لمیٹڈ

ڈائریکٹر

چیف ایگزیکٹو

تاریخ: 17 ستمبر 2020ء

مقام: کراچی



TRUSTEE REPORT TO THE UNIT HOLDERS

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 Fund Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2020 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.

Abdul Samad

Chief Operating Officer

Central Depository Company of Pakistan Limited

Karachi, September 28, 2020



FUND MANAGER REPORT

NAFA Islamic Principal Protected Fund-II

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

Investment Objective of the Fund

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

Benchmark

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

Fund performance review

This is the seventh annual report of the Fund. During the period, the unit price of NAFA Islamic Principal Protected Fund-II has increased by 12.0%. The Benchmark return during the same period was increased by 10.0%. Thus, the Fund has outperformed its Benchmark by 2.0% during the period under review. Since inception (June 27, 2014), NIPPF-II has risen by 75.5%, whereas the Benchmark has increased by 53.1%, thus to date out-performance is 22.4%. This performance is net of management fee and all other expenses. The size of NAFA Islamic Principal Protected Fund-II is Rs.112 million as of June 30, 2020.

The Fund current stock exposure stands at around 32.3%. Key holdings of the Fund belong to Oil & Gas Exploration Companies, Fertilizer, Cement, Power Generation & Distribution, and Oil & Gas Marketing Companies sectors.

Amid high volatility, FY2019-20 remained a lackluster year for the stock market as the benchmark KMI-30 Index rose by a meagre 1.6% on a year-on-year basis. The market started off the year on a negative note despite positive news-flow surrounding the signing of USD 6 billion Extended Fund Facility (EFF) with the IMF, commencement of Saudi oil facility worth USD 3.3 billion, and USD 500 million inflow from Qatar. The market sentiment was soured by deteriorating Pakistan-India relations over the repeal of article 370 in the Indian-occupied Kashmir. The ensuing panic selling sent the Index to a low of 44,929 points on August 16th that in the process opened-up valuation gap in the broader part of the market. Based on attractive valuations, improving Current Account Deficit (CAD), and expectation of monetary easing by the SBP, the stock market rebounded sharply afterwards. The current account balance turned into surplus in Oct-19 and CAD for FY20 clocked in at USD 3 billion, down by 78% on a YoY basis. Likewise, capital flows from the multilateral agencies and portfolio inflows in the government securities also instilled confidence amongst investors. As a result, the KMI-30 Index surged by a massive 58% from August 16th, 2019 to its recent peak on January 10th, 2020.

Subsequently, concerns over delay of 3rd tranche from the IMF over noncompliance of Performance Criteria under EFF, fear of a mini budget to meet expected revenue shortfalls, and some outflow of hot money from T-Bills weighed on the market sentiments. It was, however, the spread of Coronavirus and the ensuing lockdown/shutdown of the business activity that caused indiscriminate selling in the stock market and within a span of 2 months, the stock market tumbled by 42% from its previous peak. To cushion the economy from the impact of the Coronavirus pandemic, policymakers



responded with unprecedented fiscal and monetary policy actions. SBP slashed the Policy Rate by a cumulative 6.25% and to support businesses and keep credit flowing, amendments were made in the prudential regulations for corporates/commercial banks related to loan repayments. The government announced a Rs. 1.2 trillion stimulus package, equivalent to 2.8% of the GDP, which included relief for all sectors of the society including the under privileged, businesses, and the industries. The country received an emergency loan of USD 1.39 billion from the IMF under Rapid Financing Instrument (RFI) and the G20 countries announced relief for debt repayment. Notwithstanding poor and inadequate healthcare infrastructure, relatively low fatality rates and higher recovery rates raised hopes that Pakistan may be spared from the worst as earlier feared. As a result, the market staged a sharp rebound thenceforth and covered almost all the lost ground and managed to close the year with a paltry gain of 1.6% on a YoY basis.

In terms of sector-wise performance during the year, Automobile Parts & Accessories, Cements, Chemicals, Engineering, Fertilizers, Pharmaceuticals, Paper & Board, Technology and Glass & Ceramics sectors performed better than the market, while Commercial Banks, Oil & Gas Exploration, Oil & Gas Marketing, Power Generation & Distribution, and Textile Composite sectors lagged behind. Regarding the market participant-wise activity, Individuals remained major buyers with net inflows of USD 213 million, along with Insurance Companies that accumulated positions worth USD 128 million. On the other hand, Foreign investors were major sellers in the market, offloading positions worth USD 285 million. Similarly, Banks/DFIs and Mutual Funds were also sellers with net outflows of USD 55 million, and USD 50 million, respectively.

During the period under review, the market witnessed a surge in issuance of short-term corporate sukuk and commercial papers to meet the increasing funding need for working capital and also to bridge the fixed capital investments. Building on the ongoing economic stabilization policies and to counter the upside risks to inflation stemming from (i) exchange rate depreciation; (ii) increase in utility prices; and (iii) other measures taken in the federal budget FY20, the SBP increased the Policy Rate by 100 bps to 13.25% in July 2019. After taking a long pause, the State Bank slashed the Policy Rate by 25 bps in its MPC meeting held on March 17th, 2020. To cushion the economy from the Coronavirus-induced disruption, the SBP embarked on aggressive monetary easing, slashing the Policy Rate by a cumulative 625 bps to 7% in a short span of time. Sovereign yields responded to this decrease in the Policy Rate as the yields on T-Bills for 3-month, 6-month, and 12-month decreased by 566 basis points, 580 basis points, and 608 basis points, respectively. SBP held twenty-seven (27) T-Bill auctions during the period under review, realizing a total of Rs. 14,317 billion.

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

Asset Allocation of the Fund (% of NAV)

Particulars	30-Jun-20	30-Jun-19
Equities / Stocks	32.3%	22.3%
Cash Equivalents	80.00%	88.7%
Other Net Liabilities	(12.30%)	(11.0%)
Total	100.0%	100.0%



Distribution for the Financial Year 2020

Interim Period/Quarter	Dividend as % of Par Value (Rs.10)	Cumulative Div. Price/Unit	Ex- Div. Price
Interim	9.71%	111.6575	101.9450

Unit Holding Pattern of NAFA Islamic Principal Protected Fund-II as on June 30, 2020.

Size of Unit Holding (Units)	# of Unit Holders
1-1000	17
1001-5000	11
5001-10000	5
10001-50000	2
50001-500000	3
500001-1000000	1
Total	39

Sindh Workers' Welfare Fund (SWWF)

The scheme has maintained provisions against Sindh Workers' Welfare Fund's liability to the tune of Rs. 3.864 million. If the same were not made the NAV per unit/FY20 return of scheme would be higher by Rs. 3.5242/ 3.83%. For details investors are advised to read note 11.1 of the Financial Statement of the Scheme for the year ended June 30, 2020.



STATEMENT OF COMPLIANCE WITH THE SHARI'AH PRINCIPLES

NAFA Islamic Principal Protected Fund - II (the Fund) has fully complied with the Shari'ah principles specified in the Trust Deed and in the guidelines issued by the Shari'ah Advisor for its operations, investments and placements made during the year ended June 30, 2020. This has been duly confirmed by the Shari'ah Supervisory Board of the Fund.

For and behalf of the board

Date: **September 17, 2020**
Karachi

Dr. Amjad Waheed, CFA
Chief Executive Officer



REPORT OF THE SHARI'AH ADVISOR

August 31, 2020/Muharram 11, 1442

Alhamdulillah, the period from July 1, 2019 to June 30, 2020 was the Seventh year of operations of NAFA Islamic Principal Protected Fund-II (NIPPF- II). This report is being issued in accordance with clause 4.7.1 of the Offering Document of the Fund. The scope of the report is to express an opinion on fulfillment of the Shariah Compliance requirements for launching of the fund.

In the capacity of Shari'ah Supervisory Board, we have prescribed criteria and procedure to be followed in ensuring Shari'ah Compliance in every investment.

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 with the Shari'ah policies & 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.

- i. We have reviewed and approved the modes of equity investments of NIPPF-II in light of Shari'ah requirements. Following is a list of top investments of NIPPF-II as on June 30, 2020 and their evaluation according to the screening criteria established by us. (December 31, 2019 accounts of the Investee companies have been used)

	(i)	(ii)	(iii)	(iv)	(v)	(vi)	
Company Name	Nature of Business	Debt to Assets (<37%)	Non-Compliant Investments (<33%)	Non-Compliant Income to Gross Revenue (<5%)	Illiquid Assets to Total Assets (>25%)	Net Liquid Assets vs. Share Price (B>A)	
						Net Liquid Assets per Share (A)	Share Price (B)
Engro Corporation Limited.	Fertilizer	28.34%	22.25%	4.72%	58.58%	(220.56)	
Mari Petroleum Company Limited	Oil & Gas Exploration Companies	7.83%	17.76%	3.13%	30.37%	(664.23)	
Lucky Cement Limited	Cement	25.55%	0.71%	2.59%	85.13%	(279.47)	
Hub Power Company Limited.*	Power Generation & Distribution	32.32%	0.00%	7.32%	53.77%	(43.08)	
Kohat Cement Limited	Cement	22.30%	0.70%	0.07%	94.14%	(54.09)	
Pakistan Petroleum Limited.	Oil & Gas Exploration Companies	0.01%	8.64%	1.59%	31.91%	58.79	137

* Debt is considered excluding circular Debt.

- i. On the basis of information provided by the management and the provisions of the Scheme, investments in equities made on account of NIPPF-II are Shari'ah Compliant and in accordance with the criteria established by us.



- ii. There are investments made by NIPPF-II where Investee companies have earned a part of their income from non-compliant sources (e.g. interest income received on bank deposits and etc). In such cases, the management company has been directed to set aside such proportion of the income from Investee companies as charity in order to purify the earnings of the Fund.

In light of the above, we hereby certify that nothing has come to our attention which causes to believe that the overall operations of NIPPF-II for the year ended June 30, 2020 are not in compliance with the Shari'ah principles.

During the year a provision of Rupees 51,468 /- was created and an amount of Rupees 46,819/- is available for disbursement into charity as of June 30, 2020, which is inclusive of Rupees 13,576/- provisional amount of previous year adjusted after availability of the respective financial statements. However, the provisional amount of the financial year ended June 30, 2020 will be adjusted after the availability of the respective annual financial statements.

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

For and On Behalf of Meezan Bank Limited
Shari'ah Technical Services and Support Provider

Mufti Muhammad Naveed Alam
Member
Shariah Supervisory Board

Mufti Ehsan Waqar
Shariah Advisor & Member
Shariah Supervisory Board

Dr. Imran Ashraf Usmani
Chairman
Shariah Supervisory Board



INDEPENDENT REASONABLE ASSURANCE REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE SHARI'AH PRINCIPLES

We were engaged by the Board of Directors of NBP Fund Management Limited, Management Company of NAFA Islamic Principal Protected Fund - II (the Fund), to report on Fund's Compliance with the Shariah principles as set out in the annexed statement prepared by the management company for the year ended 30 June 2020, in the form of an independent reasonable assurance conclusion about whether the annexed statement presents fairly the status of the Fund's compliance with Shariah principles specified in the Trust Deed and the guidelines issued by the Shariah Advisor, in all material respects.

Applicable Criteria

The criteria against which the subject matter information (the Statement) is assessed comprise of Shariah principles specified in the Trust Deed and the guidelines issued by the Shariah Advisor. The above criteria were evaluated for their implementation on the financial statements of the Fund for the year ended 30 June 2020.

Responsibilities of the Management Company

The Management Company of the Fund is responsible for preparation of the annexed statement that is free from material misstatement and for the information contained therein.

This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of the annexed statement that is free from material misstatement, whether due to fraud or error. The management company is also responsible to ensure that the financial arrangements and transactions having Shariah implications entered into by the Fund in substance and in their legal form are in compliance with the Shariah principles specified in the Trust Deed and guidelines issued by the Shariah Advisor.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Chartered Accountants issued by the Institute of Chartered Accountants of Pakistan, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The Firm applies International Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities

Our responsibility is to examine the annexed statement and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the annexed statement presents fairly the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and the guidelines issued by the Shariah Advisor, in all material respects.

The procedures selected depend on our judgment, including the assessment of the risks of material non-compliances with Shariah principles and guidelines whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to financial arrangements and transactions having Shariah implications, in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Fund's internal control. Reasonable assurance is less than absolute assurance.

The procedures performed included performing tests of controls for making investments, maintaining bank accounts and transferring impure income to charity in accordance with the Shariah principles specified in the Trust Deed and the guidelines issued by the Shariah Advisor.

**Conclusion**

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the annexed statement, for the year ended 30 June 2020, presents fairly the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and the guidelines issued by the Shariah Advisor, in all material respects.

Date: September 30, 2020

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants



INDEPENDENT AUDITORS' REPORT

To the Unit Holders of the NAFA Islamic Principal Protected Fund II

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the NAFA Islamic Principal Protected Fund II ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2020, income statement, statement of comprehensive income, statement of movement in unit holders' fund and cash flow statement for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with accounting and reporting standards as applicable in Pakistan.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of the Chartered Accountants of Pakistan (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to communicate in our report.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Fund's Annual Report for 2020, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting and reporting 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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.

The engagement partner on the audit resulting in this independent auditors' report is **Muhammad Nadeem**.

Date: September 30, 2020

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants


STATEMENT OF ASSETS AND LIABILITIES
 AS AT JUNE 30, 2020

	Note	2020 (Rupees in '000)	2019
Assets			
Bank balances	5	89,900	95,050
Investments	6	36,253	23,688
Profit receivable		867	1,264
Security Deposits	7	<u>2,600</u>	<u>2,600</u>
Total assets		129,620	122,602
Liabilities			
Payable to NBP Fund Management Limited - Management Company	8	466	597
Payable to Central Depository Company of Pakistan Limited - Trustee	9	14	13
Payable to Securities and Exchange Commission of Pakistan	10	22	88
Accrued expenses and other liabilities	11	<u>16,777</u>	<u>15,579</u>
Total liabilities		17,279	16,277
Net assets		<u>112,341</u>	<u>106,325</u>
Unit holders' fund (as per statement attached)		<u>112,341</u>	<u>106,325</u>
Contingency and commitment	12		
		(Number of units)	
Number of units in issue	13	<u>1,096,416</u>	<u>1,060,828</u>
		(Rupees)	
Net assets value per unit		<u>102.4623</u>	<u>100.2287</u>

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

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director


INCOME STATEMENT

FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020 (Rupees in '000)	2019
Income			
Dividend income		1,983	1,433
Gain / (loss) on sale of investments at fair value through profit or loss (FVTPL) - net		642	(3,834)
Mark - up on bank deposits		9,804	9,117
Net unrealised appreciation / (diminution) on re-measurement of investments at FVTPL		3,389	(5,067)
Total income		15,818	1,649
Expenses			
Remuneration to NBP Fund Management Limited - Management Company	8.1	1,488	1,372
Sindh Sales Tax on remuneration to Management Company	8.2	193	178
Remuneration to Central Depository Company of Pakistan Limited - Trustee	9.1	146	152
Sindh Sales Tax on remuneration to Trustee	9.2	19	20
Selling and marketing expenses	8.3	448	377
Allocation of expenses related to registrar services, accounting, operation and valuation services	8.4	112	117
Annual fee - Securities and Exchange Commission of Pakistan		22	88
Settlement and bank charges		400	456
Auditors' remuneration	14	257	233
Securities transaction cost		51	71
Charity expense		51	24
Shariah advisor fee		16	20
Annual listing fee		22	22
Total expenses		3,225	3,130
Net income / (loss) from operating activities		12,593	(1,481)
Provision for Sindh Workers' Welfare Fund	11.1	(252)	-
Net income / (loss) for the year before taxation		12,341	(1,481)
Taxation	15	-	-
Net income / (loss) for the year		12,341	(1,481)
Allocation of net income / (loss) for the year			
Net income for the year		12,341	-
Income already paid on units redeemed		(286)	-
		12,055	-
Accounting income available for distribution:			
-Relating to capital gains		3,926	-
-Excluding capital gains		8,129	-
		12,055	-

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

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director


STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	2020	2019
	(Rupees in '000)	
Net income / (loss) for the year	12,341	(1,481)
Other comprehensive income for the year	-	-
Total comprehensive income / (loss) for the year	<u><u>12,341</u></u>	<u><u>(1,481)</u></u>

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

For NBP Fund Management Limited
(Management Company)

Chief Financial Officer

Chief Executive Officer

Director


**STATEMENT OF MOVEMENT IN UNITHOLDERS' FUND
 FOR THE YEAR ENDED 30 JUNE 2020**

Note	2020			2019		
	Value	Undistributed income	Total	Value	Undistributed income	Total
----- (Rupees in '000) -----						
Net assets at beginning of the year	(16,864)	123,189	106,325	1,034	125,671	126,705
Issue of 87,409 units (2019: 4,332 units)			-			-
- Capital value	8,761	-	8,761	440	-	440
- Element of income	173	-	173	(1)	-	(1)
Total proceeds on issuance of units	8,934	-	8,934	439	-	439
Redemption of 51,821 units (2019: 181,127 units)						
- Capital value	(5,194)	-	(5,194)	(18,397)	-	(18,397)
- Element of loss	21	(286)	(265)	60	-	60
Total payments on redemption of units	(5,173)	(286)	(5,459)	(18,337)	-	(18,337)
Final distribution for the year ended 30 June 2018						
- Cash distribution	13.2	-	-	-	(1,001)	(1,001)
Interim distribution for the year ended 30 June 2020						
- Cash distribution	13.3	-	(9,800)	-	-	-
Total comprehensive income / (loss) for the year	-	12,341	12,341	-	(1,481)	(1,481)
Net assets at end of the year	(13,103)	125,444	112,341	(16,864)	123,189	106,325
Undistributed income brought forward						
- Realised		128,256			127,620	
- Unrealised		(5,067)			(1,949)	
		123,189			125,671	
Total comprehensive income for the year						
Accounting income available for distribution:						
- Relating to capital gains		3,926			-	
- Excluding capital gains		8,129			-	
		12,055			-	
Total comprehensive loss for the year		-			(1,481)	
Final distribution for the year ended 30 June 2018						
- Cash distribution	13.2	-			(1,001)	
Interim distribution for the year ended 30 June 2020						
- Cash distribution	13.3	(9,800)			-	
Undistributed income carried forward		125,444			123,189	
Undistributed income carried forward						
- Realised		122,055			128,256	
- Unrealised		3,389			(5,067)	
		125,444			123,189	
		(Rupees)			(Rupees)	
Net assets value per unit at beginning of the year		100.2287			102.3781	
Net assets value per unit at end of the year		102.4623			100.2287	

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

**For NBP Fund Management Limited
 (Management Company)**

Chief Financial Officer

Chief Executive Officer

Director


CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 (Rupees in '000)	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income / (loss) for the year		12,341	(1,481)
Adjustments:			
Net unrealised (appreciation) / diminution on re-measurement of investments at FVTPL		(3,389)	5,067
		8,952	3,586
(Increase) / decrease in assets			
Investments		(9,176)	2,136
Profit receivable		397	(299)
		(8,779)	1,837
Increase / (decrease) in liabilities			
Payable to NBP Fund Management Limited - Management Company		(131)	217
Payable to Central Depository Company of Pakistan Limited - Trustee		1	(3)
Payable to Securities and Exchange Commission of Pakistan		(66)	(12)
Accrued expenses and other liabilities		1,198	(586)
		1,002	(384)
Net cash generated from operating activities		1,175	5,039
CASH FLOWS FROM FINANCING ACTIVITIES			
Amount received on issuance of units	16	8,934	-
Amount paid on redemption of units		(5,459)	(18,337)
Distributions paid		(9,800)	(562)
Net cash (used in) financing activities		(6,325)	(18,899)
Net decrease in cash and cash equivalents during the year		(5,150)	(13,860)
Cash and cash equivalents at beginning of the year		95,050	108,910
Cash and cash equivalents at end of the year	5	89,900	95,050

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

For NBP Fund Management Limited
(Management Company)

 Chief Financial Officer

 Chief Executive Officer

 Director



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** NAFA Islamic Principal Protected Fund-II (the Fund) was established under a Trust Deed executed between NBP Fund Management Limited as the Management Company and the Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on 07 May 2014 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 29 April 2014 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).
- 1.2** The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 7th floor, Clifton Diamond Building, Block No. 4, Scheme No. 5, Clifton, Karachi. The Management Company is also the member of (MUFAP).
- 1.3** The Fund has been categorised as an open-end "Shariah Compliant Capital Protected Scheme" as per the criteria laid down by the Securities and Exchange Commission of Pakistan for categorisation of Collective Investment Schemes (CIS) and is listed on the Pakistan Stock Exchange Limited.
- 1.4** 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 to its unit holders. Principal protection means that the net realisable value of the Fund shall not fall below the initial investment value (adjusted for distributions / redemptions during the life of the Fund), provided that the units are held till the completion of the initial maturity of the Fund. The duration of the Fund is perpetual. The Initial Maturity of the Fund was two years from the commencement of the launch of the Fund.
- 1.5** The Pakistan Credit Rating Agency (PACRA) has assigned an asset manager rating of AM1 to the Management Company. The Fund has not yet been rated.
- 1.6** Title of the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited (CDC) as the Trustee of the Fund.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- provisions of and directives issued under the Companies Act, 2017 along with part and the requirements VIII A of the repealed Companies Ordinance, 1984; and
- the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008, (the NBFC Regulations).

Where provisions of and directives issued under the Companies Act, 2017, part VIII A of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017, part VIII A of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations have been followed.

2.2 Accounting convention

These financial statements are prepared under the historical cost convention except for investments which are carried at fair value.



2.3 Functional and presentation currency

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

In preparing these financial statements, management has made judgement, estimates and assumptions that affect the application of the Fund's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to estimates are recognized prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amount recognized in the financial statements to the carrying amount of the assets and liabilities and assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment in the subsequent year relates to;

- (a) Valuation of Investment (Note 4.2.4)
- (b) Provisions (Note 4.6)
- (c) Element of income (Note 4.9)
- (d) Classification and impairment of financial assets (Note 4.2.1 and 4.2.5)

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

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 July 2020:

- Amendment to IFRS 3 'Business Combinations' - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements. The application of amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards. The application of amendments are not likely to have an impact on Fund's financial statements.
- On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process - this means that the overall impact on standard setting may take some time to crystallize. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs. The application of amendments are not likely to have an impact on Fund's financial statements.



- Interest Rate Benchmark Reform which amended IFRS 9, IAS 39 and IFRS 7 is applicable for annual financial periods beginning on or after 1 January 2020. The G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform). The amendments made provide relief from the potential effects of the uncertainty caused by the reform. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The application of amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IFRS-16- IASB has issued amendments to IFRS 16 (the amendments) to provide practical relief for lessees in accounting for rent concessions. The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted. Under the standard's previous requirements, lessees assess whether rent concessions are lease modifications and, if so, apply the specific guidance on accounting for lease modifications. This generally involves remeasuring the lease liability using the revised lease payments and a revised discount rate. In light of the effects of the COVID-19 pandemic, and the fact that many lessees are applying the standard for the first time in their financial statements, the Board has provided an optional practical expedient for lessees. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all the following criteria are met:
 - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
 - Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
 - There is no substantive change to the other terms and conditions of the lease.
- Classification of liabilities as current or non-current (Amendments to IAS 1) effective for the annual period beginning on or after 1 January 2022. These amendments in the standards have been added to further clarify when a liability is classified as current. The standard also amends the aspect of classification of liability as non-current by requiring the assessment of the entity's right at the end of the reporting period to defer the settlement of liability for at least twelve months after the reporting period. An entity shall apply those amendments retrospectively in accordance with IAS 8. The application of amendments are not likely to have an impact on Fund's financial statements.
- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37) effective for the annual period beginning on or after 1 January 2022 amends IAS 1 by mainly adding paragraphs which clarifies what comprise the cost of fulfilling a contract, Cost of fulfilling a contract is relevant when determining whether a contract is onerous. An entity is required to apply the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Restatement of comparative information is not required, instead the amendments require an entity to recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The application of amendments are not likely to have an impact on Fund's financial statements.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) effective for the annual period beginning on or after 1 January 2022. Clarifies that sales proceeds and cost of items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management e.g. when testing etc, are recognized in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2. The standard also removes the requirement of deducting the net sales proceeds from cost of testing. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and



condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented. The application of amendments are not likely to have an impact on Fund's financial statements.

Annual Improvements to IFRS standards 2018-2020:

The following annual improvements to IFRS standards 2018-2020 are effective for annual reporting periods beginning on or after 1 January 2022:

- IFRS 9 - The amendment clarifies that an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf, when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability.
- IFRS 16 - The amendment partially amends Illustrative Example 13 accompanying IFRS 16 by excluding the illustration of reimbursement of leasehold improvements by the lessor. The objective of the amendment is to resolve any potential confusion that might arise in lease incentives.
- IAS 41 - The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique

The application of above amendments are not likely to have an impact on Fund's financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of these financial statements have been consistently applied to all periods presented.

4.1 New, Amended and Revised Standards and Interpretations of IFRSs

There are new and amended standards and interpretations that are mandatory for accounting periods beginning 01 July 2019 but are considered not to be relevant or do not have any significant effect on the Fund's financial statements and are therefore not stated in these financial statements.

4.2 Financial Assets

4.2.1 Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.



On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Fund makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment on debt securities, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well "as profit margin.

In assessing whether the contractual cash flows are SPPI, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Fund considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Fund has determined that it has two business models.

- Held-to-collect business model: this includes cash and cash equivalents and receivables, if any. These financial assets are held to collect contractual cash flow.
- Other business model: this includes equity securities. These financial assets are managed and their performances is evaluated, on a fair value basis, with frequent sales taking place.



Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets.

4.2.2 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.

4.2.3 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 as incurred in the income statement.

4.2.4 Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any profit / markup or dividend income, are recognised in income statement.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is are recognised in OCI and are never reclassified to income statement.

The fair value of financial assets are determined as follows:

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

4.2.5 Impairment of financial assets

Financial assets at amortised cost

The Fund applies simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all financial assets at amortized costs other than debts securities. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

Provision for non performing debt securities and other exposure is made in accordance with the criteria specified in Circular No. 33 of 2012 dated October 24, 2012 issued by SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of the Fund Manager.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets and are present separately in the income statement. The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering of a financial asset in its entirety or a portion thereof.

4.2.6 Derecognition

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

4.2.7 Offsetting of financial assets and financial 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 to realise the assets and settle the liabilities simultaneously.



4.3 Cash and cash equivalents

Cash and cash equivalents comprise of deposits and current accounts maintained with banks. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

4.4 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.

4.5 Derivatives

Derivative instruments are initially recognised at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

4.6 Provisions

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

4.7 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, provided that for the purpose of determining distribution of not less than 90% of its accounting income for the year, the income distributed through bonus units shall not be taken into account.

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.

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 on unutilised tax losses to the extent that it is no longer 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 distributes more than ninety percent of its accounting income for the current year and 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.

4.8 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 / Management Company during business hours on that day. The offer price represents the net assets 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. The sales load if applicable, is payable to the investment facilitators and the Management Company / distributors.

Units redeemed are recorded at the redemption price, applicable to units for which the Management Company / distributors receive redemption applications during business hours of that day. The redemption price represents the net assets 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.

4.9 Element of income

Element of Income represents the difference between net assets value on the issuance or redemption date, as the case may be, of units and the Net asset Value (NAV) at the beginning of the relevant accounting period.



Element of Income is a transaction of capital nature and the receipt and payment of element of income is taken to unit holders' fund; however, to maintain same ex-dividend net asset value of all units outstanding on accounting date, net element of income contributed on issue of units lying in unit holders fund is refunded on units (refund of capital) in the same proportion as dividend bears to accounting income available for distribution. As per guideline provided by MUFAP (MUFAP Guidelines consented upon by SECP) the refund of capital is made in the form of additional units at zero price. MUFAP, in consultation with the SECP, has specified methodology for determination of income paid on units redeemed (income already paid) during the year under which such income is paid on gross element received and is calculated from the latest date at which the Fund achieved net profitability during the year. The income already paid (Element of Income) on redemption of units during the year are taken separately in statement of movement in unitholders' fund.

4.10 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.

4.11 Net assets value per unit

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

4.12 Revenue recognition

- Realised gains / (losses) arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- Unrealised appreciation / (diminution) arising on re-measurement of investments classified as Financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.
- Profit on bank deposits is recognised using the effective yield method.
- Dividend income is recognised when the right to receive the same is established i.e. on the date of book closure of the investee company / institution declaring the dividend.

4.13 Distribution

Distributions declared are recognised in the financial statements of the period in which such distributions are declared. Based on MUFAP's guidelines (duly consented upon by SECP) distributions for the year is deemed to comprise of the portion of amount of income already paid on units redeemed and the amount of cash distribution for the year.

The distribution per unit is announced based on units that were held for the entire period. The rate of distribution is adjusted with effect of refund of capital if any based on the period of investment made during the year. Resultantly, the rate of distribution per unit may vary depending on the period of investment.

5 BANK BALANCES

	Note	2020 (Rupees in '000)	2019
In current accounts		121	255
In savings accounts	5.1	<u>89,779</u>	<u>94,795</u>
		<u>89,900</u>	<u>95,050</u>

5.1 These accounts carry mark-up at rates ranging from 3.02% to 14.45% (2019: 2.4% to 13%) per annum.

6 INVESTMENTS

	Note	2020 (Rupees in '000)	2019
At fair value through profit or loss			
- Listed equity securities	6.1	<u>36,253</u>	<u>23,688</u>



6.1 Investment in listed equity securities

All shares have a nominal face value of Rs.10 each.

Name of the Investee Company	As at 1 July 2019	Purchases during the year	Bonus Shares issued during the year	Right shares purchased/ subscribed during the year	Sales during the year	As at 30 June 2020	Market value /carrying value as at 30 June 2020	Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of the paid up capital of the investee company held
	----- (Number of shares) -----						(Rupees in '000)	----- (%) -----		
Pharma and Bio Tech										
Abbott Laboratories (Pakistan) Limited	200	-	-	-	200	-	-	-	-	-
AGP Limited NC	-	3,000	-	-	-	3,000	329	0.29	0.91	-
The Searle Company Limited (refer note 6.1.2)	343	600	-	-	-	943	188	0.17	0.52	-
	543	3,600	-	-	200	3,943	517	0.46	1.43	
Commercial Banks										
Meezan Bank Limited	16,187	34,500	-	-	22,000	28,687	1,975	1.76	5.45	-
	16,187	34,500	-	-	22,000	28,687	1,975	1.76	5.45	
Cement										
Lucky Cement Limited	2,000	5,300	-	-	1,000	6,300	2,908	3.31	8.02	-
Kohat Cement Company Limited	3,330	12,500	-	-	-	15,830	2,176	1.94	6.00	0.01
	5,330	17,800	-	-	1,000	22,130	5,084	5.25	14.02	
Fertilizer										
Engro Corporation Limited (refer note 6.1.1)	10,890	11,500	-	-	5,000	17,390	5,094	4.53	14.05	-
Engro Fertilizers Limited (refer note 6.1.1)	43,500	14,500	-	-	27,000	31,000	1,869	1.66	5.16	-
	54,390	26,000	-	-	32,000	48,390	6,963	6.19	19.21	
Power Generation & Distribution										
The Hub Power Company Limited (refer note 6.1.1)	43,157	3,502	-	-	13,000	33,659	2,440	2.17	6.73	-
K-Electric Limited	29,000	-	-	-	29,000	-	-	-	-	-
	72,157	3,502	-	-	42,000	33,659	2,440	2.17	6.73	
Textile Composite										
Nishat Mills Limited (refer note 6.1.1)	14,000	8,900	-	-	2,400	20,500	1,599	1.42	4.41	0.01
Kohinoor Textile Mills Limited (refer note 6.1.2)	4,737	-	-	-	-	4,737	168	0.15	0.46	-
	18,737	8,900	-	-	2,400	25,237	1,767	1.57	4.87	
Oil & Gas Marketing Companies										
Pakistan State Oil Company Limited (refer note 6.1.1)	3,600	7,400	1,920	-	2,900	10,020	1,585	1.41	4.37	-
Sui Northern Gas Pipelines	7,500	25,000	-	-	25,000	7,500	410	0.36	1.13	-
Hascal Petroleum Limited (refer note 6.1.2)	1,147	-	-	-	26	1,121	15	0.01	0.04	-
	12,247	32,400	1,920	-	27,926	18,641	2,010	0.37	5.54	
Engineering										
Mughal Iron and Steel Industries Limited (refer note 6.1.2)	2,226	36,000	-	-	11,000	27,226	1,086	0.97	3.00	0.01
International Steels Limited	100	-	-	-	-	100	5	-	0.01	-
	2,326	36,000	-	-	11,000	27,326	1,091	0.97	3.01	
Glass & Ceramics										
Tariq Glass industries Limited	4,500	9,750	-	-	-	14,250	919	0.82	2.53	0.01
	4,500	9,750	-	-	-	14,250	919	0.82	2.53	
Technology and Communication										
Systems Limited	5,900	-	-	-	-	5,900	1,084	0.96	2.99	-
	5,900	-	-	-	-	5,900	1,084	0.96	2.99	
Refinery										
National Refinery Limited	200	-	-	-	-	200	21	0.02	0.06	-
	200	-	-	-	-	200	21	0.02	0.06	
Chemical										
Engro Polymer & Chemicals Limited	18,029	66,500	-	-	29,000	55,529	1,387	1.23	3.83	0.01
	18,029	66,500	-	-	29,000	55,529	1,387	1.23	3.83	
Oil & Gas Exploration Companies										
Oil & Gas Development Company Limited (refer note 6.1.1)	18,400	16,200	-	-	15,700	18,900	2,060	1.83	5.69	-
Pakistan Oilfields Limited (refer note 6.1.1)	3,500	5,400	-	-	4,150	4,750	1,665	1.48	4.59	-
Pakistan Petroleum Limited (refer note 6.1.1)	17,340	17,000	6,088	-	16,100	24,328	2,111	1.88	5.82	-
Mari Petroleum Limited	1,520	1,600	312	-	300	3,132	3,873	4.17	10.68	-
	40,760	40,200	6,400	-	36,250	51,110	9,709	9.36	26.78	
Transport										
P.N.S.C.NC	-	17,000	-	-	-	17,000	1,286	1.14	3.55	0.01
	-	17,000	-	-	-	17,000	1,286	1.14	3.55	
Total - 30 June 2020	251,306	296,152	8,320	-	203,776	352,002	36,253	32.27	100.00	
Carrying value before fair value adjustment as at 30 June 2020							32,864			

6.1.1 Investments include shares with market value of Rs. 5.562 million (30 June 2019: Rs. 4.436 million) which have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in accordance with Circular number 11 dated 23th October 2007 issued by the Securities and Exchange Commission of Pakistan.



6.1.2 The Finance Act, 2014 has brought amendments in the Income Tax Ordinance, 2001 whereby the bonus shares received by the shareholder are to be treated as income and a tax at the rate of 5 percent is to be applied on value of bonus shares determined on the basis of day end price on the first day of closure of books. The tax is to be collected at source by the company declaring bonus shares which shall be considered as final discharge of tax liability on such income. However, the Management Company of the Fund jointly with other asset management companies and Mutual Funds Association of Pakistan, has led a petition in Honorable Sindh High Court to declare the amendments brought in Income Tax Ordinance, 2001 with reference to tax on bonus shares for collective investment schemes as null and void and not applicable on the mutual funds based on the premise of exemption given to mutual funds under clause 47B and 99 of Second Schedule of Income Tax Ordinance, 2001. The Honorable Sindh High Court has granted stay order till the final outcome of the case.

During the year ended 30 June 2018, the Honourable Supreme Court of Pakistan (HSC) passed a judgement on 27 June 2018 whereby the suits which are already pending or shall be filed in future must only be continued / entertained on the condition that a minimum of 50 percent of the tax calculated by the tax authorities is deposited with the authorities. Accordingly, the CISs were required to pay minimum 50% of the tax calculated by the tax authorities for the case to remain continued. The CISs failed to deposit the minimum 50% of the tax liability and accordingly the stay got vacated automatically during the year ended 30 June 2019. After that, the CISs have filed a fresh constitutional petition via CP 4653 dated 11 July 2019. In this regard, on 15 July 2019, the Honourable High of Sindh has issued notices to the relevant parties and has ordered that no third party interest on bonus shares issued to the Funds in lieu of their investments be created in the meantime. The matter is still pending adjudication and the Funds have included these shares in their portfolio, as the management is confident that the decision of the constitutional petition will be in favour of the CISs.

Further, the Finance Act, 2018 effective from 1 July 2018 has omitted Section 236M of Income Tax Ordinance, 2001 requiring every company quoted on stock exchange issuing bonus shares to the shareholders of the company, to withhold five percent of the bonus shares to be issued. Therefore, bonus shares issued to the Fund during the year were not withheld by the investee companies.

Accordingly, the investee company(s) have withheld the shares equivalent to 5% of bonus announcement amounting to Rs. 0.305 million (30 June 2019: 0.279 million) and not deposited in CDC account of department of Income Tax.

7 SECURITY DEPOSITS

	Note	2020 (Rupees in '000)	2019
Security deposits with:			
- National Clearing Company of Pakistan Limited		2,500	2,500
- Central Depository Company of Pakistan Limited		100	100
		<u>2,600</u>	<u>2,600</u>

8 PAYABLE TO NBP FUND MANAGEMENT LIMITED - MANAGEMENT COMPANY

Management remuneration	8.1	115	107
Sindh Sales Tax on management fee	8.2	15	14
Sales Tax Payable on sales and transfer load		196	196
Selling and marketing expenses	8.3	112	224
Allocation of expenses related to registrar services, accounting, operation and valuation services	8.4	28	56
		<u>466</u>	<u>597</u>

8.1 Under the revised Non-Banking Finance Companies & Notified Entities Regulations 2008, notified on 25 November 2015, the Management Company of the Fund is entitled to a remuneration of an amount not exceeding 2% of average annual net assets. Accordingly, the Management Company started charging remuneration at a rate of 2% on equity component and 12% of net income excluding equity component, subject to a minimum of 0.5% of average annual net assets and maximum of 1% of average annual net assets of the Fund.



- 8.2** The Sindh Provincial Government levied Sindh Sales Tax on the remuneration of the Management Company and sales load through Sindh Sales Tax on Services Act, 2011, effective from 01 July 2011. During the year, Sindh Sales Tax at the rate of 13% (30 June 2019: 13%) was charged on management remuneration and sales load.
- 8.3** As per Circular 5 of 2018 dated 4 June 2018 issued by SECP, the Asset Management Company was entitled to charge selling and marketing expense to Collective Investment Scheme upto 0.4% per annum of net assets of Fund or actual expenses whichever is lower for initial three years. Circular 11 of 2019 dated 5 July 2019, issued by SECP superseded the above stated Circular and has revised the conditions and waived capping for charging selling and marketing expense. However, the management company has continued to charge selling and marketing expense at the rate 0.4% per annum of average net assets of the Fund or actual expenses whichever is lower.
- 8.4** In accordance with clause 60(s) of Non-Banking Finance Companies and Notified Entities Regulations, 2008 the management company is allowed to charge "fees and expenses related to registrar services, accounting, operation and valuation services related to CIS maximum up to 0.1% of average annual net assets of the Fund or actual whichever is less" from the mutual funds managed by it. On 20 June 2019 SECP vide S.R.O. 639 (I)/2019, has substituted clause (s) of sub regulation 3 of regulation 60 and accordingly has removed cap of charging 0.1% per annum of average daily net assets on account of fee and expenses related to registrar services, accounting, operation and valuation services. However, the Management Company is charging 0.1% of average daily net assets on account of fee and expenses related to registrar services, accounting, operation and valuation services.

9	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - THE TRUSTEE - RELATED PARTY	Note	2020	2019
			-----Rupees in '000-----	
	Trustee fee payable	9.1	12	12
	Sindh sales tax payable on trustee fee	9.2	2	1
			<u>14</u>	<u>13</u>

- 9.1** The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets value of the Fund. The remuneration is paid to the Trustee monthly in arrears. Based on the Trust Deed, the Trustee remuneration is 0.13% of Net Assets.
- 9.2** The Sindh Provincial Government levied Sindh Sales Tax on the remuneration of the Trustee through Sindh Sales Tax on Services Act, 2011, effective from 01 July 2015. During the period, Sindh Sales Tax at the rate of 13% (30 June 2019: 13%) was charged on trustee remuneration.

10 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the NBFC Regulations, a collective scheme categorized as an equity 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 has been charged till 30 June 2019 and with effective from 1 July 2019 SECP has revised its free rate to 0.02 percent per annum of the average net assets of the Fund. The fee is paid annually in arrears.

11	ACCRUED EXPENSES AND OTHER LIABILITIES		2020	2019
			(Rupees in '000)	
	Provision for Sindh Workers' Welfare Fund	11.1	3,864	3,612
	Federal Excise Duty on management remuneration	11.2	8,151	8,151
	Federal Excise Duty on sales load		2,703	2,703
	Charity Payable		596	545
	Auditors' remuneration		280	206
	Legal fees		130	150
	Printing charges		52	111
	Brokerage fee		1	13
	Settlement and bank charges		120	76
	Shariah Advisor fee		8	12
	CGT		6	-
	Withholding tax		866	-
			<u>16,777</u>	<u>15,579</u>



- 11.1** The Finance Act, 2008 introduced amendments to the Workers' Welfare Fund (WWF) Ordinance, 1971 whereby the definition of industrial establishment was extended. The amendments were challenged at various levels and conflicting judgments were rendered by the Lahore High Court, Sindh High Court and Peshawar High Court. The Honourable Supreme Court of Pakistan vide its judgment dated 10 November 2016, has upheld the view of Lahore High Court and decided that WWF is not a tax and hence the amendments introduced through Finance Act, 2008 are ultra-vires to the Constitution. The Federal Board of Revenue has filed Civil Review Petitions in respect of above judgment with the prayer that the judgment dated 10 November 2016 passed in the Civil Appeal may kindly be reviewed in the interest of justice.

Furthermore, the Sindh Revenue Board (SRB) had written to few mutual funds in January 2016 to register and pay Sindh Workers Welfare Fund (SWWF) for the accounting year closing on or after 31 December 2013. MUFAP reviewed the issue and based on an opinion decided that SWWF is not applicable on mutual funds as they are not financial institutions as required by SWWF Act, 2014. MUFAP wrote to SRB that mutual funds are not establishments and are pass through vehicles hence, they do not have any worker and no SWWF is payable by them. SRB responded back that as mutual funds are included in definition of financial institutions in the Financial Institutions (Recovery of Finance) Ordinance, 2001, therefore SWWF is applicable on mutual funds. MUFAP has taken up this matter before the Sindh Finance Ministry to exclude mutual funds from SWWF.

In view of the above developments regarding the applicability of WWF and SWWF on CISs / mutual funds and considering the legal opinion obtained on these matters, MUFAP has recommended the following to all its members on 12 January 2017:

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

The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on 12 January 2017 and the SECP vide its letter dated 01 February 2017 has advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosures in the financial statements of the CISs / mutual funds. The reversal of provision for WWF amounting to Rs. 5.070 million and a provision for SWWF of Rs. 3.592 million upto 12 January 2017 was made. Thereafter, the provision for SWWF is being made on a daily basis.

Had the SWWF not been provided, the NAV per unit of the Fund would have been higher by Rs. 3.5242 per unit (2019: Rs 3.4049).

- 11.2** As per the requirement of Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective 13 June 2013. The Management Company is of the view that since the remuneration is already subject to provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law, hence a petition was collectively filed by the Mutual Fund Association of Pakistan with the Honorable Sindh High Court (SHC) on 4 September 2013.

The Honorable Sindh High Court (SHC) through its recent order dated 2 June 2016, in CPD-3184 of 2014 (and others) filed by various taxpayers, has interalia declared that Federal Excise Act 2005 (FED Act) is on services, other than shipping agents and related services, is ultra vires to the Constitution from 01 July 2011. However, the declaration made by the Honorable Court, as directed, will have affect in the manner prescribed in the judgment. The Sindh High Court in its decision dated 16 July 2016 in respect of constitutional petition filed by management companies of mutual funds maintained the previous order on the FED.

Sindh Revenue Board and Federal Board of Revenue have filed appeals before Honourable Supreme Court against the Sindh High Court's decision dated 2 June 2016, which is pending for the decision. However, after the exclusion of the mutual funds from federal statute on FED from 1 July 2016, the Fund has discontinued making the provision in this regard.

Since the appeal is pending in the Supreme Court of Pakistan, the Management Company as a matter of abundant caution has retained provision for FED on management fee aggregating to Rs. 8.151 million out of which no payment has been made. Had the provision not been made, the Net Asset Value per unit of the Fund would have been higher by Rs. 7.4342 (30 June 2019: Rs. 7.6836) per unit.


12 CONTINGENCY AND COMMITMENT

There is no contingency and commitment outstanding as at 30 June 2020.

13 NUMBER OF UNITS IN ISSUE

2020 **2019**
(Number of units)

Total units in issue at beginning of the year		1,060,828	1,237,623
Add: Units issued	13.1	87,409	4,332
Less: Units redeemed		(51,821)	(181,127)
Total units in issue at end of the year		<u>1,096,416</u>	<u>1,060,828</u>

13.1 This includes 87,409 units (30 June 2019: 4,332) issued against Dividend Reinvestment Plan amounting to Rs. 8.934 million net of taxation (30 June 2019: 0.439).

13.2 The Management Company on 03 July 2018 declared final distribution of Rs. 0.8090 per unit (for full year) for the year ended 30 June 2018. The aggregate cash distribution amounted to Rs. 1.001 million.

13.3 The Management Company on 26 June 2020 declared interim distribution of Rs. 9.7125 per unit (for full year) for the year ended 30 June 2020. The aggregate cash distribution amounted to Rs. 9.800 million.

14 AUDITORS' REMUNERATION

2020 **2019**
(Rupees in '000)

Statutory audit fee		125	125
Half yearly review fee		50	30
Out of pocket expenses and others including government levy		82	78
		<u>257</u>	<u>233</u>

15 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed to the unit holders as cash dividend. Furthermore, regulation 63 of the NBFC Regulations requires the Fund to distribute 90% of the net accounting income other than capital gains to the unit holders. The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001. Since the Management Company has distributed the income earned by the Fund during the year to the unit holders as per distribution policy (refer note 4.13 and 13.2), no provision for taxation has been made in these financial statements.

16 RECONCILIATION OF RECEIVABLE AND LIABILITIES ARISING OUT OF FINANCING ACTIVITIES

	Receivable against sale of units	Payable against redemption of units	Dividend Payable	Total
----- (Rupees in '000) -----				
Balance as at 1 July 2019		-	-	-
Receivable against issuance of units	8,934	-	-	8,934
Payable against redemption of units	-	5,459	-	5,459
Dividend Payable	-	-	9,800	9,800
	<u>8,934</u>	<u>5,459</u>	<u>9,800</u>	<u>24,193</u>
Issuance against dividend reinvestment	(8,934)	-	(9,800)	(18,734)
Amount paid on redemption of units	-	(5,459)	-	(5,459)
	<u>(8,934)</u>	<u>(5,459)</u>	<u>(9,800)</u>	<u>(24,193)</u>
Balance as at 30 June 2020	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>


17 TOTAL EXPENSE RATIO

Total expense ratio (all the expenses, including government levies, incurred during the year divided by average net asset value for the year) is 3.10% per annum. Total expense ratio (excluding government levies) is 2.66% per annum.

18 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 30 June 2020		
	Amortised cost	At fair value through profit or loss	Total
	----- (Rupees in '000) -----		
Assets			
Bank balances	89,900	-	89,900
Investments	-	36,253	36,253
Profit receivable	867	-	867
Security Deposits	2,600	-	2,600
	<u>93,367</u>	<u>36,253</u>	<u>129,620</u>

	As at 30 June 2020		
	At fair value through profit or loss	At amortised cost	Total
	----- (Rupees in '000) -----		
Liabilities			
Payable to NBP Fund Management Limited - Management Company	-	466	466
Payable to Central Depository Company of Pakistan Limited - Trustee	-	14	14
Accrued expenses and other liabilities	-	1,187	1,187
	<u>-</u>	<u>1,667</u>	<u>1,667</u>

	As at 30 June 2019		
	Amortised Cost	Mandatorily at fair value through profit or loss	Total
	----- (Rupees in '000) -----		
Assets			
Bank balances	95,050	-	95,050
Investments	-	23,688	23,688
Profit receivable	1,264	-	1,264
Security Deposits	2,600	-	2,600
	<u>98,914</u>	<u>23,688</u>	<u>122,602</u>



	As at 30 June 2019		
	Mandatorily at fair value through profit or loss	At amortised cost	Total
	----- (Rupees in '000) -----		
Liabilities			
Payable to NBP Fund Management Limited - Management Company	-	597	597
Payable to Central Depository Company of Pakistan Limited - Trustee	-	13	13
Accrued expenses and other liabilities	-	1,113	1,113
	-	1,723	1,723

19 TRANSACTIONS AND BALANCES WITH CONNECTED PERSONS

19.1 Connected persons include NBP Fund Management Limited being the Management Company (NBP Funds), Central Depository Company of Pakistan Limited (CDC) being the Trustee, National Bank of Pakistan (NBP) and its connected persons, and Baltoro Growth Fund being the sponsors, NAFA Pension Fund, NAFA Provident Fund Trust being the associates of the Management Company, other collective investment schemes managed by the Management Company and directors and officers of the Management Company, any person or company beneficially owning directly or indirectly ten percent or more of the capital of the Management Company or the net assets of the Fund and unit holders holding 10 percent or more units of the Fund.

19.2 The transactions with connected persons are in the normal course of business, at contracted terms determined in accordance with the market rates.

19.3 Remuneration to the Management Company and Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

19.4 The details of significant transactions and balances with connected persons at year end except those disclosed elsewhere in these financial statements are as follows:

19.5 Details of transactions with connected persons are as follows:	2020	2019
	(Rupees in '000)	
NBP Fund Management Limited - Management Company		
Remuneration of NBP Fund Management Limited - Management Company	1,488	1,372
Sindh Sales Tax on remuneration to Management Company	193	178
Allocation of expenses related to registrar services, accounting, operation and valuation services	112	117
Selling and marketing expenses	448	377
Central Depository Company of Pakistan Limited - Trustee		
Remuneration of the Trustee	146	152
Sindh Sales Tax on remuneration to Trustee	19	20
Employees of the Management Company		
Dividend Re-investment of 186 units (2019: 16)	19	2
Taurus Securities Limited		
Brokerage charges	4	4



	2020	2019
	(Rupees in '000)	
National Clearing Company of Pakistan Limited		
NCCPL Charges	346	365
Pakistan Stock Exchange		
Listing Fee	22	-
Taimur Dawood		
Dividend Re-investment: 8,318 Units (2019 Nil)	850	-
Redemption: 4,965 Units (2019: Nil)	540	-
Novartis Pharma (Pakistan) Ltd - Senior Provident Fund		
Dividend Re-investment: 8,658 Units (2019 Nil)	885	-
City School Provident Fund Trust		
Dividend Re-investment: 43,534 Units (2019 Nil)	4,450	-
Mehreen Dawood		
Dividend Re-investment: 16,938 Units (2019 Nil)	1,732	-
19.6 Balances at year end	2020	2019
	(Rupees in '000)	
NBP Fund Management Limited - Management Company		
Management remuneration payable	115	107
Sindh Sales tax payable	15	14
Allocation of expenses related to registrar services, accounting, operation and valuation services	28	56
Selling and marketing expenses	112	224
Sales tax payable on sales and transfer load	196	196
Central Depository Company of Pakistan Limited - Trustee		
Remuneration Payable	12	12
Sindh Sales Tax on Trustee remuneration	2	1
Security deposit	100	100
Employees of the Management Company		
Dividend reinvestment: 2,489 units (2019: 2,303 units)	255	231
Mehreen Dawood		
Units held: 226,687 (2019: 209,748 units)	23,227	21,023
City School Provident Fund Trust		
Units held: 501,751 (2019: 458,218 units)	51,411	45,926
Novartis Pharma (Pakistan) Ltd - Senior Provident Fund		
Units held: 115,864 (2019: 107,206 units)	11,872	10,745
Taimur Dawood		
Units held: 111,320 (2019: 107,967 units)	11,406	10,821
National Clearing Company of Pakistan Limited		
NCCPL Charges Payable	55	35
Security Deposit	2,500	2,500


20 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

S. No.	Name	Designation	Qualification	Experience in years
1	Dr. Amjad Waheed	Chief Executive Officer	MBA, Doctorate in Business Administration and CFA	32
2	Mr. Sajjad Anwar (Refer Note 20.1)	Chief Investment Officer	CFA and MBA	20
3	Mr. Asim Wahab Khan	Deputy Chief Investment Officer	CFA	14
4	Mr. Hassan Raza	Head of Research	ACCA, BSC and CFA	9

20.1 Sajjad Anwar is the Fund Manager of the Fund. He is also managing NAFA Pension Fund, NAFA Islamic Pension Fund, NAFA Islamic Stock Fund, NAFA Islamic Active Allocation Fund - I, NAFA Islamic Active Allocation Fund - II and NAFA Islamic Active Allocation Fund - III.

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

List of brokers / dealers by percentage of commission paid / payable during the year ended 30 June 2020:

S. No	Particulars	Percentage (%)
1	J.S. Global Capital Ltd.	17.48
2	Optimus Capital Management Limited	12.81
3	Taurus Securities Ltd.	9.35
4	Arif Habib Securities Limited	8.63
5	Aqeel Karim Dehdi Securities (Pvt) Limited	6.41
6	Foundation Securities	5.95
7	Alfalah Securities (Pvt) Limited	5.90
8	EFG Hermes Pakistan Ltd	5.22
9	Insight Securities (Pvt.) Limited	5.20
10	BMA Capital Management Limited	4.91

List of brokers by percentage of commission paid during the year ended 30 June 2019:

S. No	Particulars	Percentage (%)
1	J.S. Global Capital Ltd.	6.45
2	Taurus Securities Ltd.	6.23
3	Abbasi Securities (Smc-Pvt.) Limited	5.56
4	Optimus Capital Management Limited	4.52
5	Fortune Securities	4.49
6	Arif Habib Securities Limited	4.20
7	Topline Securities (Pvt) Limited	3.94
8	SC Securities Pvt Ltd	3.92
9	EFG Hermes Pakistan Ltd	3.75
10	Sherman Securities (Pvt) Limited	3.54


22 PATTERN OF UNIT HOLDING

Category	As at 30 June 2020		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment %
Individuals	34	43,045	38.32
Retirement Funds	4	68,453	60.93
Others	1	842	0.75
	39	112,341	100.00

Category	As at 30 June 2019		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment %
Individuals	46	44,132	41.51
Retirement funds	4	61,352	57.70
Others	2	840	0.79
	52	106,324	100.00

23 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 72nd, 73rd, 74th, 75th Board meetings were held on 30 August 2019, 24 October 2019, 27 February 2020, 27 April 2020, respectively. Information in respect of attendance by directors in the meetings is given below:

Name of Director	Number of Meetings			Meetings not attended
	Held during tenure of directorship	Attended	Leave granted	
Mr. Shaikh Muhammad Abdul Wahid Sethi	4	4	-	-
Mr. Saad ur Rahman Khan [Note 23.2]	3	2	1	74th meeting
Mr. Syed Hasan Irtiza Kazmi [Note 23.2]	3	3	-	-
Mr. Nasir Husain [Note 23.1]	1	-	1	72nd meeting
Mr. Abdul Hadi Palekar [Note 23.1]	1	-	1	72nd meeting
Mr. Ali Saigol	4	4	-	-
Mr. Imran Zaffar	4	4	-	-
Mr. Kamal Amir Chinoy [Note 23.1]	1	1	-	-
Mr. Khalid Mansoor [Note 23.2]	3	3	-	-
Mr. Humayun Bashir	4	4	-	-
Mr. Shehryar Faruque [Note 23.1]	1	1	-	-
Mr. Saad Amanullah Khan [Note 23.2]	3	3	-	-
Dr. Amjad Waheed	4	4	-	-

23.1 Mr. Nasir Husain, Mr Abdul Hadi Palekar, Mr. Kamal Amir Chinoy and Mr. Shehryar Faruque retired from the Board with effect from 04 October 2019.

23.2 Mr. Saad ur Rahman Khan, Mr. Syed Hasan Irtiza Khan, Mr. Khalid Mansoor and Mr. Saad Amanullah Khan opted as director on the Board with effect from 04 October 2019.



24 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 listed equity securities. 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.

24.1 Market risk

Market risk is the risk that the fair value or future cash flows of the financial instrument will 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).

24.1.1 Currency risk

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

24.1.2 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 holds balances with banks which expose the Fund to cash flow profit rate risk. In case of 100 basis points increase / decrease in applicable rates on the last repricing date with all other variables held constant, the net income / loss for the year and net assets of the Fund would have been lower / higher by Rs. 0.8978 million (2019: 0.9480 million).

b) Sensitivity analysis for fixed rate instruments

Presently, the Fund holds no fixed rate instruments.

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



As at 30 June 2020						
Yield / interest rate (%)	Exposed to yield / interest risk			Not exposed to yield / interest risk	Total	
	Upto three months	Over three months and upto one year	Over one year			
----- (Rupees in '000) -----						
On-balance sheet financial instruments						
Financial Assets						
Bank balances	3.02 - 14.45	89,779	-	-	121	89,900
Investments		-	-	-	36,253	36,253
Profit receivable		-	-	-	867	867
Security Deposits		-	-	-	2,600	2,600
		<u>89,779</u>	<u>-</u>	<u>-</u>	<u>39,841</u>	<u>129,620</u>
Financial Liabilities						
Payable to NBP Fund Management Limited - Management Company		-	-	-	466	466
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	14	14
Accrued expenses and other liabilities		-	-	-	1,187	1,187
		-	-	-	1,667	1,667
On-balance sheet gap		<u>89,779</u>	<u>-</u>	<u>-</u>	<u>38,174</u>	<u>127,953</u>
Off-balance sheet financial instruments						
Off-balance sheet gap		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total interest rate sensitivity gap		<u>89,779</u>	<u>-</u>	<u>-</u>		
Cumulative interest rate sensitivity gap		<u>89,779</u>	<u>89,779</u>	<u>89,779</u>		
----- (Rupees in '000) -----						
As at 30 June 2019						
Yield / interest rate (%)	Exposed to yield / interest risk			Not exposed to yield / interest risk	Total	
	Upto three months	Over three months and upto one year	Over one year			
----- (Rupees in '000) -----						
On-balance sheet financial instruments						
Financial Assets						
Bank balances	2.40 - 13.00	94,795	-	-	255	95,050
Investments		-	-	-	23,688	23,688
Dividend and profit receivable		-	-	-	1,264	1,264
Security Deposits		-	-	-	2,600	2,600
		<u>94,795</u>	<u>-</u>	<u>-</u>	<u>27,807</u>	<u>122,602</u>
Financial Liabilities						
Payable to NBP Fund Management Limited - Management Company		-	-	-	597	597
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	13	13
Accrued expenses and other liabilities		-	-	-	1,113	1,113
		-	-	-	1,723	1,723
On-balance sheet gap		<u>94,795</u>	<u>-</u>	<u>-</u>	<u>26,084</u>	<u>120,879</u>
Off-balance sheet financial instruments						
Off-balance sheet gap		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total interest rate sensitivity gap		<u>94,795</u>	<u>-</u>	<u>-</u>		
Cumulative interest rate sensitivity gap		<u>94,795</u>	<u>94,795</u>	<u>94,795</u>		


24.1.3 Price risk

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

The Fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities at fair value through profit and loss'.

The Fund manages the risk by limiting exposure to any single investee company to the extent of 15% of issued capital of that investee company and the net assets of the Fund with overall limit of 35% to a single industry sector of the net assets of the Fund (the limit set by NBFC regulations). The Fund also manages its exposure to price risk by diversifying its portfolio within the eligible stocks prescribed in the Fund's Constitutive Documents, the NBFC Regulations and circulars issued by SECP from time to time. (Refer note 6.1 for exposure limits).

In case of 5% increase / decrease in KMI 30 index on 30 June 2020, with all other variables held constant, net assets for the year would increase / (decrease) by Rs. 1.813 million (2019: Rs. 1.184 million) as a result of gains / (losses) on equity securities classified 'at fair value through profit and loss'.

The analysis is based on the assumption that equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved 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 sensitivity analysis prepared as of 30 June 2020 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of the KMI 30 index.

24.2 Credit risk

Credit risk represents the risk of a loss if counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in loans and receivables and bank balances. Risks attributable to bank balances are maintained with banks with a reasonably high credit rating.

The analysis below summarises the credit quality of the Fund's bank balances. The bank ratings are based on The Pakistan Credit Rating Agency Limited (PACRA) and VIS Credit Rating Company Limited as at 30 June 2020 and 30 June 2019.

Balances with banks	2020	2019
	(Rupees in '000)	
AAA	88,147	1,009
AA+	727	338
AA-	1,020	93,697
A+	6	6
	89,900	95,050

The maximum exposure to credit risk before any credit enhancement as at 30 June 2020 is the carrying amount of the financial assets.

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 assets is broadly diversified and transactions are entered into with diverse creditworthy counterparties thereby mitigating any significant concentration of credit risk.


24.3 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner 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. The maximum amount available to the Fund from the borrowing would be limited to tenth percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates. However, during the current year, no borrowing was obtained by the Fund.

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:

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

	30 June 2020			
	Total	Upto three months	Over three months and upto one year	Over one year
----- (Rupees in '000) -----				
Financial liabilities				
Payable to NBP Fund				
Management Limited - Management Company	466	466	-	-
Payable to Central Depository				
Company of Pakistan Limited - Trustee	14	14	-	-
Accrued expenses and other liabilities	<u>1,187</u>	<u>1,187</u>	<u>-</u>	<u>-</u>
	<u>1,667</u>	<u>1,667</u>	<u>-</u>	<u>-</u>
Unit holders' fund	<u>112,341</u>	<u>112,341</u>	<u>-</u>	<u>-</u>



	30 June 2019			
	Total	Upto three months	Over three months and upto one year	Over one year
----- (Rupees in '000) -----				
Financial liabilities				
Payable to NBP Fund Management Limited - Management Company	597	597	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	13	13	-	-
Accrued expenses and other liabilities	1,113	1,113	-	-
	<u>1,723</u>	<u>1,723</u>	<u>-</u>	<u>-</u>
Unit holders' fund	<u>106,325</u>	<u>106,325</u>	<u>-</u>	<u>-</u>

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market price used for financial assets held by the Fund is current bid price.

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.

IFRS 13, 'Fair Value Measurement' 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 that the entity can access at the measurement date (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).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.



		30 June 2020						
		Carrying value			Fair value			
		At fair value through profit and loss	Amortised cost	Total	Level 1	Level 2	Level 3	Total
		----- (Rupees in '000) -----						
On-balance sheet financial instruments								
Financial assets measured at fair value								
Investment								
- Listed equity securities								
		36,253	-	36,253	36,253	-	-	36,253
Financial assets not measured at fair value								
	25.1	-	89,900	89,900				
		-	867	867				
		-	2,600	2,600				
		-	93,367	93,367				
Financial liabilities not measured at fair value								
	25.1	-	466	466				
		-	14	14				
		-	1,187	1,187				
		-	1,667	1,667				
		----- (Rupees in '000) -----						
		30 June 2019						
		Carrying value			Fair value			
		At fair value through profit and loss	Loans and receivables	Total	Level 1	Level 2	Level 3	Total
		----- (Rupees in '000) -----						
On-balance sheet financial instruments								
Financial assets measured at fair value								
Investment								
- Listed equity securities								
		23,688	-	23,688	23,688	-	-	23,688
Financial assets not measured at fair value								
		-	95,050	95,050				
		-	1,264	1,264				
		-	2,600	2,600				
		-	98,914	98,914				
Financial liabilities not measured at fair value								
		-	597	597				
		-	13	13				
		-	1,113	1,113				
		-	1,723	1,723				



- 25.1** The Fund has not disclosed the fair values for these financial assets and financial liabilities, as these are either short term in nature or repriced periodically. Therefore, their carrying amounts are reasonable approximation of fair value.
- 25.2** Net assets attributable to unitholders. The Fund routinely redeems and issues the units at the amount equal to the proportionate share of net assets of the Fund at the time of redemption, calculated on a basis consistent with that used in these financial statements. Accordingly, the carrying amount of net assets attributable to unitholders approximates their fair value. The units are categorized into Level 2 of the fair value hierarchy.

26 UNIT HOLDERS' FUND RISK MANAGEMENT

The units 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 at 30 June 2020, The Fund meets the requirement of sub-regulation 54 (3a) which requires that the minimum size of an Open End Scheme shall be one hundred million rupees at all time during the life of the scheme.

The Fund's objectives when managing unit holders' funds 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 24, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short-term borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.

27 Impact of COVID-19

The COVID-19 pandemic has taken a toll on all economies and emerges as a contagion risk around the globe, including Pakistan. To reduce the impact on the businesses and economies in general, regulators / governments across the globe have introduced a host of measures on both the fiscal and economic fronts.

The Securities and Exchange Commission of Pakistan (SECP) has provided the following relaxations to the asset management companies operating in Pakistan for a specific period:

- a) The time period to regularize the exposure limits breach under Regulation 55(13) of the NBFC Regulations has been extended from four months to six months;
- b) Time period to ensure compliance with the minimum fund size for Open End Schemes under Regulation 54(3b) of the NBFC regulations has been increased to 180 days for Open End Schemes;
- c) Time for announcement of daily NAV as per the regulatory requirements is extended from 18:30 pm to the start of the next working day.

Operational risk management

The Management Company is closely monitoring the situation and has invoked required actions to ensure safety and securities of the staff and an uninterrupted service to the customers. Business Continuity Plans (BCP) for respective areas are in place and tested. The Management Company has significantly enhanced



monitoring for all cyber security risk during these times from its information security protocols. The remote work capabilities were enabled for critical staff and related risk and control measures were assessed to make sure they are fully protected using virtual private network ("VPN") connections. Further, the Management Company has also ensured that its remote access systems are sufficiently resilient to any unwanted cyber-attacks.

The Management Company has made assessment for Covid-19 on the credit risk and liquidity risk and believes that there is no significant impact on the Fund.

28 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 17, 2020.

**For NBP Fund Management Limited
(Management Company)**

Chief Financial Officer

Chief Executive Officer

Director


PERFORMANCE TABLE

Particulars	For the year ended June 30, 2020	For the year ended June 30, 2019	For the year ended June 30, 2018	For the year ended June 30, 2017	For the year ended June 30, 2016	For the year ended June 30, 2015
Net assets at the year / period ended (Rs '000)	112,341	106,325	126,705	142,033	1,083,504	1,308,075
Net income/ (Loss) for the year / period ended (Rs '000)	12,341	-1,481	979	71,121	35,924	247,532
Net Asset Value per unit at the year / period ended (Rs)	102.4623	100.2278	102.3781	101.5691	112.1953	119.0069
Offer Price per unit at year end	N/A	N/A	N/A	N/A	N/A	N/A
Redemption Price per unit at year end	102.4623	100.2278	102.3781	101.5691	112.1953	119.0069
Ex - Highest offer price per unit (Rs.)	N/A	N/A	N/A	N/A	N/A	102.3029
Ex - Lowest offer price per unit (Rs.)	N/A	N/A	N/A	N/A	N/A	101.9044
Ex - Highest redemption price per unit (Rs.)	109.0859	104.1181	102.2684	102.2684	114.1762	120.8775
Ex - Lowest redemption price per unit (Rs.)	89.2484	98.8456	81.1320	81.1320	101.7554	95.6336
Ex- Fiscal Year Opening Nav	91.5095	102.3781	80.7235	80.7235	108.5848	98.1398
Total return of the fund	11.97%	-1.32%	25.82%	25.82%	3.33%	21.05%
Capital growth	2.44%	-1.32%	25.82%	-22.56%	-5.81%	18.66%
Income distribution % of Ex NAV	9.53%		0.00%	48.38%	9.13%	2.44%
Income distribution % of Par Value	9.71%		0.00%	39.06%	10.32%	2.39%
Distribution						
Interim distribution per unit	9.7125	0	0	39.0554	10.3205	2.1727
Final distribution per unit	0	0	0.8090	-	-	0.2192
Distribution Dates						
Interim	26-June-20	-	-	20-Jan-17	28-Apr-16 & 30-Jun-16	30-Jun-15
Final	-	-	04-Jul-18	-	-	16-Jul-15
Average annual return of the fund (launch date June 28, 2014)						
(Since inception to June 30, 2020)	9.80%					
(Since inception to June 30, 2019)		9.38%				
(Since inception to June 30, 2018)			12.22%			
(Since inception to June 30, 2017)				16.30%		
(Since inception to June 30, 2016)					25.22%	
(Since inception to June 30, 2015)						21.00%
(Since inception to June 30, 2014)						
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

PROXY ISSUED BY THE FUND

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

The details of summarized proxies voted are as follows:

	Resolutions	For	Against	Abstain*
Number	4	4	Nil	N/A
(%)	100%	100%	-	-

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