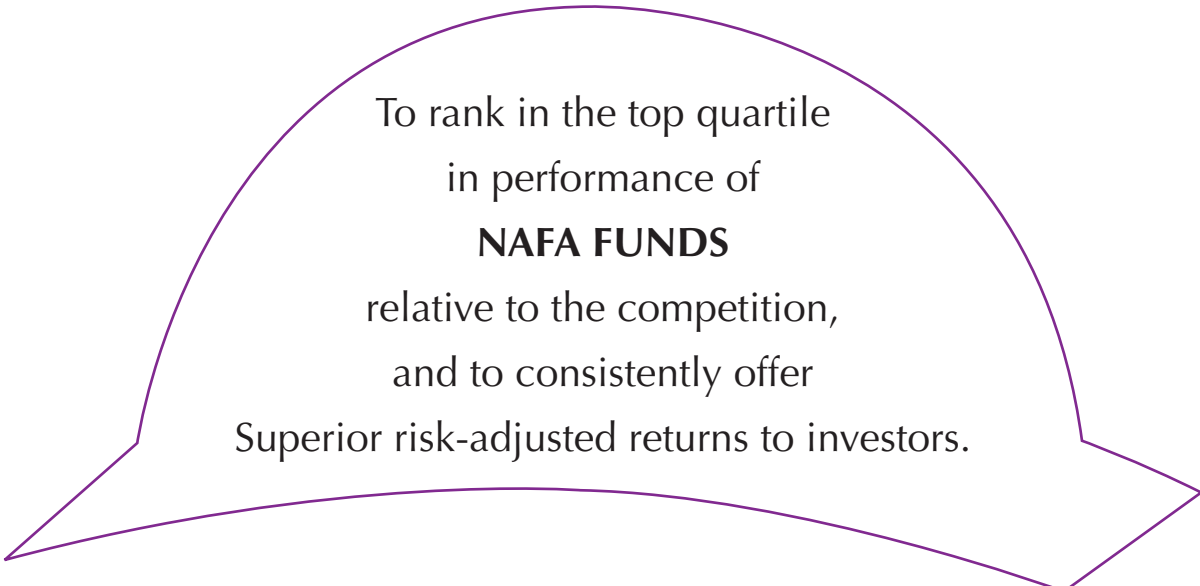


## MISSION STATEMENT



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

# NAFA RIBA FREE SAVINGS FUND

## FUND'S INFORMATION

### Management Company

NBP Fullerton Asset Management Limited – Management Company

### Board of Directors of the Management Company

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

### Company Secretary & CFO of the Management Company

Mr. Muhammad Murtaza Ali

### Audit & Risk Committee

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

### Human Resource Committee

Mr. Khalid Mahmood	Chairman
Mr. Wah Geok Sum	Member
Mr. Kamal Amir Chinoy	Member

### Trustee

MCB Financial Service Limited  
3rd Floor, Adamjee House,  
I.I. Chundrigar Road Karachi - 74000

### Bankers to the Fund

Al-Baraka Islamic Bank Limited  
Bank Alfalah Limited  
Burj Bank Limited  
Habib Bank Limited  
Meezan Bank Limited

# NAFA RIBA FREE SAVINGS FUND

## **Auditors**

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

## **Legal Advisor**

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

## **Head Office:**

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

## **Lahore Office:**

House # 10 - A, Block -S, Gulberg - II, Lahore.  
UAN: (+92-42) 111-111-NFA (632)  
Fax No: (+92-42) 35760373

## **Islamabad Office:**

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

## **Peshawar Office:**

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

## **Multan Office:**

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

# NAFA RIBA FREE SAVINGS FUND

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# NAFA RIBA FREE SAVINGS FUND

## DIRECTORS' REPORT

The Board of Directors of NBP Fullerton Asset Management Limited is pleased to present the Third Annual Report of NAFA Riba Free Savings Fund (NRFSF) for the year ended June 30, 2013.

### Fund's Performance

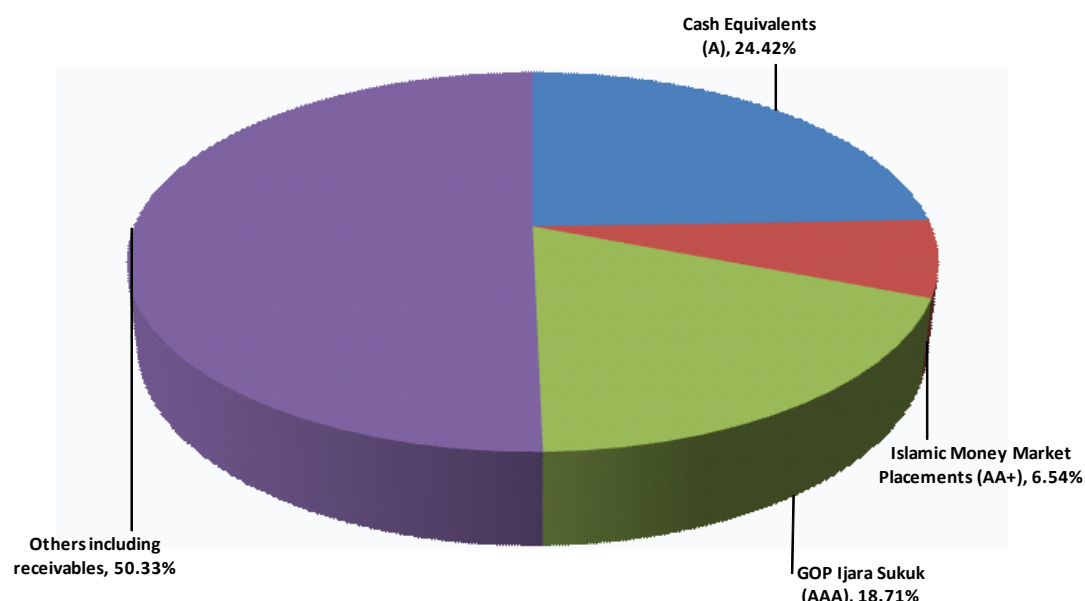
The size of NAFA Riba Free Savings Fund has increased from Rs. 872 million to Rs. 3,028 million during the period, i.e. a growth of 247.25%. During the period, the unit price of the Fund has increased from Rs. 9.2806 (Ex - Div) on June 30, 2012 to Rs. 10.0897 on June 30, 2013, thus posting a return of 8.72% as compared to its Benchmark (Average 6-Month Deposit Rate of A- and above rated Islamic banks) return of 7.28% for the same period.

NRFSF is an Islamic Income Scheme that invests only in Shariah compliant avenues. The Fund has been awarded a stability rating of AA-(f) by PACRA which denotes a very strong capacity to manage risk and generate relatively stable return. The Fund also invests in GoP Ijara Sukuks with six months coupon reset. This minimizes the pricing risk. The Fund is not authorized to invest in Islamic corporate debt securities and the Stock Market. Further, the Fund cannot invest in Islamic money market instruments/ securities which have more than six months maturity or below AA- rating. The Fund is categorized as a Shariah Compliant Income Scheme.

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

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

The Fund has earned a total income of Rs.126.15 million during the year. After deducting total expenses of Rs.24.17 million, the net income is Rs.101.98 million. The asset allocation of NAFA Riba Free Savings Fund as on June 30, 2013 is as follows:



# NAFA RIBA FREE SAVINGS FUND

## Income Distribution

The Board of Directors of the Management Company has approved interim distribution of 8.23% of opening ex-NAV (8.29% of the par value) during the year.

## Taxation

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

## Auditors

The present auditors, Messers A.F.Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment for the year ending June 30, 2014.

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

1. The financial statements, prepared by the management company, present fairly the state of affairs of the Fund, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of the Fund have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Fund's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of the Management Company held five meetings during the period. The attendance of all directors is disclosed in the note 24 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 23 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 20 to these financial statements.

# NAFA RIBA FREE SAVINGS FUND

## Acknowledgement

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

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

On behalf of the Board of  
NBP Fullerton Asset Management Limited

Chief Executive

Director

Date: August 27, 2013  
Place: Karachi.

# NAFA RIBA FREE SAVINGS FUND

## TRUSTEE REPORT TO THE UNIT HOLDERS NAFA RIBA FREE SAVINGS FUND

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

We, Central Depository Company of Pakistan Limited, being the Trustee of **NAFA Riba Free Savings Fund** (the Fund) are of the opinion that NBP Fullerton Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the six months period ended December 31, 2012 in accordance with the provisions of the following:

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

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

Karachi: February 28, 2013



# NAFA RIBA FREE SAVINGS FUND

## TRUSTEE REPORT TO THE UNIT HOLDERS NAFA RIBA FREE SAVINGS FUND

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

NAF Riba Free Savings Fund, an open-end Scheme established under a Trust Deed dated June 29, 2010 executed between NBP Fullerton Asset Management Limited, as the Management Company and Central Depository Company of Pakistan Limited (CDC), as the Trustee. The Scheme was authorized by Securities and Exchange Commission of Pakistan (Commission) on July 14, 2010.

CDC retired as the Trustee of the Fund and MCB Financial Services Limited (MCBFSL) was appointed as the new trustee with effect from January 11, 2013.

1. NBP Fullerton Asset Management Limited, the Management Company of NAFA Riba Free Savings Fund has in all material respects managed NAFA Riba Free Savings Fund during the period from January 11, 2013 to June 30, 2013 in accordance with the provisions of the following:
  - (i) Investment limitations imposed on the Asset Management Company and the Trustee under the trust deed and other applicable laws;
  - (ii) the valuation or pricing is carried out in accordance with the deed and any regulatory requirement;
  - (iii) the creation and cancellation of units are carried out in accordance with the deed;
  - (iv) and any regulatory requirement

Karachi: August 21, 2013

Khawaja Anwar Hussain  
Chief Executive Officer  
MCB Financial Services Limited

# NAFA RIBA FREE SAVINGS FUND

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE NAFA RIBA FREE SAVINGS FUND FOR THE YEAR ENDED JUNE 30, 2013

This statement is being presented by the Board of Directors of NBP Fullerton Asset Management Limited (Company), the Management Company of **NAFA Riba Free Saving Fund** (the Fund) to comply with the Best Practices of Code of Corporate Governance (CCG) contained in Regulation No. 35, Chapter XI of Listing Regulations of Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

NBP Fullerton Asset Management Limited, though an un-listed Public Limited Company complies with the CCG as the Fund under its management is listed on Lahore Stock Exchange.

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

1. The Company encourages representation of independent non-executive directors on its Board of Directors. The Company, being an un-listed company, does not have any minority interest. As at June 30, 2013, the Board included:

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

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

2. The directors have confirmed that none of them is serving as a director of more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable). However, the requirement of serving as a director of seven listed companies is applicable from the date of next election of directors.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies were occurred on the board on February 26, 2013 and on May 20, 2013 during the year which were filled up by the directors on April 11, 2013 and May 20, 2013 respectively.
5. The Management Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.

# NAFA RIBA FREE SAVINGS FUND

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Fund. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board. There is no other executive-director of the Company besides CEO.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. In order to apprise the directors on their duties and responsibilities and requirements of CCG, the code requires company to conduct formal orientation for directors. Up to 30 June 2013, one of the directors has obtained the director's training program offered by Pakistan Institute of Corporate Governance. The Company has started the process for training of other directors and it is expected that some of other directors may also obtain certification of the director's training program in upcoming year. However, the directors are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the units of the Fund other than that disclosed in note 20 to the financial statements "Transactions with Connected Persons".
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises of three members, of whom all are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Fund and as required by the CCG. The revised terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed a Human Resource and Remuneration Committee. It comprises of three members. All the members are non-executive directors and the chairman of the committee is a non-independent director.
18. The Board has set up an effective internal audit function.

# NAFA RIBA FREE SAVINGS FUND

19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. There was no 'closed period' prior to the announcement of interim/final results.
22. Material / price sensitive information has been disseminated amongst all market participants at once through stock exchange.
23. We confirm that all other material principles contained in the CCG have been complied with.

For and behalf of the board

Karachi  
August 27, 2013

Dr. Amjad Waheed  
Chief Executive Officer

# NAFA RIBA FREE SAVINGS FUND

## FUND MANAGER REPORT

### NAFA Riba Free Savings Fund

NAFA Riba Free Savings Fund (NRFSF) is an Open-end – Shariah Compliant Income Scheme.

### Investment Objective of the Fund

The objective of NAFA Riba Free Savings Fund is to provide preservation of capital and earn a reasonable rate of return along with a high degree of liquidity by investing in short-term Shariah compliant banks and money market / debt securities.

### Benchmark

Average 6-month deposit rate of A- and above rated Islamic Banks

### Fund Performance Review

This is the third Annual report since the launch of the Fund on August 21, 2010. The Fund size increased by 247.30% during FY13 and stands at Rs 3,028 million as on June 30, 2013. The Fund has posted an annualized return of 9.97% since its inception versus the benchmark return of 7.87%. During FY13 the Fund posted an annualized return of 8.72% as compared to the benchmark return of 7.28%. This translates into an out-performance of 1.44% p.a. Hence, the Fund has achieved its stated objectives.

NRFSF is an Islamic Income Scheme that invests only in Shariah compliant avenues with no direct or indirect exposure to stock market. The stability rating of the Fund is AA-(f) by PACRA, which denotes a very strong capacity to maintain relative stability in returns and very low exposure to risks. The Fund aims to consistently provide better returns than profit rates offered by Islamic Banks / Islamic windows of commercial banks, while also providing easy liquidity along with a high quality credit profile. The maturity of any single instrument except GOP Ijara Sukuks cannot exceed six months. GOP Ijarah Sukuks are floating rate Shariah compliant securities with six monthly coupon resets. This minimizes pricing risk.

With letup in inflationary pressures, manageable external account position and to spur private sector credit, SBP slashed the Policy Rate during FY13 by 300 bps to 9%. During the year under review, Ministry of Finance issued GOP Ijara sukuk worth Rs. 90 billion taking the total outstanding amount to Rs. 459 billion at the year-end. All GOP Ijara Sukuks are floating rate linked to T-bills. During the year, 3-Month T-Bill yield declined to 8.94% from 11.92%.

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

Particulars	30-Jun-13	30-Jun-12
Cash Equivalents & Other Assets including receivables	74.75%	29.37%
GOP Ijara Sukuk	18.71%	50.91%
Islamic Money Market Placements	6.54%	19.72%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

# NAFA RIBA FREE SAVINGS FUND

## Distribution for the Financial Year 2013

Month	Dividend as a % of Par Value (Rs.10)	Cumulative Div. Price / Unit	Ex- Div. Price
Jul-12	0.8260%	10.1523	10.0697
Aug-12	0.8160%	10.1511	10.0695
Sep-12	0.7560%	10.1450	10.0694
Oct-12	0.7050%	10.1464	10.0759
Nov-12	0.7050%	10.1418	10.0713
Dec-12	0.6850%	10.1417	10.0732
Jan-13	0.7050%	10.1429	10.0724
Feb-13	0.6040%	10.1321	10.0717
Mar-13	0.6040%	10.1320	10.0716
Apr-13	0.6040%	10.1390	10.0786
May-13	0.6250%	10.1411	10.0786
Jun-13	0.6550%	10.0897	10.0795

## Unit Holding Pattern of NAFA Riba Free Savings Fund as on 30th June 2013

Size of Unit Holding (Units)	# of Unit Holders
1 - 1000	76
1001 - 5000	121
5001 - 10000	87
10001 - 50000	386
50001 - 100000	188
100001 - 500000	168
500001 - 1000000	18
1000001 - 5000000	20
5000001 - 10000000	1
10000001 - 100000000	1
100000001 - 1000000000	1
	<b>1067</b>

## During the period under question:

There has been no significant change in the state of affairs of the Fund, other than stated above. NAFA Riba Free Savings Fund does not have any soft commission arrangement with any broker in the industry.

## Workers' Welfare Fund (WWF)

The scheme has maintained provisions against Workers' Welfare Fund's liability to the tune of Rs. 3,940,134/-. If the same were not made the NAV per unit/ FY 2013 return of scheme would be higher by Rs. 0.0131/ 0.14%. For details investors are advised to read note 15 of the Financial Statements of the Scheme for the period ended June 30, 2013.

# NAFA RIBA FREE SAVINGS FUND

## STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

NAFA Riba Free Savings Fund (the Fund) has fully complied with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for its operations, investments and placements made during the year ended June 30, 2013. This has been duly confirmed by the Shariah Advisor of the Fund.

Date: August 27, 2013  
Karachi.

Dr. Amjad Waheed, CFA  
Chief Executive Officer

# NAFA RIBA FREE SAVINGS FUND

## Report of the *Shar'iah* Advisor – NAFA Riba Free Savings Fund

September 17, 2013/Dhul-Qa'dah 09, 1434 A.H

Alhamdulillah, the period from July 1, 2012 to June 30, 2013 was the third year of the operations of NAFA Riba Free Savings Fund (NRFSF). This report is being issued in accordance with clause 5.D.1 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the *Shari'ah* Compliance of the Fund's activity.

In the capacity of Shari'ah Advisor, 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 of the management company's personnel and review of various documents prepared by the management company to comply with the prescribed criteria.

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of NRFSF in light of *Shari'ah* guidelines.
- ii. All the provisions of the scheme and investments made on account of NRFSF by NAFA are *Shari'ah* Compliant and are in accordance with the criteria established.
- iii. On the basis of information provided by the management, nothing has come to our attention that cause us to believe that all the operations of NRFSF for the period ended June 30, 2013 are not in compliance with *Shari'ah* principles.

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.

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

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**Bilal Ahmed Qazi**  
*Shar'iah* Advisor



# NAFA RIBA FREE SAVINGS FUND

## INDEPENDENT ASSURANCE REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

We have performed an independent assurance engagement of **NAFA Riba Free Savings Fund**, (the Fund) to express an opinion on the annexed Statement of Compliance with the Shariah Principles (the 'Statement') for the year ended June 30, 2013. Our engagement was carried out as required under clause 5.D.1 of the Trust Deed of the Fund.

### Management Company's responsibility

The Management Company of the Fund is responsible for the preparation of the annexed statement (the subject matter) and for compliance with the Shariah Principles specified in the Trust Deed. This responsibility includes designing, implementing and maintaining internal control to ensure that the operations of the Fund and its investment and placements have been made in compliance with the Shariah Principles.

### Responsibility of independent assurance provider

Our responsibility is to express a conclusion on the Statement based on our independent assurance engagement, performed in accordance with the International Standards on Assurance Engagement (ISAE) 3000, 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance whether the annexed statement reflects the status of the Fund's compliance with the Shariah Principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor (criteria).

The procedures selected depend on our judgement, including the assessment of the risks of material non-compliances with the Shariah Principles. In making those risk assessments, we have considered internal controls relevant to the Fund's compliance with the principles in order to design procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Fund was not materially non-compliant with the principles. Our engagement was not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Amongst others, our scope included procedures to:

- Check compliance of specific guidelines relating to charity, maintaining bank accounts and for making investments of the Fund.
- Check that the Shariah Advisor has certified that the operations of the Fund, its investments and placements made by the Fund during the year ended June 30, 2013 are in compliance with the Shariah Principles and where required purification of income from non-compliant sources has been made in consultation with the Shariah Advisor.

### Conclusion

In our opinion, the annexed statement, in all material respects, present fairly the status of the Fund's compliance with the Shariah Principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for the year ended June 30, 2013.

A.F. Ferguson & Co. Chartered Accountants  
Karachi  
Dated: September 18, 2013

# NAFA RIBA FREE SAVINGS FUND

## REVIEW REPORT ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **NBP Fullerton Asset Management Limited**, the Management Company of **NAFA Riba Free Savings Fund**, to comply with the Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange where the Fund is listed.

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

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

Sub-Regulation (x) of Listing Regulations No. 35 as notified by the Lahore Stock Exchange (Guarantee) Limited on which the Fund is listed requires the Management Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the above requirements to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

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

A.F. Ferguson & Co. Chartered Accountants  
Karachi  
Dated: September 18, 2013

# NAFA RIBA FREE SAVINGS FUND

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **NAFA Riba Free Savings Fund** (here in after referred to as "**the Fund**"), which comprise the statement of assets and liabilities as at June 30, 2013, and the related income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management Company's responsibility for the financial statements

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

### Auditor's responsibility

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

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

### Opinion

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

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

A.F. Ferguson & Co. Chartered Accountants  
Engagement Partner: **Rashid A. Jafer**  
Dated: 18 September, 2013  
Karachi

# NAFA RIBA FREE SAVINGS FUND

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
<b>ASSETS</b>			
Bank balances	4	739,483	249,205
Investments	5	764,718	615,882
Profit receivable	6	18,733	13,637
Preliminary expenses and floatation costs	7	431	632
Security deposit		200	100
Prepayments and other receivables		100	100
Receivable against issue of units	17	1,513,571	-
<b>Total assets</b>		<b>3,037,236</b>	<b>879,556</b>
<b>LIABILITIES</b>			
Payable to the Management Company	8	3,039	1,041
Payable to MCB Financial Services Limited - Trustee	9	169	122
Payable to the Securities and Exchange Commission of Pakistan	10	930	485
Payable against redemption of units		200	2,835
Accrued expenses and other liabilities	11	4,451	3,068
<b>Total liabilities</b>		<b>8,789</b>	<b>7,551</b>
<b>NET ASSETS</b>		<b>3,028,447</b>	<b>872,005</b>
<b>UNITHOLDERS' FUND (AS PER STATEMENT ATTACHED)</b>		<b>3,028,447</b>	<b>872,005</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	12	-----Number of units-----	
<b>NUMBER OF UNITS IN ISSUE</b>	17	<b>300,153,817</b>	<b>86,561,291</b>
<b>NET ASSET VALUE PER UNIT</b>	3.10	<b>10.0897</b>	<b>10.0738</b>
		-----Rupees-----	

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA RIBA FREE SAVINGS FUND

## INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
<b>INCOME</b>			
Profit on bank deposits	13	43,965	22,373
Income from investment in GoP Ijarah Sukuks		55,250	40,260
Income from investment in sukuk certificates		26,020	13,641
Capital gain on sale of investments - net		213	2,135
Net unrealised appreciation / (diminution) on re-measurement of investments classified as financial assets 'at fair value through profit or loss'	5.4	698	(1,432)
<b>Total income</b>		<u>126,146</u>	<u>76,977</u>
<b>EXPENSES</b>			
Remuneration of the Management Company		15,507	7,121
Sindh Sales Tax on Management Company's remuneration		2,481	1,144
Federal Excise Duty on Management Company's remuneration		156	-
Remuneration of Trustee		1,640	1,098
Annual fee - Securities and Exchange Commission of Pakistan		930	485
Amortisation of preliminary expenses and floatation costs	7	201	201
Auditors' remuneration	14	467	390
Listing fee		40	30
Rating fee		220	183
Printing charges		33	113
Legal fee		55	40
Securities transaction cost		39	112
Bank charges		317	325
<b>Total expenses</b>		<u>22,086</u>	<u>11,242</u>
<b>Net income from operating activities</b>		<u>104,060</u>	<u>65,735</u>
Provision for Workers' Welfare Fund	15	(2,081)	(1,315)
<b>Net income for the year before taxation</b>		<u>101,979</u>	<u>64,420</u>
Taxation	16	-	-
<b>Net income for the year after taxation</b>		<u><u>101,979</u></u>	<u><u>64,420</u></u>
<b>Earnings per unit</b>	3.11		

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA RIBA FREE SAVINGS FUND

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
	(Rupees in '000)	
Net income for the year after taxation	101,979	64,420
Other comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	<u>101,979</u>	<u>64,420</u>

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA RIBA FREE SAVINGS FUND

## DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
<b>Undistributed income brought forward</b>			
Realised income		3,676	13,293
Unrealised income		(1,432)	198
		<u>2,244</u>	<u>13,491</u>
Net income for the year		101,979	64,420
<b>Final distribution during the year</b>			
- Re 0.30 per unit declared on July 04, 2011			
- Issue of bonus units		-	(10,877)
<b>Interim distributions during the year</b>	18		
- Bonus units		(100,955)	(67,192)
- Cash Distribution		(8)	(1,601)
Element of income and capital gains included in the prices of units issued less those in units redeemed		3,747	4,003
Undistributed income carried forward		<u>7,007</u>	<u>2,244</u>
<b>Undistributed income comprising:</b>			
Realised income		6,309	3,676
Unrealised income / (loss)		698	(1,432)
		<u>7,007</u>	<u>2,244</u>

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA RIBA FREE SAVINGS FUND

## STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
Net assets at the beginning of the year		872,005	376,778
Issue of 295,919,960 units including 10,022,736 bonus units (2012: 95,351,881 units including 7,721,099 bonus units)		2,886,860	891,046
Redemption of 82,327,434 units (2012: 45,096,314 units)		(832,389)	(458,638)
		2,054,471	432,408
Net unrealised appreciation / (diminution) on re-measurement of investments classified as financial assets 'at fair value through profit or loss'		698	(1,432)
Capital gain on sale of investments - net		213	2,135
Other income (net of expenses) for the year		101,068	63,717
		101,979	64,420
Element of income and capital gains included in the prices of units issued less those in units redeemed			
- amount representing income and capital gains transferred to income statement		-	-
- amount representing income that forms part of unit holder's fund transferred to distribution statement		(3,747)	(4,003)
<b>Distributions of bonus units during the year</b>			
Interim distributions	18	100,955	67,192
Final distribution		-	10,877
<b>Final distribution made during the year</b>			
- Re 0.3 per unit declared on July 04, 2011 Issue of bonus units		-	(10,877)
<b>Interim distributions made during the year</b>			
- Issue of bonus units		(100,955)	(67,192)
- Cash distribution		(8)	(1,601)
		(100,963)	(79,670)
Element of income and capital gains included in the prices of units issued less those in units redeemed - amount transferred to distribution statement		3,747	4,003
<b>Net assets at the end of the year</b>		<u>3,028,447</u>	<u>872,005</u>

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director



# NAFA RIBA FREE SAVINGS FUND

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012 (Rupees in '000)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year		101,979	64,420
<b>Adjustments for:</b>			
Net unrealised (appreciation) / diminution on re-measurement of investments classified as financial assets 'at fair value through profit or loss'		(698)	1,432
Amortisation of preliminary expenses and floatation costs		201	201
		101,482	66,053
<b>(Increase) / decrease in assets</b>			
Investments - net		(148,138)	(351,776)
Security deposit		(100)	(100)
Profit receivable		(5,096)	(3,813)
Prepayments and other receivables		-	(100)
Receivable against issue of units		(1,513,571)	-
		(1,666,905)	(355,789)
<b>Increase / (decrease) in liabilities</b>			
Payable to the Management Company		1,998	(494)
Payable to MCB Financial Services Limited - Trustee		47	71
Payable to Securities and Exchange Commission of Pakistan		445	327
Accrued expenses and other liabilities		1,383	2,125
		3,873	2,029
<b>Net cash used in operating activities</b>		(1,561,550)	(287,707)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Receipts from issue of units		2,886,860	891,046
Payments on redemption of units		(835,024)	(456,124)
Distributions paid		(8)	(1,601)
<b>Net cash generated from financing activities</b>		2,051,828	433,321
<b>Net increase in cash and cash equivalents during the year</b>		490,278	145,614
Cash and cash equivalents at the beginning of the year		249,205	103,591
<b>Cash and cash equivalents at the end of the year</b>	4	739,483	249,205

The annexed notes 1 to 30 form an integral part of these financial statements.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA RIBA FREE SAVINGS FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Riba Free Savings Fund (NRFSF / the Fund) was established under a Trust Deed executed between NBP Fullerton Asset Management Limited (NAFA) as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Trust Deed was executed on June 29, 2010 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on July 14, 2010 under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

On January 11, 2013, MCB Financial Services Limited (MCB-FSL) was appointed as the new Trustee of the Fund, after Central Depository Company of Pakistan Limited (CDC) retired on the prior day. The appointment of the new Trustee was made as per clause 21 of the Trust Deed of NRFSF and Regulation 42(3) of the NBFC & NE Regulations 2008. The Supplemental Trust Deed of the Fund was signed on November 16, 2012.

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 5, Clifton, Karachi. The Management Company is a member of the Mutual Funds Association of Pakistan (MUFAP).

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

The objective of the Fund is to provide preservation of capital and earn a reasonable rate of return along with a high degree of liquidity by investing in Shariah compliant banks and money market / debt securities.

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

Title of the assets of the Fund is held in the name of MCB-FSL as Trustee of the Fund.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

#### 2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following amendments to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2012:

- IAS 1, 'Financial statement presentation'. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendments do not have any effect on the Fund's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

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

There are certain new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2013 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

# NAFA RIBA FREE SAVINGS FUND

## 2.4 Critical accounting estimates and judgments

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

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

- i) Classification and valuation of investments (notes 3.2 and 5)
- ii) Amortisation of preliminary expenses and floatation costs (notes 3.4 and 7)

## 2.5 Accounting convention

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

## 2.6 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Fund operates. These financial statements are presented in Pakistani Rupees which is the Fund's functional and presentation currency.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances in savings accounts and other deposits with banks having original maturities of three months or less. Cash and cash equivalents are carried in the Statement of Assets and Liabilities at cost.

### 3.2 Financial assets

#### 3.2.1 Classification

The Fund classifies its financial assets in the following categories:

- at fair value through profit or loss
- loans and receivables
- available for sale

The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

#### a) Financial assets at fair value through profit or loss

These are financial assets acquired principally for the purpose of generating profit from short-term fluctuations in market prices, interest rate movements or are financial assets included in a portfolio in which a pattern of short-term profit taking exists.

#### b) Loans and receivables

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

#### c) Available for sale

These are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

# NAFA RIBA FREE SAVINGS FUND

## 3.2.2 Regular way contracts

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

## 3.2.3 Initial recognition and measurement

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

## 3.2.4 Subsequent measurement

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

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

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

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

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

### b) Loans and receivables

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

Gain or loss is also recognised in the income statement when financial assets carried at amortised cost are derecognised or impaired.

## 3.2.5 Impairment

The carrying amounts of the Fund's assets are revalued at each reporting date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the income statement. If any impairment evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income is reclassified from other comprehensive income and recognised in the income statement.

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

## 3.2.6 Derecognition

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

## 3.2.7 Offsetting of financial assets and liabilities

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

## 3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include payable to management company, payable to trustee and other liabilities.

# NAFA RIBA FREE SAVINGS FUND

## 3.4 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortised over a period of five years in accordance with the requirements set out in the Trust Deed of the Fund and the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

## 3.5 Provisions

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

## 3.6 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 amongst the unit holders.

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

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 probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to avail the tax exemption under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

## 3.7 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company of the Fund for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable.

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

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

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

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

## 3.9 Proposed distributions

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

## 3.10 Net asset value per unit

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

## 3.11 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.

# NAFA RIBA FREE SAVINGS FUND

## 3.12 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which transactions take place.
- Unrealised capital gains / (losses) arising on 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 on accrual basis.
- Income on GoP Ijara Sukuks and sukuk certificates is recognised on an accrual basis.

	Note	2013 (Rupees in '000)	2012 (Rupees in '000)
<b>4 BANK BALANCES</b>			
In savings accounts	4.1	717,155	237,786
In current accounts		22,328	11,419
		<u>739,483</u>	<u>249,205</u>

4.1 These accounts carry a rate of return ranging from 6.00% to 11.80% (2012 : 6.00% to 12.25%) per annum.

	Note	2013 (Rupees in '000)	2012 (Rupees in '000)
<b>5 INVESTMENTS</b>			
Financial assets 'at fair value through profit or loss'	5.1,5.2	566,718	443,962
Investment in GoP Ijara sukuks	5.3	198,000	171,920
Loans and receivables		<u>764,718</u>	<u>615,882</u>

### 5.1 At fair value through profit or loss - held for trading

All certificates have a face value of Rs.100,000 each

Name of Investee Company	Issue Date	Number of certificates				Market Value as at June 30, 2013	Investment as percentage of Net assets
		As at July 01-2012	Purchases during the period	Sales during the period	As at June 30, 2013		
GoP Ijara Sukuk V	November 15, 2010	850	-	-	850	85,128	2.81%
GoP Ijara Sukuk VI	December 20, 2010	180	-	-	180	18,025	0.60%
GoP Ijara Sukuk VII	March 07, 2011	80	-	-	80	8,014	0.26%
GoP Ijara Sukuk VIII	May 16, 2011	1,000	-	-	1,000	100,240	3.31%
GoP Ijara Sukuk IX	December 26, 2011	1,567	150	-	1,717	172,111	5.68%
GoP Ijara Sukuk X	March 02, 2012	250	150	-	400	40,084	1.32%
GoP Ijara Sukuk XI	April 30, 2012	210	-	-	210	21,055	0.70%
GoP Ijara Sukuk XII	June 28, 2012	300	350	150	500	50,095	1.65%
GoP Ijara Sukuk XIII	September 18, 2012	-	470	-	470	46,981	1.55%
GoP Ijara Sukuk XIV	March 28, 2013	-	250	-	250	24,985	0.83%
						<u>566,718</u>	
						<u>566,020</u>	
						<u>698</u>	

Rupees in '000'



# NAFA RIBA FREE SAVINGS FUND

5.2 The Fund was valuing GoP Ijarah Sukuks on PKISRV rates quoted by the Financial Market Association of Pakistan (FMAP) uptill August 8, 2012. However, due to the issues pertaining to the appropriateness of valuation rates for GoP Ijarah Sukuks, FMAP approached Mutual Funds Association of Pakistan (MUFAP), who subsequently raised the matter with the State Bank of Pakistan (SBP). Subsequently, MUFAP in their meeting held in the month of July, 2012 decided to wait for the SBP's decision in this regard. Resultantly, the Fund discontinued valuing these GoP Ijarah Sukuks and held these based on the rates prevailing on August 8, 2012. Subsequently, in the quarter ended June 30, 2013 it was principally agreed by MUFAP to adopt PKISRV rates for the valuation of GoP Ijarah Sukuks which they have also conveyed to the Securities Exchange Commission of Pakistan (SECP). Accordingly, with effect from June 27, 2013 the Fund has started valuing the GoP Ijarah Sukuks on PKISRV rates.

## 5.3 Loans and receivables

### Sukuk certificates

Name of issuer	Maturity date	Rate	As at June 30, 2013	As at June 30, 2012
The Hub Power Company Limited	12-Sep-13	10.80%	125,000	-
The Hub Power Company Limited	14-Aug-13	10.70%	73,000	-
The Hub Power Company Limited	3-Aug-12	13.09%	-	100,000
Engro Fertilizers Limited	22-Sep-12	13.55%	-	71,920
			<u>198,000</u>	<u>171,920</u>

These Islamic Commercial Papers were issued under the Shariah Compliant structure described as 'Sukuk'. Under the 'Sukuk' structure, instruments can be of short-term as well as of long-term nature. Short-term Sukuks are equivalent to money market instruments while long-term Sukuks are equivalent to TFCs / corporate bonds. These Sukuks were issued in six months maturity, and hence were deemed to be mere money market instruments.

The management is of the view that the restriction on taking exposure in Sukuks as mentioned in the Offering Document refers to long-term Sukuks which are equivalent to TFCs / corporate bonds. Therefore, the short-term money market placements issued within the Islamic structure are compliant with the Offering Document.

	Note	2013	2012
		(Rupees in '000)	
<b>5.3 Net unrealised appreciation / (diminution) in value of investments at fair value through profit or loss</b>			
Market value of investments		566,718	443,962
Less: Carrying value of investments		<u>(566,020)</u>	<u>(445,394)</u>
		<u>698</u>	<u>(1,432)</u>
<b>6 PROFIT RECEIVABLE</b>			
Profit receivable on saving deposits		5,572	671
Profit receivable on GoP Ijara Sukuks		6,161	4,867
Profit receivable on sukuk certificates		<u>7,000</u>	<u>8,099</u>
		<u>18,733</u>	<u>13,637</u>
<b>7 PRELIMINARY EXPENSES AND FLOATATION COSTS</b>			
Opening balance		632	833
Less: Amortisation during the year		<u>201</u>	<u>201</u>
Closing balance		<u>431</u>	<u>632</u>
<b>8 PAYABLE TO THE MANAGEMENT COMPANY</b>			
Remuneration of the Management Company	8.1	1,585	893
Sindh Sales Tax on Management Company's remuneration		259	148
FED on Management Company's remuneration	8.2	156	-
Sales load payable to Management Company		1,003	-
Transfer load payable to Management Company		<u>36</u>	<u>-</u>
		<u>3,039</u>	<u>1,041</u>

8.1 Under the provisions of the Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non Banking Finance Companies and Notified Entities Regulation, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent per annum of the average annual net assets of the Fund and thereafter of an amount equal to two percent per annum of such assets of the Fund. Management remuneration was charged at the rate of 1% of the average annual net assets of the Fund for the period from July 1, 2011 to February 27, 2012 and at the rate of 1.25% for the remaining period.

# NAFA RIBA FREE SAVINGS FUND

- 8.2 During the current year, the Federal Government has levied Federal Excise Duty at the rate of 16% on the remuneration of the Management Company through the Finance Act, 2013 effective from June 13, 2013.

	Note	2013 (Rupees in '000)	2012
<b>PAYABLE TO THE TRUSTEE</b>			
9			
Trustee fee	9.1	132	121
CDC Settlement charges payable		<u>37</u>	<u>1</u>
		<u>169</u>	<u>122</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 of the Fund. During the financial year 2012-13, Central Depository Company of Pakistan Limited (CDC) retired as the Trustee of the Fund, and MCB Financial Services Limited (MCB-FSL) has been appointed as the Trustee of the Fund, effective from January 11, 2013. Based on the Supplemental Trust Deed, which was signed on November 12, 2012, the following tariff structure is applicable to the Fund as at June 30, 2013.

Amount of funds under management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	Rs 0.5 million or 0.12% per annum of NAV whichever is higher
On amount exceeding Rs. 1,001 million to Rs. 5,000 million	Rs 1.2 million plus 0.075% per annum of NAV exceeding Rs 1,000 million
On amount exceeding Rs. 5,001 million	Rs 4.2 million plus 0.06% per annum of NAV exceeding Rs 5,000 million

	Note	2013 (Rupees in '000)	2012
<b>10 PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN</b>			
Annual fee	10.1	<u>930</u>	<u>485</u>

- 10.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, a collective investment scheme categorised as Income Scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the scheme. The Fund has been classified as an Income Scheme by the Management Company.

	Note	2013 (Rupees in '000)	2012
<b>11 ACCRUED EXPENSES AND OTHER LIABILITIES</b>			
Auditors' Remuneration		316	266
Bank Charges		43	14
Provision for Workers' Welfare Fund	15	3,940	1,859
Printing Charges		100	150
Legal and Professional Charges		40	-
Withholding Tax Payable		12	-
Others		-	779
		<u>4,451</u>	<u>3,068</u>

## 12 CONTINGENCIES AND COMMITMENTS

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

	2013 (Rupees in '000)	2012
<b>13 PROFIT ON BANK DEPOSITS</b>		
Income on savings deposits	<u>43,965</u>	<u>22,373</u>
<b>14 AUDITORS' REMUNERATION</b>		
Annual audit fee	280	254
Half yearly review fee	112	102
Out of pocket expenses	<u>75</u>	<u>34</u>
	<u>467</u>	<u>390</u>



# NAFA RIBA FREE SAVINGS FUND

## 15 PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / Mutual Funds (CISs) / Pension Funds whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a Constitutional Petition has been filed by certain CISs through their trustees in the Honorable High Court of Sindh (SHC), challenging the applicability of WWF to the CISs / pension funds, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

During the year ended June 30, 2011, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) on July 8, 2010 which stated that mutual funds are not liable to contribute to WWF on the basis of their income. However on December 14, 2010 the Ministry filed its response against the Constitutional Petition requesting the Court to dismiss the same. This response was contradictory to the earlier clarification issued by the Ministry. Show cause notices were then issued by the Federal Board of Revenue (FBR) to several mutual funds (CISs) / pension funds for the collection of WWF. In respect of such show cause notices, certain mutual funds (CISs) / pension funds have been granted stay by the Honorable SHC on the basis of the pending Constitutional Petition as referred to above.

In March 2013, a three member bench of the Sindh High Court in its judgement on various Constitutional Petitions challenging the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, held that WWF is a tax and consequently, the amendments introduced in the Workers' Welfare Fund Ordinance, 1971 through the Finance Act, 2006 and 2008 respectively (Money Bills) do not suffer from any constitutional or legal infirmity. This judgement was in contrast to the July 2011 single member bench decision of the Honorable Lahore High Court which had held such amendments as unlawful and unconstitutional for the reason that they were made through the money bills. For the CISs and pension funds, the issue of chargeability or otherwise of WWF levy to the CISs / pension funds is currently pending before the Honorable SHC.

In view of the pending decision, the Management Company of the Fund, as a matter of abundant caution, has continued to maintain the provision for WWF amounting to Rs. 3.940 million (2012: Rs.1.859 million) in these financial statements. Had the same not been made the net asset value per unit /return of the Fund would have been higher by Rs 0.0131 per unit.

## 16 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a provision for taxation in respect of income relating to the current year as the Management Company has distributed the required minimum percentage of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders.

	Note	2013 (Rupees in '000)	2012
<b>17 NUMBER OF UNITS IN ISSUE</b>			
Total units in issue at the beginning of the year		86,561,291	36,305,724
Add: units issued during the year	17.1	285,897,224	87,630,782
Add: bonus units issued during the year		10,022,736	7,721,099
Less: units redeemed during the year		82,327,434	45,096,314
Total units in issue at the end of the year		<u>300,153,817</u>	<u>86,561,291</u>

- 17.1 This includes 150,023,408 units issued to the National Bank of Pakistan (NBP) on June 29, 2013 based on their request for transfer of units from the NAFA Money Market Fund (NMMF). Amount of Rs. 1,513.57 million in respect of this transaction was received from NMMF on July 3, 2013.



# NAFA RIBA FREE SAVINGS FUND

	-----June 30,2012-----		
	Loans and receivables	Assets at fair value through profit or loss	Total
	-----Rupees in '000-----		
<b>Financial assets</b>			
Bank balances	249,205	-	249,205
Investments	171,920	443,962	615,882
Profit receivable	13,637	-	13,637
Security deposit	100	-	100
Receivable against issue of units	-	-	-
	<u>434,862</u>	<u>443,962</u>	<u>878,824</u>
	-----June 30,2012-----		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	-----Rupees in '000-----		
<b>Financial liabilities</b>			
Payable to the Management Company	-	1,041	1,041
Payable to Central Depository Company of Pakistan Limited - Trustee	-	122	122
Payable against redemption of units	-	2,835	2,835
Accrued expenses and other liabilities	-	1,209	1,209
	<u>-</u>	<u>5,207</u>	<u>5,207</u>

## 20 TRANSACTIONS WITH CONNECTED PERSONS

- 20.1 Connected persons include NBP Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the Ex-Trustee, MCB Financial Services Limited - current Trustee, National Bank of Pakistan and Alexandra Fund Management Pte. Limited being the sponsors, other collective investment schemes managed by the Management Company and directors and officers of the Management Company.
- 20.2 The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 20.3 Remuneration to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.
- 20.4 Remuneration payable to the Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed.

	June 30, 2013	June 30, 2012
	(Rupees in '000)	
<b>20.5 Details of the transactions with connected persons are as follows:</b>		
<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Remuneration	15,507	7,121
Sindh Sales Tax on Management Company's remuneration	2,481	1,144
Bonus of 367,417 units (2012: 712,508 units)	-	-
Redemption of 1,202,006 units (2012: 470,807 units)	12,200	4,800
<b>MCB Financial Services Limited - Trustee from January 11, 2013</b>		
Remuneration for the year	709	-
<b>Central Depository Company of Pakistan Limited - Trustee till January 11, 2013</b>		
Remuneration for the year	931	1,098
<b>Alexandra Fund Management Pte. Limited - Sponsor</b>		
Bonus of 832,048 units (2012: 1,514,376 units)	-	-
Redemption of 2,380,811 units (2012: 4,916,082 units)	24,000	50,000

# NAFA RIBA FREE SAVINGS FUND

	June 30, 2013	June 30, 2012
	(Rupees in '000)	
<b>National Bank of Pakistan - Sponsor</b>		
Issue of 150,023,408 units (2012: Nil units)	1,513,571	-
<b>Employees of the Management Company</b>		
Issue of 651,286 units (2012: 484,169 units)	6,584	4,923
Bonus of 19,357 units (2012: 12,393 units)	-	-
Redemption of 478,355 units (2012: 343,644 units)	4,839	3,495
<b>Muhammad Murtaza Ali - CFO &amp; Company Secretary</b>		
Issue of 17,298 units (2012: Nil units)	175	-
Bonus of 418 units (2012: Nil units)	-	-
Redemption of 16,937 units (2012: Nil units)	171	-
<b>CDC Trustee NAFA Islamic Multi Asset Fund</b>		
Purchase of sukuk	-	15,000
<b>CDC Trustee NAFA Multi Asset Fund</b>		
Purchase of sukuk	-	35,000
<b>MCBFSL Trustee NAFA Islamic Aggressive Income Fund</b>		
Purchase of sukuk	3,000	-
<b>The Hub Power Company Limited</b>		
Purchase of short term Islamic Sukuk	331,000	-
Sale of / matured short term Islamic Sukuk	233,000	-
	<b>June 30, 2013</b>	<b>June 30, 2012</b>
	(Rupees in '000)	

## 20.6 Amounts outstanding as at year end

<b>NBP Fullerton Asset Management Limited - Management Company</b>		
Management remuneration payable	1,585	1,041
Sales load payable	1,003	-
Transfer load payable	36	-
Sales tax payable to management company	259	-
FED 16% payable to management company	156	-
Units held: 4,666,193 units (2012: 5,500,782 units)	47,080	55,414
<b>MCB Financial Services Limited - Trustee</b>		
Remuneration payable	132	-
<b>Central Depository Company of Pakistan Limited</b>		
Remuneration payable	-	121
CDC Settlement charges payable	-	1
Security Deposit	-	100
<b>National Bank of Pakistan - Sponsor</b>		
Units held: 150,023,408 units (2012: Nil units)	1,513,691	-
Bank balance	-	2,046
<b>Alexandra Fund Management Pte. Limited - Sponsor</b>		
Units held: 8,541,059 units (2012: 10,089,822 units)		101,643

# NAFA RIBA FREE SAVINGS FUND

	June 30, 2013	June 30, 2012
	(Rupees in '000)	
<b>Employees of the Management Company</b> Units held: 374,644 units (2012: 182,356 units)	3,780	1,837
<b>Muhammad Murtaza Ali - CFO &amp; Company Secretary</b> Units held: 779 units (2012: Nil units)	8	-
<b>The Hub Power Company Limited</b> Short term Islamic Sukuk held	198,000	-
<b>NAFA Money Market Fund</b> Amount receivable due to transfer of units on behalf of National Bank of Pakistan - note 17.1		

## 21 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

S. No.	Name	Qualification	Experience in years
1	Dr. Amjad Waheed	MBA / Doctorate in Business Administration / CFA	25
2	Sajjad Anwar	CFA / MBA Finance	13
3	Muhammad Ali Bhabha	CFA / FRM	18.5
4	Syed Suleman Akhtar	CFA	13
5	Mr. Salman Ahmed	EMBA / CFA	7.5

Mr. Salman Ahmed is the Fund Manager.

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

		For the year ended June 30, 2013 Percentage
1	J.S Global Capital Limited	83.33%
2	Pearl Securities (Pvt.) Limited	16.67%
		<u>100.00%</u>
		For the year ended June 30, 2012 Percentage
1	BMA Capital Management Limited	26.86%
2	Invest Capital Markets Limited	26.86%
3	Summit Capital (Private) Limited	18.98%
4	J.S Global Capital Limited	9.53%
5	Al-Falah Securities (Private) Limited	4.48%
6	KASB Securities Limited	4.48%
7	Vector Capital (Private) Limited	3.88%
8	Optimus Capital Management Limited	2.69%
9	Invest One Markets Limited	2.24%
		<u>100.00%</u>

## 23 DETAILS OF PATTERN OF UNIT HOLDING

-----June 30, 2013-----			
Category	Number of unit holders	Investment amount	Percentage of investment
(Rupees in '000)			
Individuals	1,038	871,321	28.77%
Associated companies / directors	3	1,646,948	54.38%
Retirement funds	7	62,537	2.06%
Others	19	447,641	14.78%
		<u>1,067</u>	<u>3,028,447</u>
			<u>100.00%</u>

# NAFA RIBA FREE SAVINGS FUND

-----June 30, 2012-----

Category	Number of unit holders	Investment amount	Percentage of investment
(Rupees in '000)			
Individuals	629	456,258	52.32%
Associated companies / Directors	2	157,057	18.01%
Retirement funds	5	19,481	2.23%
Others	14	239,209	27.43%
	650	872,005	100.00%

## 24 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 37th, 38th, 39th, 40th and 41st Board meetings were held on July 09, 2012, September 11, 2012, October 23, 2012, February 26, 2013 and April 26, 2013 respectively. Information in respect of attendance by directors in the meetings is given below:

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

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

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

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

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

## 25 FINANCIAL RISK MANAGEMENT

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

### 25.1 Market risk

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

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

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

#### 25.1.1 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 all transactions are carried out in Pakistani Rupees.

#### 25.1.2 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 GoP Ijara Sukuks exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in 6 months weighted average yield of market treasury bills on June 30, 2013 with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs.0.648 million (2012: Rs.0.562 million).

# NAFA RIBA FREE SAVINGS FUND

The composition of the Fund's debt investment portfolio and market treasury bill rates is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2013 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

## b) Sensitivity analysis for fixed rate instruments

As at June 30, 2013, the Fund does not hold any fixed rate instruments that may expose the fund to fair value interest rate risk.

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

As at June 30, 2013

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

(Rupees in '000)

### On-balance sheet financial instruments

#### Financial assets

Bank balances	6.00 - 11.8	739,483	717,155	-	-	22,328
Investments	9.12 - 11.94	764,718	198,000	566,718	-	-
Profit receivable		18,733	-	-	-	18,733
Security deposit		200	-	-	-	200
Receivable against issue of units		1,513,571	-	-	-	1,513,571
		3,036,705	915,155	566,718	-	1,554,832

#### Financial liabilities

Payable to the Management Company		3,039	-	-	-	3,039
Payable to MCB Financial Services Limited - Trustee		169	-	-	-	169
Payable against redemption of units		200	-	-	-	200
Accrued expenses and other liabilities		511	-	-	-	511
		3,919	-	-	-	3,919

### On-balance sheet gap

		3,032,786	915,155	566,718	-	1,550,913
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### Off-balance sheet financial instruments

		-	-	-	-	-
--	--	---	---	---	---	---

### Off-balance sheet gap

		-	-	-	-	-
--	--	---	---	---	---	---

As at June 30, 2012

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

(Rupees in '000)

### On-balance sheet financial instruments

#### Financial assets

Bank balances	6.00 - 12.25	249,205	237,786	-	-	11,419
Investments	11.79 - 14.47	615,882	171,920	-	443,962	-
Profit receivable		13,637	-	-	-	13,637
Security deposit		100	-	-	-	100
Receivable against issue of units		-	-	-	-	-
		878,824	409,706	-	443,962	25,156

#### Financial liabilities

Payable to the Management Company		1,041	-	-	-	1,041
Payable to Central Depository Company of Pakistan Limited - Trustee		122	-	-	-	122
Payable against redemption of units		2,835	-	-	-	2,835
Accrued expenses and other liabilities		1,209	-	-	-	1,209
		5,207	-	-	-	5,207

### On-balance sheet gap

		873,617	409,706	-	443,962	19,949
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### Off-balance sheet financial instruments

		-	-	-	-	-
--	--	---	---	---	---	---

### Off-balance sheet gap

		-	-	-	-	-
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# NAFA RIBA FREE SAVINGS FUND

## 25.1.3 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 instruments traded in the market. Presently, the Fund does not hold any security which exposes the Fund to price risk.

## 25.2 Credit risk

Credit risk arising from the inability of the counterparties to fulfill their obligations in respect of financial instrument contracts, is generally limited to the principal amount and accrued income thereon. The Fund's policy is to enter into financial instrument contracts by following internal guidelines such as approving counterparties, approving credit, obtaining adequate collateral and transacting through approved brokers.

The analysis below summarises the credit quality of the Fund's bank balances as at June 30:

Bank balances by rating category	2013	2012
A1+ / A-1+	3.56%	7.61%
A1 / A-1	96.44%	92.37%
A2	0.00%	0.02%
	<u>100.00%</u>	<u>100.00%</u>

### 25.2.1 Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio is mainly concentrated in government securities and bank balances with commercial banks whereas the remaining transactions are entered into with diverse creditworthy counterparties thereby mitigating any significant concentration of credit risk to counterparties other than government.

### 25.2.2 Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

## 25.3 Liquidity risk

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

The Fund is exposed to daily cash redemptions, if any, 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 damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in government securities that can be readily disposed and are considered readily realisable.

For the purpose of making redemptions, the Fund has the ability to borrow in the short term. However, such need did not arise during the year. The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund may also 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.

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



# NAFA RIBA FREE SAVINGS FUND

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

Total	Upto three months	More than three months and upto one year	More than one year
-------	-------------------	--	--------------------

(Rupees in '000)

## Financial Liabilities

Payable to the Management Company	3,039	3,039	-	-
Payable to MCB Financial Services Limited - Trustee	169	169	-	-
Payable on redemption of units	200	200	-	-
Accrued expenses and other liabilities	511	511	-	-
	<u>3,919</u>	<u>3,919</u>	-	-

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

Total	Upto three months	More than three months and upto one year	More than one year
-------	-------------------	--	--------------------

(Rupees in '000)

## Financial Liabilities

Payable to the Management Company	1,041	1,041	-	-
Payable to Central Depository Company - Trustee	122	122	-	-
Payable on redemption of units	2,835	2,835	-	-
Accrued expenses and other liabilities	1,209	1,209	-	-
	<u>5,207</u>	<u>5,207</u>	-	-

## 26 UNIT HOLDERS' FUND RISK MANAGEMENT

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

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

In accordance with the risk management policies stated in note 25, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, which would be augmented by short-term borrowings or disposal of investments where necessary.

## 27 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

According to the amendments to International Financial Reporting Standard 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

# NAFA RIBA FREE SAVINGS FUND

----- As at June 30, 2013 -----  
----- Rupees in '000 -----

## ASSETS

Financial assets classified as 'fair value through profit or loss'

	Level 1	Level 2	Level 3	Total
Investment in GoP Ijara Sukuks	-	566,718	-	566,718

----- As at June 30, 2012 -----  
----- Rupees in '000 -----

## ASSETS

Financial assets classified as 'fair value through profit or loss'

	Level 1	Level 2	Level 3	Total
Investment in GoP Ijara Sukuks	-	443,962	-	443,962

## 28 CORRESPONDING FIGURES

No reclassifications of corresponding figures have been made during the current year.

## 29 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on 27 August, 2013.

## 29 GENERAL

Figures have been rounded off to the nearest thousand Rupees.

For NBP Fullerton Asset Management Limited  
(Management Company)

Chief Executive

Director

# NAFA RIBA FREE SAVINGS FUND

## PERFORMANCE TABLE

Particulars	For the year ended June 30, 2013	For the year ended June 30, 2012	For the period from July 30, 2010 to June 30, 2011
Net assets (Rs. '000')	3,028,447	872,005	376,778
Net Income (Rs. '000')	101,979	64,420	26,650
Net Asset Value per units (Rs.)	10.0897	100,738	10.0779
Offer price per unit	10.1401	100,738	10.0779
Redemption price per unit	10.0897	100,738	10.0779
Highest offer price per unit (Rs.)	10.1401	100,738	10.0779
Lowest offer price per unit (Rs.)	9.3295	9.0922	9.2663
Highest redemption price per unit (Rs.)	10.0897	10.0738	10.0779
Lowest redemption price per unit (Rs.)	9.2831	9.0922	9.2663
Total return of the fund	8.72%	10.80%	10.46%
Capital growth	0.43%	0.31%	2.46%
Income distribution	8.29%	10.49%	8.00%
Distribution			
Interim distribution per unit	0.829	1.0489	0.5000
Final distribution per unit	-	-	0.3000
Distribution dates			
Interim			18-Feb-11 & 19-Apr-11
30-Jul-12	0.0826	0.0877	
28-Aug-12	0.0816	0.0907	
27-Sep-12	0.0756	0.0796	
30-Oct-12	0.0705	0.0927	
28-Nov-12	0.0705	0.0806	
28-Dec-12	0.0685	0.0806	
29-Jan-13	0.0705	0.0806	
27-Feb-13	0.0604	0.0826	
28-Mar-13	0.0604	0.0826	
29-Apr-13	0.0604	0.0826	
29-May-13	0.0625	0.0826	
28-Jun-13	0.0655	0.1260	
Final	-	-	4-Jul-11
Average annual return (launch date 21-08-2010)			
(Since inception to June 30, 2013)	9.97%		
(Since inception to June 30, 2012)		10.64%	
(Since inception to June 30, 2011)			10.46%
Portfolio Composition (Please see Fund Manager Report)			
Weighted average portfolio duration	31 days	88 days	78 days
<b><i>"Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up."</i></b>			

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