

NAFA INCOME FUND

**QUARTERLY REPORT
FOR THE QUARTER ENDED
SEPTEMBER 30, 2009
(UN-AUDITED)**

Contents

DIRECTORS' REPORT	85
CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES	87
CONDENSED INTERIM INCOME STATEMENT	88
CONDENSED INTERIM DISTRIBUTION STATEMENT	89
CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS	90
CONDENSED INTERIM CASH FLOW STATEMENT	91
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS	92

NAFA INCOME FUND

DIRECTORS' REPORT

The Board of Directors of National Fullerton Asset Management Limited is pleased to present the unaudited financial statements of NAFA Income Fund for the quarter ended September 30, 2009.

Fund's Performance

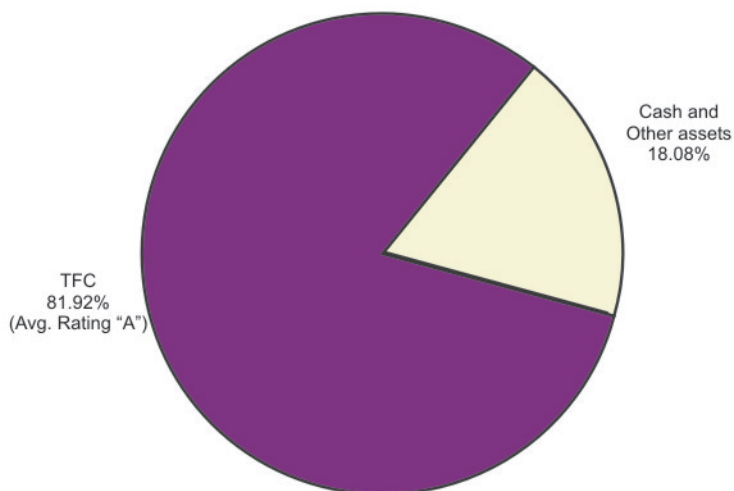
The size of NAFA Income Fund has reduced from Rs. 1,036 million to Rs. 759 million during the quarter, i.e. a decline of 26.74%. During the quarter, the unit price of NAFA Income Fund has increased from Rs. 9.9537 (Ex-Div) on June 30, 2009 to Rs. 10.1761 on September 30, 2009, thus showing an annualized return of 9.16% as compared to its benchmark return (3-Month T-Bills) of 12.75% for the same period.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned a stability rating of A(f) to NAFA Income Fund.

NAFA Income Fund has earned total income of Rs. 37.36 million during the period. After deducting expenses of Rs. 12.61 million, the net income is Rs. 24.75 million, translating into earning per unit of Re. 0.2224.

The asset allocation of the Fund as on September 30, 2009 is as follows:

Asset Allocation as on September 30, 2009



NAFA INCOME FUND

Acknowledgement

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

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

On behalf of the Board of
National Fullerton Asset Management Limited

Chief Executive

Director

Date: October 28, 2009

Place: Karachi.

NAFA INCOME FUND

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2009 (Un-audited)

	Note	September 30, 2009	June 30, 2009
----- Rupees in '000 -----			
Assets			
Balances with banks		98,995	179,595
Investments	4	621,484	823,944
Profit receivable	5	26,706	41,857
Advances, deposits, prepayments and other receivables	6	16,359	3,859
Preliminary expenses and floatation costs		3,492	3,744
Total assets		767,036	1,052,999
Liabilities			
Payable to National Fullerton Asset Management Limited - Management Company		5,052	6,805
Payable to Central Depository Company of Pakistan Limited - Trustee		128	167
Payable to Securities and Exchange Commission of Pakistan		162	1,076
Payable on redemption of units		2,172	8,032
Accrued expenses and other liabilities	7	882	862
Total liabilities		8,396	16,942
Net Assets		758,640	1,036,057
Unit Holders' Fund (As per statement attached)		758,640	1,036,057
Contingencies and Commitments	11		
Number of units in issue		74,550,896	102,339,874
Net asset value per unit		10.1761	10.1237

The annexed notes 1 to 13 form an integral part of these condensed interim financial statements.

**For National Fullerton Asset Management Limited
(Management Company)**

Chief Executive

Director

NAFA INCOME FUND

CONDENSED INTERIM INCOME STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2009 (Un-audited)

	Note	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008
----- Rupees in '000 -----			
INCOME			
Gain / (Loss) on sale of investments - net		2,620	-
Income from term finance certificates, sukuk bonds and commercial papers		28,608	33,432
Income from certificates of deposits and clean placements		-	136
Income from Continuous Funding System (CFS) transactions		-	4,619
Profit on bank deposits		2,184	11,848
Unrealised gain / (loss) on investments at fair value through profit or loss - net		7,798	(2,059)
Total income		41,210	47,976
EXPENSES			
Remuneration of National Fullerton Asset Management Limited - Management Company		3,234	5,840
Remuneration of Central Depository Company of Pakistan Limited - Trustee		429	641
Annual fee - Securities and Exchange Commission of Pakistan		162	389
Securities transaction cost		-	110
Settlement and bank charges		203	779
Annual listing fee		7	8
Auditors' remuneration		117	90
Amortisation of preliminary expenses and floatation costs		252	252
Printing and related cost		186	-
Others		-	107
Impairment loss on sukuk bonds	4.2.2	8,028	-
Total expenses		12,618	8,216
Net income from operating activities		28,592	39,760
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(3,847)	(2,167)
Net income for the period before taxation		24,745	37,593
Taxation	8	-	-
Net income for the period after taxation		24,745	37,593
Earnings per unit	9		

The annexed notes 1 to 13 form an integral part of these condensed interim financial statements.

**For National Fullerton Asset Management Limited
(Management Company)**

Chief Executive

Director

NAFA INCOME FUND

CONDENSED INTERIM DISTRIBUTION STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2009 (Un-audited)

	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008
	----- Rupees in '000 -----	
Undistributed income brought forward	21,284	37,719
Final distribution for the period ended June 30, 2009 : 1.70% (2008: 2.10%) (Date of Distribution: 03 July, 2009)		
- Bonus units	(16,900)	(31,331)
- Cash Distribution	(497)	(6,191)
Net income for the period	24,745	37,593
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' fund	1,502	(43)
	26,247	37,550
Undistributed income carried forward	30,134	37,747

The annexed notes 1 to 13 form an integral part of these condensed interim financial statements.

**For National Fullerton Asset Management Limited
(Management Company)**

Chief Executive

Director

NAFA INCOME FUND

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE QUARTER ENDED SEPTEMBER 30, 2009 (Un-audited)

	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008
	----- Rupees in '000 -----	
Net assets at the beginning of the year / period	1,036,057	1,827,917
Issue of 15,122,874 units including 1,697,894 bonus units (September 30, 2008: 42,839,077 units including 3,132,743 bonus units)	136,212	400,859
Redemption of 42,911,852 units (September 30, 2008: 78,733,386 units)	(433,427) (297,215)	(793,399) (392,540)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		
- amount representing (income) / loss and capital (gains) / losses - transferred to Income Statement	3,847	2,167
- amount representing income that form part of the unit holders' fund - transferred to Distribution Statement	(1,502) 2,345	43 2,210
Final distribution: Issue of 1,697,894 bonus units for the period ended June 30, 2009 (June 30, 2008: 3,132,743 bonus units)	16,900	31,331
Net unrealised diminution in the market value of investments classified as 'available for sale'	(8,297)	830
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing income that form part of the unit holders' fund	1,502	(43)
Loss on sale of investments	2,620	-
Unrealised diminution in the value of investments at fair value through profit or loss - net	7,798	(2,059)
Other net income for the year / period	14,327	39,652
Final distribution for the period ended June 30, 2009: Rs 0.1700 per unit (2008: Rs.0.2096) -Bonus units -Cash distribution	(16,900) (497)	(31,331) (6,191)
	8,850	28
Net assets as at the end of the period	758,640	1,469,776

The annexed notes 1 to 13 form an integral part of these condensed interim financial statements.

**For National Fullerton Asset Management Limited
(Management Company)**

Chief Executive

Director

NAFA INCOME FUND

CONDENSED INTERIM CASH FLOW STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2009 (Un-audited)

Note	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008
	----- Rupees in '000 -----	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the period	24,745	37,593
Adjustments		
Unrealised loss on investments at fair value through profit or loss - net	(7,798)	2,059
Amortisation of preliminary expenses and floatation costs	252	252
Impairment loss on sukuk bond	8,028	-
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	3,847	2,167
	<u>29,074</u>	<u>42,071</u>
(Increase) / decrease in assets		
Investments	193,933	(146,810)
Loans and receivables	-	10,000
Receivable against Continuous Funding System (CFS) transactions	-	20,441
Profit receivable	15,151	(5,409)
Advances, deposits, prepayments and other receivables	(12,500)	(1,960)
	<u>196,584</u>	<u>(123,738)</u>
Increase / (decrease) in liabilities		
Payable to National Fullerton Asset Management Limited - Management Company	(1,753)	(218)
Payable to Central Depository Company of Pakistan Limited - Trustee	(39)	(50)
Payable to Securities and Exchange Commission of Pakistan	(914)	390
Accrued expenses and other liabilities	20	(670)
	<u>(2,686)</u>	<u>(548)</u>
Payment made for preliminary expenses and floatation costs	-	-
Net cash inflow from / (used in) operating activities	<u>222,972</u>	<u>(82,215)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Receipts from issue of units	136,212	400,859
Payments on redemption of units	(439,287)	(796,712)
Distributions paid	(497)	(6,191)
Net cash (outflow) / inflow from financing activities	<u>(303,572)</u>	<u>(402,044)</u>
Net (decrease) / increase in cash and cash equivalents during the year / period	<u>(80,600)</u>	<u>(484,259)</u>
Cash and cash equivalents at the beginning of the period	179,595	759,564
Cash and cash equivalents at the end of the period	<u>98,995</u>	<u>275,305</u>

The annexed notes 1 to 13 form an integral part of these condensed interim financial statements.

**For National Fullerton Asset Management Limited
(Management Company)**

Chief Executive

Director

NAFA INCOME FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2009 (Un-audited)

1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Income Fund (NIF, the Fund) was established under a Trust Deed executed between National Fullerton Asset Management Limited (NAFA) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on January 03, 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on January 29, 2008 in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2007.

NIF is an open ended mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering to the Fund. The Fund is listed on the Lahore Stock Exchange.

The core objective of the Fund is to earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets. The fund will comprise of investments of various investment horizons with the significant amount invested in short term investments for the purpose of maintaining liquidity.

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

2 STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the 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 Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulation or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by SECP prevail. The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'.

3 ACCOUNTING POLICIES

The accounting policies adopted for the preparation of the financial statements for the quarter ended September 30, 2009 are same as those applied in the preparation of annual audited financial statements for the year ended June 30, 2009.

4 INVESTMENTS

At fair value through profit or loss - held for trading

	Note	September 30, 2009	June 30, 2008
----- Rupees in '000 -----			
Term finance certificates - listed	4.1.1	143,814	236,875
Term finance certificates - unlisted	4.1.1	268,476	349,049
Sukuk bonds	4.2	18,889	26,917
		431,179	612,841
Available for sale			
Term finance certificates - listed	4.3	105,365	114,188
Sukuk bonds	4.3	84,940	96,915
		190,305	211,103
		<u>621,484</u>	<u>823,944</u>

NAFA INCOME FUND

4.1 Term finance certificates and sukuk bonds

4.1.1 Term finance certificates - At fair value through profit or loss

Name of the investee company	Number of certificates				Market value as at September 30, 2009	Investment as a percentage of		
	As at July 1, 2009	Purchases during the period	Sales during the period	As at September 30, 2009		Net Assets	Market Value of Total Investment	Issue Size
(Rupees in '000)								
Term finance certificates - listed								
Engro Chemical Pakistan Limited	8,000	-	8,000	-	-	0.00%	0.00%	0.00%
NIB Bank Limited	1,000	-	-	1,000	4,675	0.62%	0.75%	0.12%
Saudi Pak Leasing Company Limited	15,000	-	-	15,000	48,543	6.40%	7.81%	10.00%
United Bank Limited	30,000	-	10,000	20,000	90,596	11.94%	14.58%	2.50%
				36,000	143,814	18.96%	23.14%	
Term finance certificates - unlisted								
Engro Chemical Pakistan Limited	20,000	-	-	20,000	88,000	11.60%	14.16%	2.50%
Pak American Fertilizer Limited	30,000	-	-	30,000	133,420	17.59%	21.47%	2.17%
Pakistan Mobile Communications Limited	30,000	-	20,000	10,000	47,056	6.20%	7.57%	4.29%
				60,000	268,476	35.39%	43.20%	
				96,000	412,290	54.35%	66.34%	
Carrying cost of investments as at September 30, 2009					404,491			

4.2 Sukuk bonds - At fair value through profit or loss

Name of the investee company	Number of certificates/ Bonds				Carrying value as at September 30, 2009	Investment as a percentage of		
	As at July 1, 2009	Purchases during the period	Sales during the period	As at September 30, 2009		Net Assets	Market Value of Total Investment	Issue Size
(Rupees in '000)								
New Allied Electronics Industries (Private) Limited (note 4.2.2)	10,000	-	-	10,000	18,889	2.49%	3.04%	6.67%
				10,000	18,889	2.49%	3.04%	
Carrying cost of investments as at September 30, 2009					50,000			
Impairment loss recognised					31,111			

4.2.1 All term finance certificates and sukuk bonds have a face value of Rs 5,000 each.

4.2.2 This represents investment in privately placed sukuk bonds with a term of five years. On December 3, 2008, the scheduled profit payment date, the investee company defaulted on its obligation amounting to Rs 3.795 million. The management has recognized an impairment loss of Rs.31.111 million till September 30, 2009 out of which Rs.8.028 million pertains to the current period. In accordance with the requirement of SECP Circular no. 01/2009 and the provisioning policy approved by the Board of Directors, the excess provision comes out to Rs.7.269 million as on September 30, 2009. The income suspended on these bonds is amounting to Rs.8.016 million.

NAFA INCOME FUND

4.3 Term finance certificates and sukuk bonds - available for sale

Name of the investee company	Number of certificates/ Bonds				Market value as at September 30, 2009	Investment as a percentage of		
	As at July 1, 2009	Purchases during the period	Sales during the period	As at September 30, 2009		Net Assets	Market Value of Total Investment	Issue Size
(Rupees in '000)								
Term finance certificate - listed	24,000	-	-	24,000	105,365	13.89%	16.95%	3.00%
Worldcall Telecom Limited								
					<u>24,000</u>	<u>105,365</u>	<u>13.89%</u>	<u>16.95%</u>
Carrying cost of investments as at September 30, 2009					<u>114,188</u>			
Sukuk bonds	20,000	-	-	20,000	89,940	11.20%	13.67%	13.70%
Eden Housing Limited								
					<u>20,000</u>	<u>89,940</u>	<u>11.20%</u>	<u>13.67%</u>
Carrying cost of investments as at September 30, 2009					<u>84,415</u>			

4.3.1 All term finance certificates and sukuk bonds have a face value of Rs 5,000 each.

4.3.2 The term finance certificates and sukuk bonds held by the fund are generally secured against hypothecation of stocks and receivables and mortgage of fixed assets of the issuer.

5 PROFIT RECEIVABLE

Profit on savings and term deposit accounts
Income accrued on term finance certificates and sukuk bonds
Less: Suspended Income

September 30, 2009 June 30, 2008
----- Rupees in '000 -----

	200	184
	34,522	47,684
	(8,016)	(6,011)
	<u>26,506</u>	<u>41,673</u>
	<u>26,706</u>	<u>41,857</u>

6 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Security deposit with:
- National Clearing Company of Pakistan Limited
- Central Depository Company of Pakistan Limited
Prepayments
Advance tax
Receivable from Eden Housing (Principal Redemption of Sukuk)
Receivable from NAFA Islamic Income Fund on transfer-in of units

	3,500	3,500
	100	100
	163	-
	96	57
	12,500	-
	-	202
	<u>16,359</u>	<u>3,859</u>

7 ACCRUED EXPENSES AND OTHER LIABILITIES

Auditor's remuneration
Settlement charges payable
Withholding tax payable
Bank charges payable
Payable to brokers
Printing charges payable

	108	210
	117	139
	-	-
	149	170
	44	65
	464	278
	<u>882</u>	<u>862</u>

NAFA INCOME FUND

8 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 realized or unrealized, is distributed amongst the unit holders. The Fund has not recorded a tax liability in respect of income relating to the current period as the management company has decided to distribute at least 90 percent of the Fund's accounting income for the period as reduced by capital gains (whether realized or unrealized) to its unit holders.

9 EARNINGS PER UNIT

Earnings per unit (EPU) for the year ended June 30, 2009 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

10 TRANSACTIONS WITH CONNECTED PERSONS

10.1 Connected persons include National Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being Trustee, National Bank of Pakistan, NIB Bank Limited 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.

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

10.3 Remuneration and front-end load payable to the Management Company is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

10.4 Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.

	Note	Quarter Ended September 30,2009	Quarter Ended September 30,2008
----- Rupees in '000 -----			
10.5 Details of the transactions with connected persons are as follows:			
National Fullerton Asset Management Limited - Management Company			
Management fee expense for the year / period		3,234	5,840
Front end load		614	-
Bonus units issued (178,995 units; 2008: 209,576 units)		1,782	2,096
Units Redeemed/Transferred Out (3,381,480; 2008: Nil units)		34,125	-
NIB Bank Limited - Sponsor			
Profit on bank deposits		723	2,234
Income from term finance certificates		173	-
Chief Executive Officer			
Bonus units issued (Nil units; 2008: 616 units)		-	6
Units Redeemed/Transferred Out (31,338 units : 2008: Nil Units)		314	-
Employees of the Management Company			
Units issued / transferred in (286,948 units; 2008: 174,426 units)		2,930	1,763
Units redeemed / transferred out (300,198 units; 2008: 9,217 units)		3,055	93
Bonus units issued (833 units; 2008: 169 units)		8	2

NAFA INCOME FUND

	Note	Quarter Ended September 30,2009	Quarter Ended September 30,2008
----- Rupees in '000 -----			
Central Depository Company of Pakistan Limited - Trustee			
Remuneration		429	641
CDS charges		2	-
NAFA Multi Asset Fund			
Units redeemed / transferred out (Nil units : 2008 : 5,634,702 units)		-	56,402
Bonus units issued (Nil units : 2008 : 115,666 units)		-	1,157
Term finance certificate sold		-	175,000
NAFA Cash Fund			
Units redeemed / transferred out (Nil units: 2008 : 7,546,476 units)		-	1,549
Bonus units issued (Nil units : 2008: 154,910 units)		-	75,613
NAFA Employees Provident Fund			
Units issued / transferred in (Nil units : 2008 : 248,337 units)		-	2,545
Bonus units issued (4,354 units; 2008: Nil units)		43	-
		As at September 30,2009	As at June 30,2008
----- Rupees in '000 -----			
10.6 Amounts outstanding as at year / period end			
National Fullerton Asset Management Limited - Management Company			
Management fee payable		961	-
Investment held by management company in the Fund (7,277,859 units; June 30, 2009: 10,209,577 units)		74,060	104,843
Front end load payable		116	-
Preliminary charges and floatation cost		3,975	-
National Bank of Pakistan - Sponsor			
Balance in current account		1,737	123
NIB Bank Limited - Sponsor			
Balance in savings account		67,222	21,923
Profit receivable on bank deposits		2	1,416
Investment in term finance certificates		4,675	-
Profit receivable on term finance certificates		49	-
		-	-
Chief Executive Officer			
Investment held in the Fund (Nil units: June 30, 2009: 30,016 units)		-	308
Employees of the Management Company			
Investment held in the Fund (36,371 units : June 30, 2009: 171,438 units)		370	1,761
NAFA Employees Provident Fund			
Investment held in the Fund (259,277 units: June 30, 2009: 248,337 units)		2,638	2,550
Central Depository Company of Pakistan Limited - Trustee			
Remuneration payable		128	167
CDC charges		1	1
Security deposit		100	100

NAFA INCOME FUND

11 CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments as on September 30, 2009.

12 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the Management Company on October 28, 2009.

13 GENERAL

13.1 Corresponding figures have been rearranged wherever necessary, for the purposes of comparison and better presentation.

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

13.3 The bifurcation of undistributed income into realized and unrealised income at the beginning and end of the year as required by the NBFC Regulations has not been disclosed as such bifurcation is not practicable.

**For National Fullerton Asset Management Limited
(Management Company)**

Chief Executive

Director

