



NAFA INCOME FUND

NAFA INCOME FUND

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NAFA INCOME FUND

DIRECTORS' REPORT

The Board of Directors of National Fullerton Asset Management Limited is pleased to present the Second Annual Report of NAFA Income Fund for the year ended June 30, 2009.

Fund's Performance

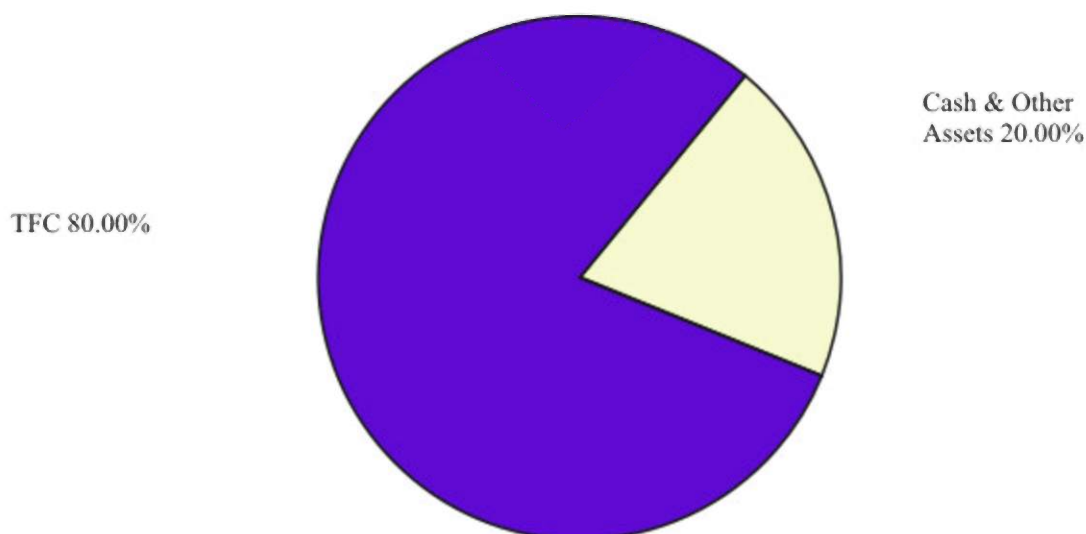
The mutual fund industry went through a crisis in the second half of 2008 due to fall in the value of TFCs followed by a redemption run. This was a result of macro-economic situation where there was severe liquidity shortage stemming from a fall in foreign exchange reserves, loss of investor confidence, rising inflation and interest rates, etc. The income fund industry in Pakistan is about 5 years old, and this was its first major crises. NAFA Income Fund paid back all its redemptions in time. In line with the industry, the size of NAFA Income Fund dropped to its lowest at Rs. 1 billion during the year.

In the second half of the FY 2008-09, the liquidity eased in the system resulting in a rise in TFC prices. As a result, the annualized return on NAFA Income Fund for the period from January 2009 to June 2009 was 16.3% as compared to its benchmark return (3-Month T-Bills) of 13.46% for the same period.

NAFA Income Fund has earned a total income of Rs.89.29 million during the year. After deducting total expenses of Rs.49.24 million, the net income is Rs.40.05 million. During the year, the unit price of NAFA Income Fund has increased from Rs.9.5791 on June 30, 2008 (Ex-Div) to Rs.10.1237 on June 30, 2009. The resultant per unit gain is Re.0.5446.

The asset allocation of NAFA Income Fund as on June 30, 2009 is as follows:

Asset Allocation as on June 30, 2009



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Income Distribution

In addition to interim distribution of 2.67%, the Board of Directors of the Management Company has also approved a final distribution of 1.70%, translating into total distribution of 4.37% of the par value and 4.56% of opening ex-NAV. After final distribution, the net asset value per unit will be Rs.9.9537 on June 30, 2009.

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, Messrs A. F. Ferguson & Co., Chartered Accountants, retire and, being eligible, offer themselves for re-appointment.

Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company of NAFA Income Fund, 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 NAFA Income 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 Accounting 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 NAFA Income 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 National Fullerton Asset Management Limited held five meetings during the current financial year. The attendance of all directors is disclosed in the note 26 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 25 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 22 to these financial statements.

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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 Trustees.

On behalf of the Board of
National Fullerton Asset Management Limited

Masood Karim Shaikh, FCA
Chairman

Dr. Amjad Waheed, CFA
Chief Executive

Date: August 31, 2009
Place: Karachi.

NAFA INCOME FUND

TRUSTEE REPORT TO THE UNIT HOLDERS

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

NAFA Income Fund (the Fund), an open-end scheme was established under a trust deed dated January 03, 2008, executed between National Fullerton Asset Management Limited, as the management company and Central Depository Company of Pakistan Limited, as the trustee.

In our opinion, the management company has in all material respects managed the Fund during the year ended June 30, 2009 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.

Kamran Qazi

Chief Financial Officer & Company Secretary
Central Depository Company of Pakistan Limited

Karachi, October 7, 2009

NAFA INCOME FUND

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2009

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of Listing Regulations of the Lahore Stock Exchange for the purpose of establishing a framework of good Governance, whereby a listed Company is managed in compliance with the best practice of corporate governance.

NAFA Income Fund (the Fund) is an open end mutual fund and is listed at the Lahore Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Fund and has appointed the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Company Secretary of NAFA and other necessary personnel to manage its affairs.

The Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors. At present the Board consist seven directors including six independent non-executive directors. The Management Company is not listed on any stock exchange and therefore does not have minority interest.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred during the year in the Board of the Management Company due to resignation of Khawaja Iqbal Hassan and Mr. Habib Yousuf Habib which were filled by Syed Naseer ul Hassan and Mr. Rayomond H. Kotwal on October 16, 2008.
5. The Management Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the directors and distributed to employees of the Management Company.
6. The Board has developed a vision/mission statement overall corporate strategy and significant policies of the Fund. A complete record of the particulars 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.

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8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter during the year. 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 meeting were appropriately recorded and circulated.
9. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justification for non arm's length transactions if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. All the members of Board are well aware of operations of the Fund and Management Company, therefore no orientation courses were arranged during the year.
11. The Board has approved the appointment of Head of Internal Audit and his terms of employment.
12. Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
14. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 22 to the financial statements "Transactions with Connected Persons".
15. The Management Company has complied with the corporate and financial reporting requirements of the Code with respect to the Fund.
16. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the chairman of the Committee.
17. The meetings of the Audit Committee were held at least once every quarter prior to approval of the interim and final results of the Fund as required by the Code. Terms of Reference of the Audit Committee have been prepared and advised to the Committee for compliance.
18. There exists an effective internal audit function within the Management Company. The Management Company has appointed the Head of Internal Audit, who is considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the 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, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.

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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. We confirm that all other material principles contained in the Code have been complied with.

Dated: August 31, 2009
Karachi

Dr. Amjad Waheed, CFA
Chief Executive Officer

NAFA INCOME FUND

FUND MANAGER REPORT

NAFA Income Fund

NAFA Income Fund is an open-end Fixed Income Fund.

Investment Objective of the Fund

The objective of NAFA Income Fund is to earn a competitive rate of return while preserving capital to the extent possible by investing in liquid assets.

Benchmark

3-Month Treasury Bills (T-Bills)

Fund's Performance Review

This is the second Annual report since the launch of the Fund on March 29, 2008. The Fund size as of June 30, 2009 is Rs. 1.03 billion. The Fund's annualized return since inception is 4.82%. During the same period the benchmark return has been 12.9%. The Fund's annual return during FY 2009 is 3.91%. During the same period the benchmark return has been 13.43%.

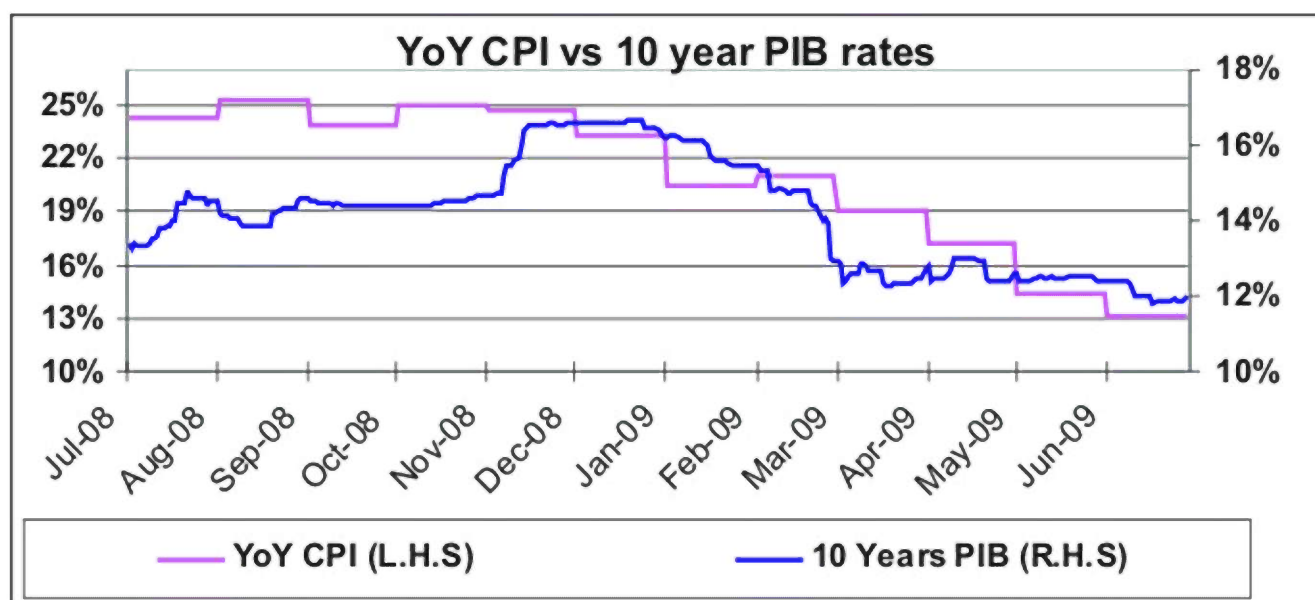
The Fiscal Year 2009 that ended on June 30, 2009 was a turbulent year for the capital markets, both equity and debt. The real GDP growth was only 2.0% in FY 2009 as against average of more than 6% from FY 2003 to FY 2008. Pakistan's economy experienced rising current account deficit due to high international commodity prices, political uncertainty, outflow of foreign portfolio investments, high fiscal deficit and declining import cover. Year on Year (YoY) headline inflation peaked at 25.3% in August 2008. At the same time local banking system witnessed a severe liquidity crunch, with overnight call rates rising in excess of 20% p.a. As a result of the economic situation and the liquidity crunch, the corporate debt market was hit and even good credit quality TFCs/ Sukuks started trading at significant discounts to their par value.

One Sukuk in your Fund also defaulted in this scenario, namely New Allied Electronics Sukuk II. We have provided 46.2% of New Allied Sukuk II. We expect that following the restructuring of this Sukuk, we may see reversal of some of the provisioning, which may help increase the NAV per unit of the Fund.

Subsequent to this, SBP announced gradual reduction in CRR to 5% from 9% and exemption of time deposits of more than one year from SLR in order to ease pressure on the banking system and inject liquidity in the capital markets. These measures eased the banking sector liquidity by more than Rs. 250 billion over a three months period in October to December.

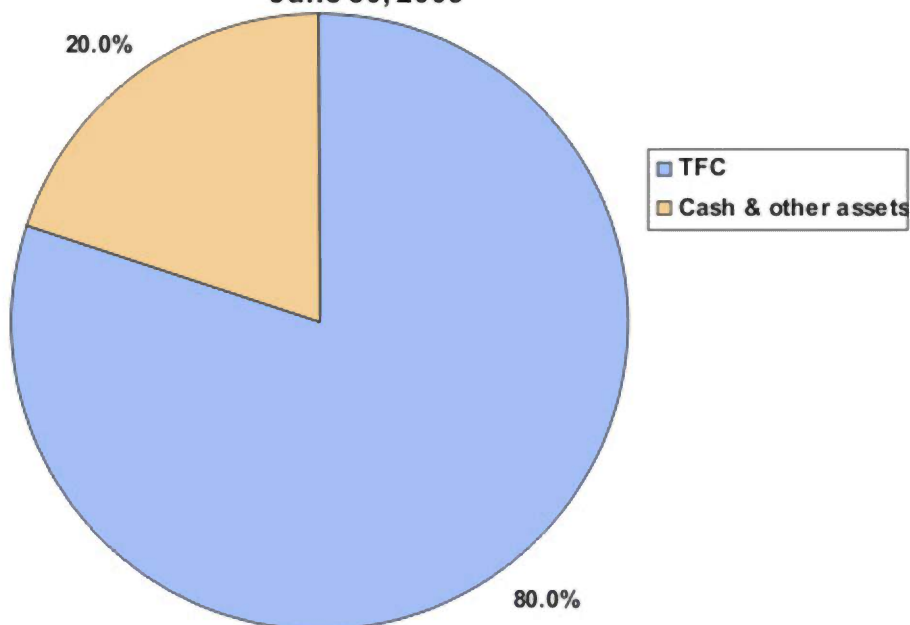
As the economic situation improved from January onwards, TFCs have started rising in value. Improved Fiscal and Current account deficits combined with declining inflation has resulted in gradual improvement in the capital markets. The graph below shows the positive relation between inflation and yields of PIBs (Pakistan Investment Bonds) observed during FY 2009. A significant improvement in inflation can be seen in the second half of the FY 2009, in alignment with the improvement in capital markets.

NAFA INCOME FUND



The difference between the market value and par value of TFCs/ Sukuks in NIF is presently at 9%. This represents the upside potential for our investors. As the liquidity situation improves and inflation and interest rates decline further, we expect TFCs/ Sukuks to revert back to their par values. In addition, the recurring income on the Fund is presently around 12% annualized. The asset allocation of NIF as on June 30, 2009 is as follows:

NAFA INCOME FUND - ASSET ALLOCATION as on June 30, 2009



NAFA INCOME FUND

The Fund declared interim dividend of 2.67% for the first quarter ending September 30, 2008. The Net Asset Value before declaration was 10.3345, which on ex-NAV basis became 10.0675. In addition to interim distributions of 2.67%, the Board of Directors of Management Company has also approved a final distribution of 1.7%, translating into total distribution of 4.37% of the par value and the opening ex-NAV.

During the period there has been no significant change in the state of affairs of the Fund, other than stated above. NAFA Income Fund does not have any soft commission arrangement with any broker in the industry.

Following is the unit holder pattern of NAFA Income Fund by the size of unit holdings as of June 30, 2009.

Size of Unit holding (Units)	# of Unit Holders
0 upto 1000	50
1,001-5,000	136
5,001-10,000	70
10,001-50,000	159
50,001-100,000	31
100,001-500,000	43
500,001-1,000,000	1
1,000,001-5,000,000	7
5,000,001-10,000,000	-
10,000,001-100,000,000	3
100,000,001-1,000,000,000	-

500

NAFA INCOME FUND

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **National Fullerton Asset Management Limited** (the Management Company) of **NAFA Income Fund** to comply with the Listing Regulation No. 35 (Chapter XI) of 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 of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Sub-Regulation (xiii a) of Listing Regulation 35 notified by The Lahore Stock Exchange (Guarantee) Limited requires the 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, 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, 2009.

A.F. Ferguson & Co.
Chartered Accountants
Karachi

Dated:

NAFA INCOME FUND

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **NAFA Income Fund**, which comprise the statement of assets and liabilities as at June 30, 2009, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' fund 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material 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 state of the Fund's affairs as at June 30, 2009 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Other matters

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

A.F. Ferguson & Co.

Chartered Accountants

Engagement Partner: **Rashid A. Jafer**

Dated: 14 September 2009

Karachi

NAFA INCOME FUND

STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2009

	Note	2009	2008
-----Rupees in '000-----			
Assets			
Balances with banks	4	179,595	759,564
Investments	5	823,944	921,423
Loans and receivables		-	50,000
Receivable against Continuous Funding System (CFS) transactions	6	-	58,656
Profit receivable	7	41,857	41,451
Advances, deposits, prepayments and other receivables	8	3,859	6,919
Preliminary expenses and floatation costs	9	3,744	4,744
Total assets		1,052,999	1,842,757
Liabilities			
Payable to National Fullerton Asset Management Limited - Management Company	10	6,805	8,742
Payable to Central Depository Company of Pakistan Limited - Trustee	11	167	251
Payable to Securities and Exchange Commission of Pakistan	12	1,076	705
Payable on redemption of units	13	8,032	3,333
Accrued expenses and other liabilities	14	862	1,809
Total liabilities		16,942	14,840
Net assets		1,036,057	1,827,917
Unit holders' fund (as per statement attached)		1,036,057	1,827,917
Contingencies and Commitments	15		
-----Number of units-----			
Number of units in issue		102,339,874	179,019,887
-----Rupees-----			
Net asset value per unit	16	10.1237	10.2107

The annexed notes 1 to 32 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA INCOME FUND

INCOME STATEMENT FOR THE YEAR ENDED JUNE 30, 2009

	Note	For the year ended June 30, 2009	For the period From March 07, 2008 to June 30, 2008
-----Rupees in '000-----			
Income			
Loss on sale of investments - net		(7,325)	(2,405)
Income from term finance certificates, sukuk bonds and commercial papers		141,484	28,556
Income from certificates of deposits and clean placements		1,082	1,604
Income from Continuous Funding System (CFS) transactions		5,733	19,781
Income from spread transactions		-	3,523
Profit on bank deposits	17	26,352	24,193
Unrealised loss on investments at fair value through profit or loss - net		(85,401)	(2,029)
Total income		81,925	73,223
Expenses			
Remuneration of National Fullerton Asset Management Limited - Management Company	10.1	18,525	10,581
Remuneration of Central Depository Company of Pakistan Limited - Trustee	11.1	2,235	962
Annual fee - Securities and Exchange Commission of Pakistan	12.1	1,076	705
Securities transaction cost		116	2,332
Settlement and bank charges		1,890	897
Annual listing fee		13	30
Auditors' remuneration	18	310	182
Amortisation of preliminary expenses and floatation costs	9	1,000	256
Printing and related cost		478	-
Legal and professional charges		518	-
Impairment loss on sukuk bonds	5.3.4	23,083	-
Total expenses		49,244	15,945
Net loss from operating activities		32,681	57,278
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		7,368	(19,559)
Net income for the year / period before taxation		40,049	37,719
Taxation	19	-	-
Net income for the year / period after taxation		40,049	37,719
Earnings per unit	20		

The annexed notes 1 to 32 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA INCOME FUND

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2009

Note	For the year ended June 30, 2009	For the period From March 07, 2008 to June 30, 2008
	------(Rupees in '000)-----	
Undistributed income brought forward	37,719	-
Final distribution for the period ended June 30, 2008: Rs 0.2096 per unit (2007: Nil)		
- Bonus units	(31,331)	-
- Cash Distribution	(6,191)	-
Net income for the year / period	40,049	37,719
First interim distribution for the year ended June 30, 2009: Rs 0.267 per unit (2008: Nil) (Date of Distribution: October 16, 2008)		
- Bonus units	(36,591)	-
- Cash Distribution	(692)	-
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	18,321	-
	21,087	37,719
Undistributed income carried forward	21,284	37,719

The annexed notes 1 to 32 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA INCOME FUND

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE YEAR ENDED JUNE 30, 2009

Note	For the year Ended June, 30, 2009	For the period From March 07, 2008 to June 30, 2008
	-----Rupees in '000-----	
Net assets at the beginning of the year / period	1,827,917	-
Issue of 124,148,405 units (2008: 419,877,785 units)	1,236,466	4,211,307
Redemption of 207,595,789 units (2008: 240,857,898 units)	(2,045,250) (808,784)	(2,440,668) 1,770,639
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	(7,368)	19,559
- amount representing income that form part of the unit holders' fund - transferred to Distribution Statement	(18,321) (25,689)	- 19,559
Final distribution:		
Issue of 3,132,743 bonus units for the period ended June 30, 2008 (2007: Nil bonus units)	31,331	-
Interim distribution:		
issue of 3,634,628 bonus units for the year ended June 30, 2009 (2008: Nil bonus units)	36,591	-
Net unrealised diminution in the market value of investments classified as 'available for sale'	(8,874)	-
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	18,321	-
Loss on sale of investments	(7,325)	(2,405)
Unrealised diminution in the value of investments at fair value through profit or loss - net	(85,401)	(2,029)
Other net income for the year / period	132,775	42,153
Final distribution for the period ended June 30, 2008: Rs 0.2096 per unit (2008: Nil)		
-Bonus units	(31,331)	-
-Cash distribution	(6,191)	-
First interim distribution for the year ended June 30, 2009: Rs 0.267 per unit (2008: Nil)		
-Bonus units	(36,591)	-
-Cash distribution	(692)	-
	(16,435)	37,719
Net assets as at the end of the year / period	1,036,057	1,827,917

The annexed notes 1 to 32 form an integral part of these financial statements.

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

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA INCOME FUND

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2009

	For the year ended June 30, 2009	For the period From March 07, 2008 to June 30, 2008
	-----Rupees in '000-----	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year / period	40,049	37,719
Adjustments		
Unrealised loss on investments at fair value through profit or loss - net	85,401	2,029
Amortisation of preliminary expenses and floatation costs	1,000	256
Impairment loss on sukuk bond	23,083	-
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(7,368)	19,559
	<u>142,165</u>	<u>59,563</u>
(Increase) / decrease in assets		
Investments	(19,879)	(923,452)
Loans and receivables	50,000	(50,000)
Receivable against Continuous Funding System (CFS) transactions	58,656	(58,656)
Profit receivable	(406)	(41,451)
Advances, deposits, prepayments and other receivables	3,060	(6,919)
	<u>91,431</u>	<u>(1,080,478)</u>
Increase / (decrease) in liabilities		
Payable to National Fullerton Asset Management Limited - Management Company	(1,937)	3,767
Payable to Central Depository Company of Pakistan Limited - Trustee	(84)	251
Payable to Securities and Exchange Commission of Pakistan	371	705
Accrued expenses and other liabilities	(947)	1,809
	<u>(2,597)</u>	<u>6,532</u>
Payment made for preliminary expenses and floatation costs	-	(25)
Net cash inflow from / (used in) operating activities	<u>230,999</u>	<u>(1,014,408)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Receipts from issue of units	1,236,466	4,211,307
Payments on redemption of units	(2,040,551)	(2,437,335)
Distributions paid	(6,883)	-
Net cash (outflow) / inflow from financing activities	<u>(810,968)</u>	<u>1,773,972</u>
Net (decrease) / increase in cash and cash equivalents during the year / period	<u>(579,969)</u>	<u>759,564</u>
Cash and cash equivalents at the beginning of the year / period	759,564	-
Cash and cash equivalents at the end of the year / period	<u><u>179,595</u></u>	<u><u>759,564</u></u>

The annexed notes 1 to 32 form an integral part of these financial statements.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA INCOME FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

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 transferrable 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 has assigned an asset manager rating of AM2- to the Management Company. The Management Company has initiated the process of obtaining the rating of the Fund. Pending completion of this process, the rating of the Fund has not been disclosed in these financial statements.

2 BASIS OF PREPARATION

2.1 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 Regulations 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.

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

The SECP vide SRO 411(1) / 2008 dated April 28, 2008 notified the adoption of IFRS 7 'Financial Instruments: Disclosures' which is mandatory for entities whose accounting periods begin on or after the date of notification. IFRS 7 has superseded IAS 30 and the disclosure requirements of IAS 32. Adoption of this standard has only impacted the format and extent of disclosures presented in these financial statements.

There are other standards, amendments and interpretations that were mandatory for accounting periods beginning on or after July 1, 2008 but were considered not to be relevant or did not have any significant effect on the Fund's operations.

NAFA INCOME FUND

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

IAS 1 (Revised), 'Presentation of financial statements' (effective for annual periods beginning on or after January 1, 2009), was issued in September 2007. The revised standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) will be required to be presented separately from owner changes in equity, either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). When the entity applies an accounting policy retrospectively or makes retrospective restatement or reclassifies items in the financial statements, they will be required to present a restated financial position (balance sheet) as at beginning of the comparative period in addition to the current requirement to present the balance sheet as at the end of the current and the comparative period. The adoption of this standard is not expected to have a significant impact on the presentation of the financial statements.

IAS 32 (Amendment), 'Financial Instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements - Puttable financial instruments and obligations arising on liquidation' (effective from January 1, 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. This amendment is not expected to have a significant effect on the financial statements of the Fund.

IFRS 7 (Amendment), 'Financial Instruments: Disclosure'. There are a number of minor amendments to IFRS 7 in respect of enhanced disclosures about liquidity risk and fair value measurements. These amendments are unlikely to have an impact on the Fund's financial statements and have therefore not been analysed in detail.

IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access of goods or receipt of services. This amendment is not expected to have a significant effect on the Fund's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or to have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Classification and valuation of investments (note 3.2 and note 5)
- ii) Amortisation of preliminary expenses and floatation cost (note 3.7 and note 9)

2.5 Accounting convention

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

2.6 Functional and Presentation Currency

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

NAFA INCOME FUND

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

3.1 Cash and cash equivalents

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

3.2 Financial assets

3.2.1 The Fund classifies its financial assets in the following categories: at fair value through profit or loss, available for sale and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the 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

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

b) Available for sale

These are non-derivatives financial assets that are intended to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in prices.

c) Loans and receivables

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

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

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:

a) Basis of valuation of Term Finance Certificates and Sukuk bonds

The SECP vide its circular no. 1/2009 dated January 06, 2009 has changed the methodology for valuation of debt securities. Under the said directive, investment in debt securities are valued on the basis of rates determined by Mutual Fund Association of Pakistan (MUFAP). In the determination of the rates MUFAP takes into account trading pattern of these securities and categorise them as traded, thinly traded and non traded securities. The circular specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities. Accordingly, investment in debt securities have been valued at the rates determined and announced by Mutual Funds Association of Pakistan (MUFAP) based on the methodology prescribed in the said circular. Prior to the issuance of the said circular investment in debt securities were valued as follows:

- (i) With effect from November 5, 2008 to January 9, 2009, at the lower of discounted redeemable face value of debt securities and the market value as determined using rates notified by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the SECP circular no. 26/2008 dated November 5, 2008.
- (ii) Prior to November 5, 2008, at the rates notified by MUFAP in accordance with the requirements of Regulation 2(1)(xvi) of the Non-Banking Finance Companies and Notified Entities Regulation, 2007.

NAFA INCOME FUND

c) Basis of valuation of Equity Securities

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

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

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

Loans and receivables are carried at amortised cost using the effective interest method.

3.2.5 Impairment

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

Provision for non-performing debt securities is made on the basis of time based criteria as prescribed under circular no. 1 of 2009 issued by the Securities and Exchange Commission of Pakistan

As allowed under circular No. 13 of 2009 issued by SECP the management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid circular, in accordance with a provisioning policy approved by the Board of Directors and disseminated by the management company on its website.

3.2.6 Derecognition

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

3.2.7 Offsetting of financial assets and liabilities

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

3.3 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.

3.4 Derivatives

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

3.5 Securities under resale agreements – Continuous Funding System (CFS) transactions

Securities purchased under an agreement to resell (reverse repo) are included as receivable against CFS transactions at the fair value of the consideration given. The CFS transactions are accounted for on the settlement date. The difference between the purchase and sale price is treated as income from CFS transactions in the Income Statement and is recognised over the term of the respective transactions. Transaction costs are included in the initial measurement of all CFS transactions except for transaction costs that may be incurred on disposal.

NAFA INCOME FUND

3.6 Spread transactions (Ready-Future Transactions)

The Fund enters into transactions involving purchase of an equity security in the ready market and simultaneous sale of the same security in the futures market. The security purchased in ready market is classified as "Investment at fair value through profit or loss" and carried on the statement of assets and liabilities at fair value till their eventual disposal, with the resulting gain / loss taken to the income statement. The forward sale of the security in the futures market is treated as a separate derivative transaction and is carried at fair value with the resulting gain / loss taken to the income statement in accordance with the requirements of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement".

3.7 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.

3.8 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors during business hours on that date. The offer price represents the Net Asset Value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sale load is payable to the Management Company, Investment facilitators or distributors.

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

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

An equalisation account called the 'element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed' is created, in order to prevent the dilution of per unit income and distribution of income already paid out on redemption.

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) that form part of the Unit Holders' Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

3.10 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.

3.11 Taxation

Provision for current taxation is based on the taxable income at the current rates of taxation after taking into account tax credits, rebates and exemptions, if any, and is made in accordance with the provisions of 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.

3.12 Proposed distributions

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

NAFA INCOME FUND

3.13 Revenue recognition

- Capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Income on reverse repurchase (reverse repo) transactions and Continuous Funding System (CFS) transactions is recognised on an accrual basis.
- Dividend income is recognised when the right to receive the payment is established.
- Income on term finance certificates, sukuk bonds and commercial papers is recognised on time proportion basis.
- Income from clean placements and Certificates of Investment is recognised on an accrual basis.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets 'at fair value through profit or loss' are included in the Income Statement in the period in which they arise.
- Profit on bank deposits is recognised on an accrual basis.

3.14 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

	Note	June 30, 2009 (Rupees in '000)	June 30, 2008 (Rupees in '000)
4 BALANCES WITH BANKS			
Current accounts		3,047	4,402
Savings accounts		176,548	205,162
Term deposits		-	550,000
		<u>179,595</u>	<u>759,564</u>
5 INVESTMENTS			
At fair value through profit or loss - held for trading			
Equity securities acquired under MK II square up program	5.1	-	-
Units of open end mutual funds	5.2	-	-
Term finance certificates - listed	5.3.1	236,875	131,245
Term finance certificates - unlisted	5.3.1	349,049	401,360
Sukuk bonds	5.3.2	26,917	50,335
		612,841	582,940
Available for sale			
Term finance certificates - unlisted	5.4	114,188	120,000
Sukuk bonds	5.4	96,915	100,000
Commercial papers	5.6	-	118,483
		211,103	338,483
		<u>823,944</u>	<u>921,423</u>

NAFA INCOME FUND

5.1 During the year, NAFA Income Fund had entered into a Voluntary Continuous Funding System Mark-II Square Up Program (the Program) with National Clearing Company of Pakistan Limited for squaring up of its outstanding exposure in the CFS. The need for this program developed due to the large number of suspension of members in December 2008 following eight days of continuous market lower locks in the underlying CFS shares posing great difficulty in squaring up and the likelihood of systemic risk emanating therein. The aim of this program was to ensure the full repayment of financier funds and prevent mass scale broker defaults enabling a vast majority of them to return from suspension.

Under the terms of the Program, CFS shares and their associated margins in the form of exposure shares (i.e. those shares which were deposited as collateral against the specific shared financed in the CFS market by the relevant finance broker) were sold to the financiers at a discount of 12.5% to their closing prices prevailing as at December 24, 2008. The financiers opting into the program have purchased shares of an amount equal to 30% of the total value they had financed in the CFS market at the aforementioned price. The remaining 70% that they had financed in the CFS market along with the mark-up accrued thereon was to be settled in cash.

Consequent to the announcement of the Program, NAFA Income Fund purchased shares of an amount equal to approximately 30% of the total value that they had financed in the CFS market and classified them as short-term investments. The remaining 70% CFS balance along with the entire mark-up accrued thereon has been received therein.

The SECP vide its circular no. NBFC-1/MUFAP/01/2009 dated January 1, 2009 had permitted all income / money market funds to keep the shares acquired under the Program for a period of three months extendable to another three months upon application to SECP. However, in case the price of these shares attain the level determined in the Program i.e. 12.5% discount to the closing price as of December 24, 2008, the Fund is required to dispose of these shares immediately. At June 30, 2009, the Fund does not hold any shares acquired under the aforementioned program.

Equity securities - acquired under CFS MK II square up program

Name of the investee company	Number of shares				Market value as at June 30, 2009 (Rs. in '000')	Investment as a percentage of		
	As at July 1, 2008	Purchases during the year	Sales during the year	As at June 30, 2009		Net Assets	Market value of total investments	Paid-up capital of investee company

SHARES OF LISTED COMPANIES - Fully paid ordinary shares of Rs. 10/- each unless stated otherwise .

Closed end Mutual Funds

JS Value Fund	-	370	370	-	-	-	-	-
PICIC Growth Fund	-	94	94	-	-	-	-	-
Pakistan Premier Fund Limited	-	351	351	-	-	-	-	-

Investment Banks / Companies

Arif Habib Limited	-	52	52	-	-	-	-	-
Arif Habib Securities Limited	-	13,084	13,084	-	-	-	-	-
Dawood Equities Limited	-	14	14	-	-	-	-	-
First National Equities Limited	-	2	2	-	-	-	-	-
Jahangir Siddiqui and Company Limited	-	851	851	-	-	-	-	-
Jahangir Siddiqui Investment Company Limited	-	29	29	-	-	-	-	-
Javed Omer Vohra and Company Limited	-	163	163	-	-	-	-	-
Pervez Ahmed Securities Limited	-	434	434	-	-	-	-	-

Commercial Banks

Allied Bank Limited	-	29	29	-	-	-	-	-
Askari Bank Limited	-	16,740	16,740	-	-	-	-	-
Arif Habib Bank Limited	-	2,053	2,053	-	-	-	-	-
Bank Al-Falah Limited	-	5,517	5,517	-	-	-	-	-
Bank Al Habib Limited	-	13	13	-	-	-	-	-
The Bank of Punjab	-	154	154	-	-	-	-	-
BankIslami Pakistan Limited	-	961	961	-	-	-	-	-
Faysal Bank Limited	-	57	57	-	-	-	-	-
Habib Bank Limited	-	32	32	-	-	-	-	-
MCB Bank Limited	-	2	2	-	-	-	-	-
Meezan Bank Limited	-	24	24	-	-	-	-	-
National Bank of Pakistan	-	102	102	-	-	-	-	-
NIB Bank Limited	-	1,202	1,202	-	-	-	-	-
JS Bank Limited	-	892	892	-	-	-	-	-
Saudi Pak Commercial Bank Limited	-	1,046	1,046	-	-	-	-	-
Soneri Bank Limited	-	38	38	-	-	-	-	-
United Bank Limited	-	141	141	-	-	-	-	-

NAFA INCOME FUND

Name of the investee company	Number of shares				Market value as at June 30, 2009 (Rs. In "000")	Investment as a percentage of		
	As at July 1, 2008	Purchases during the year	Sales during the year	As at June 30, 2009		Net Assets	Market value of total investments	Paid-up capital of investee company
Insurance								
Adamjee Insurance Company Limited	-	12	12	-	-	-	-	-
EFU General Insurance Limited	-	55	55	-	-	-	-	-
Pakistan Reinsurance Limited	-	95	95	-	-	-	-	-
Textile Spinning								
D.S Industries Limited	-	7	7	-	-	-	-	-
Textile Composite								
Azgard Nine Limited (Non-voting) preference shares	-	31,504	31,504	-	-	-	-	-
Dawood Lawrencepur Limited	-	23	23	-	-	-	-	-
Nishat (Chunian) Mills Limited	-	140	140	-	-	-	-	-
Nishat Mills Limited	-	19,699	19,699	-	-	-	-	-
Synthetic and Rayon								
Dewan Salman Fibre Limited	-	219	219	-	-	-	-	-
Cement								
Al Abbas Cement Company Limited	-	105	105	-	-	-	-	-
D.G Khan Cement Company Limited	-	139	139	-	-	-	-	-
Deewan Cement Limited	-	126	126	-	-	-	-	-
Lucky Cement Limited	-	1,044	1,044	-	-	-	-	-
Fauji Cement Company Limited	-	702	702	-	-	-	-	-
Maple Leaf Cement Factory Limited	-	78	78	-	-	-	-	-
Pakistan Cement Company Limited	-	1,832	1,832	-	-	-	-	-
Pioneer Cement Limited	-	84	84	-	-	-	-	-
Refinery								
Attock Refinery Limited	-	33	33	-	-	-	-	-
Bosicor Pakistan Limited	-	744	744	-	-	-	-	-
Pakistan Refinery Limited	-	25	25	-	-	-	-	-
Power Generation and Distribution								
The Hub Power Company Limited	-	478	478	-	-	-	-	-
Kot Addu Power Company Limited	-	7	7	-	-	-	-	-
Oil and Gas Marketing Companies								
Attock Petroleum Limited	-	28	28	-	-	-	-	-
Pakistan State Oil Company Limited	-	94	94	-	-	-	-	-
Sui Southern Gas Company Limited	-	107	107	-	-	-	-	-
Sui Northern Gas Company Limited	-	2,519	2,519	-	-	-	-	-
Oil and Gas Exploration Companies								
Oil and Gas Development Company Limited	-	498	498	-	-	-	-	-
Pakistan Oilfields Limited	-	34	34	-	-	-	-	-
Pakistan Petroleum Limited	-	44	44	-	-	-	-	-
Engineering								
Crescent Steel and Allied Products Limited	-	120	120	-	-	-	-	-
Dost Steel Limited	-	209	209	-	-	-	-	-
Automobile Assemblers								
Honda Atlas Cars (Pakistan) Limited	-	64	64	-	-	-	-	-
Indus Motor Company Limited	-	6	6	-	-	-	-	-
Cable and Electrical Goods								
Pak Electron Limited	-	194	194	-	-	-	-	-
Transport								
Pakistan International Container Terminal Limited	-	3	3	-	-	-	-	-
Technology and Communications								
Pakistan Telecommunication Company Limited	-	154	154	-	-	-	-	-
Netsol Technologies Limited	-	5,895	5,895	-	-	-	-	-
TRG Pakistan Limited	-	1,020	1,020	-	-	-	-	-
Telecard Limited	-	332	332	-	-	-	-	-
Worldcall Telecom Limited	-	1,659	1,659	-	-	-	-	-
Fertilizers								
Engro Chemicals Pakistan Limited	-	46	46	-	-	-	-	-
Fauji Fertilizer Company Limited	-	143	143	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	5,951	5,951	-	-	-	-	-
Chemicals								
BOC Pakistan Limited	-	5	5	-	-	-	-	-
ICI Pakistan Limited	-	10	10	-	-	-	-	-
Pakistan PTA Limited	-	688	688	-	-	-	-	-
Sitara Peroxide Limited	-	69	69	-	-	-	-	-

NAFA INCOME FUND

5.3.2 Sukuk bonds - At fair value through profit or loss

Name of the investee company	Number of certificates / bonds				Carrying value as at June 30, 2009 (Rs. In "000")	Investment as a percentage of		
	As at July 1, 2008	Purchases during the year	Sales during the year	As at June 30, 2009		Net Assets	Market value of total investments	Net assets of investee fund
New Allied Electronics Industries (Private) Limited (note 5.3.4)	10,000	-	-	10,000	26,917	2.60%	3.27%	6.67%
				10,000	26,917	2.60%	3.27%	
Carrying cost of investments as at June 30, 2009					50,000			
Impairment loss recognised					23,083			

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

5.3.4 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 recognised an impairment loss of Rs 16.250 million in accordance with the requirements of SECP Circular no 1/2009. Further, as a matter of prudence an additional impairment loss of Rs 6.833 million has also been recognised in line with the provisioning policy approved by the Board of Directors. The income accrued on these bonds amounting to Rs 6.011 million has also been reversed.

5.4 Term Finance Certificates and Sukuk Bonds - Available for Sale

Name of the investee company	Number of certificates / bonds				Market value as at June 30, 2009 (Rs. In "000")	Investment as a percentage of		
	As at July 1, 2008	Purchases during the year	Sales during the year	As at June 30, 2009		Net Assets	Market value of total investments	Issue size
Term finance certificate - listed								
Worldcall Telecom Limited	24,000	-	-	24,000	114,188	11.02%	13.86%	3.00%
				24,000	114,188	11.02%	13.86%	
Carrying cost of investments as at June 30, 2009					119,977			
Sukuk bonds								
Eden Housing Limited	20,000	-	-	20,000	96,915	9.35%	11.76%	13.70%
				20,000	96,915	9.35%	11.76%	
Carrying cost of investments as at June 30, 2009					100,000			

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

5.5 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.

NAFA INCOME FUND

5.6 Commercial papers - Available for sale

Name of the investee company	Number of certificates				Market value as at June 30, 2009 (Rs. in "000")	Investment as a percentage of		
	As at July 1, 2008	Purchases during the year	Sales/ Matured during the year	As at June 30, 2009		Net Assets	Market value of total investments	Issue size
Commercial paper								
Azgard Nine Limited	15,000	-	15,000	-	-	-	-	-
IGI Insurance Limited	10,000	-	10,000	-	-	-	-	-
Cost of investment as at June 30, 2009								

6 RECEIVABLE AGAINST CONTINUOUS FUNDING SYSTEM (CFS) TRANSACTIONS

There are no transactions outstanding as at June 30, 2009. The rates of return on CFS transactions outstanding as at June 30, 2008 ranged between 10.30% and 22.90% per annum.

Note	June 30, 2009	June 30, 2008
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7 PROFIT RECEIVABLE

(Rupees in '000)

Income accrued on Continuous Funding System (CFS) transactions	-	684
Profit on savings and term deposit accounts	184	14,273
Income accrued on term finance certificates and sukuk bonds	47,684	25,210
Less: Provision held against doubtful receivables	(6,011)	-
	41,673	25,210
Income accrued on money market placements	-	1,284
	41,857	41,451

8 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Security deposit with:		
- National Clearing Company of Pakistan Limited	3,500	3,500
- Central Depository Company of Pakistan Limited	100	100
Prepayments	-	882
Advance tax	57	-
Exposure deposit	-	2,029
Receivable from NAFA Multi Asset Fund on transfer-in of units	-	139
Receivable from NAFA Islamic Income Fund on transfer-in of units	202	-
Receivable from NAFA Stock Fund on transfer-in of units	-	269
	3,859	6,919

9 PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs	9.1	4,744	5,000
Less: Amortisation during the year / period		1,000	256
Balance as at June 30		3,744	4,744

9.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from March 28, 2008 as per the requirements set out in the Trust Deed of the Fund.

NAFA INCOME FUND

		June 30, 2009	June 30, 2008
10	PAYABLE TO NATIONAL FULLERTON ASSET MANAGEMENT LIMITED – MANAGEMENT COMPANY	Note	(Rupees in '000)
	Management fee	10.1	1,265
	Front-end load		565
	Formation cost payable		4,975
			<u>4,975</u>
			<u>6,805</u>
			<u>8,742</u>

10.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of one and a half percent per annum for the current period. The remuneration is paid on a monthly basis in arrears.

		2009	2008
11	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	Note	(Rupees in '000)
	Trustee fee	11.1	167
			<u>251</u>

11.1 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.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2009 is as follows:

Amount of funds under management (Average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs 2.0 million plus 0.10% p.a. of NAV exceeding Rs 1,000 million

The remuneration is paid to the trustee monthly in arrears.

		2009	2008
12	PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	Note	(Rupees in '000)
	Annual fee	12.1	1,076
			<u>705</u>

12.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment 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 Fund with effect from November 21, 2008. Previously, annual fee of an amount equal to one tenth of one percent was accrued under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2007.

13 PAYABLE ON REDEMPTION OF UNITS

This includes an amount of Rs Nil (2008: Rs 2.682 million) payable to NAFA Cash Fund on transfer-out of units.

NAFA INCOME FUND

	June 30, 2009	June 30, 2008
14 ACCRUED EXPENSES AND OTHER LIABILITIES	(Rupees in '000)	
Auditor's remuneration	210	182
Settlement charges payable	139	76
Withholding tax payable	-	291
Bank charges payable	170	6
Charges payable to National Clearing Company of Pakistan Limited	-	27
Payable to brokers	65	1,227
Printing charges payable	278	-
	<u>862</u>	<u>1,809</u>

15 CONTINGENCIES AND COMMITMENTS

15.1 There were no contingencies outstanding as at June 30, 2009.

15.2 Commitments

Continuous Funding System (CFS) transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase and sale transactions have not been settled as at year / period end

-	<u>7,955</u>
---	--------------

2009

2008

16 NET ASSET VALUE PER UNIT

The Net Asset Value per unit as disclosed on the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in circulation at the year / period end.

	For the period ended June 30, 2009	For the period March 07, 2008 to June 30, 2008
17 PROFIT ON BANK DEPOSITS	(Rupees in '000)	
Income on saving deposits	15,506	7,103
Income on term deposits	<u>10,846</u>	<u>17,090</u>
	<u>26,352</u>	<u>24,193</u>

18 AUDITORS' REMUNERATION

Annual Audit fee	200	175
Half yearly review fee	80	-
Out of pocket expenses	<u>30</u>	<u>7</u>
	<u>310</u>	<u>182</u>

19 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 / period, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current year as the management company intends to distribute at least 90 percent of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders.

NAFA INCOME FUND

20 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.

21 FINANCIAL INSTRUMENTS BY CATEGORY

-----As at June 30, 2009-----				
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
-----Rupees in '000-----				
Assets				
Balances with banks	179,595	-	-	179,595
Investments	-	612,841	211,103	823,944
Loans and receivables	-	-	-	-
Receivable against Continuous Funding System (CFS) transactions	-	-	-	-
Profit receivable	41,857	-	-	41,857
Advances, deposits and other receivables	3,802	-	-	3,802
	<u>225,254</u>	<u>612,841</u>	<u>211,103</u>	<u>1,049,198</u>
-----As at June 30, 2009-----				
	Liabilities at fair value through profit or loss		Other financial liabilities	Total
-----Rupees in '000-----				
Liabilities				
Payable to National Fullerton Asset Management Limited - Management Company	-		6,805	6,805
Payable to Central Depository Company of Pakistan Limited - Trustee	-		167	167
Payable on redemption of units	-		8,032	8,032
Accrued expenses and other liabilities	-		862	862
	-		<u>15,866</u>	<u>15,866</u>
-----As at June 30, 2008-----				
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
-----Rupees in '000-----				
Assets				
Balances with banks	759,564	-	-	759,564
Investments	-	582,940	338,483	921,423
Loans and receivables	50,000	-	-	50,000
Receivable against Continuous Funding System (CFS) transactions	58,656	-	-	58,656
Profit receivable	41,451	-	-	41,451
Advances, deposits and other receivables	6,037	-	-	6,037
	<u>915,708</u>	<u>582,940</u>	<u>338,483</u>	<u>1,837,131</u>
-----As at June 30, 2008-----				
	Liabilities at fair value through profit or loss		Other financial liabilities	Total
-----Rupees in '000-----				
Liabilities				
Payable to National Fullerton Asset Management Limited - Management Company	-		8,742	8,742
Payable to Central Depository Company of Pakistan Limited - Trustee	-		251	251
Payable on redemption of units	-		3,333	3,333
Accrued expenses and other liabilities	-		1,518	1,518
	-		<u>13,844</u>	<u>13,844</u>

NAFA INCOME FUND

22 TRANSACTIONS WITH CONNECTED PERSONS

- 22.1** 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.
- 22.2** The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 22.3** 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.
- 22.4** Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.

	For the period ended June 30, 2009	For the period March 07, 2008 to June 30, 2008
	(Rupees in '000)	
22.5 Details of the transactions with connected persons are as follows:		
National Fullerton Asset Management Limited - Management Company		
Management fee expense for the year / period	18,525	10,581
Units issued / transferred in (Nil units; 2008: 10,000,000 units)	-	100,000
Bonus units issued (480,345 units; 2008: Nil units)	4,822	-
Preliminary expenses and floatation cost	-	5,000
NIB Bank Limited - Sponsor		
Profit on bank deposits	7,212	-
Investment in term finance certificates	-	5,073
Income from term finance certificates	697	1,259
Chief Executive Officer		
Units issued / transferred in (Nil units; 2008: 29,400 units)	-	300
Bonus units issued (1,412 units; 2008: Nil units)	14	-
Employees of the Management Company		
Units issued / transferred in (820,580 units; 2008: 535,595 units)	8,165	5,389
Units redeemed / transferred out (848,309 units; 2008: 497,860 units)	8,334	5,024
Bonus units issued (6,969 units; 2008: Nil units)	70	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	2,235	962
CDS charges	50	472
Security deposit	-	100
NAFA Multi Asset Fund		
Units issued / transferred in (8,708,694 units; 2008: 5,519,036 units)	90,000	56,000
Units redeemed / transferred out (14,574,359 units; 2008: Nil units)	140,046	-
Bonus units issued (346,629 units; 2008: Nil units)	3,482	-
Term finance certificate sold	175,000	-
NAFA Cash Fund		
Units issued / transferred in (Nil units; 2008: 7,391,566 units)	-	75,000
Units redeemed / transferred out (7,546,476 units; 2008: Nil units)	75,613	-
Bonus units issued (154,910 units; 2008: Nil units)	1,549	-

NAFA INCOME FUND

	For the period ended June 30, 2009	For the period March 07, 2008 to June 30, 2008
	(Rupees in '000)	
NAFA Employees Provident Fund		
Units issued / transferred in (248,337 units; 2008: Nil units)	2,545	-
Bonus units issued (6,586 units; 2008: Nil units)	66	-
NAFA Cash Fund - Investment held by the Fund		
Investment made (13,615,160 units; 2008: Nil units)	140,000	-
Investment redeemed / transferred out (13,860,404 units; 2008: Nil units)	133,954	-
Bonus units received (245,244 units; 2008: Nil units)	2,473	-
	June 30, 2009	June 30, 2008
22.6 Amounts outstanding as at year / period end	(Rupees in '000)	
National Fullerton Asset Management Limited - Management Company		
Management fee payable	1,265	2,529
Investment held by management company in the Fund (10,480,345 units; 2008: 10,000,000 units)	106,100	102,107
Front end load payable	565	1,238
Preliminary charges and floatation cost	4,975	4,975
National Bank of Pakistan - Sponsor		
Balance in current account	1,406	1,479
NIB Bank Limited - Sponsor		
Balance in savings account	55,443	181,396
Profit receivable on bank deposits	18	80
Investment in term finance certificates	4,620	5,062
Profit receivable on term finance certificates	221	1,259
Chief Executive Officer		
Investment held in the Fund (30,812 units; 2008: 29,400 units)	312	300
Employees of the Management Company		
Investment held in the Fund (17,481 units; 2008: 37,735 units)	177	385
NAFA Multi Asset Fund		
Investment held in the Fund (Nil units; 2008: 5,519,036 units)	-	56,353
NAFA Cash Fund		
Investment held in the Fund (Nil units; 2008: 7,391,566 units)	-	75,473
NAFA Employees Provident Fund		
Investment held in the Fund (254,923 units; 2008: Nil units)	2,581	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	167	251
CDC charges	1	76
Security deposit	100	100

NAFA INCOME FUND

23 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	Qualification	Experience in years
1. Dr. Amjad Waheed	MBA, Doctorate in Business Administration, CFA	21
2. Sajjad Anwar	MBA, CFA	09
3. Rukhsana Narejo	MBA (Banking and Finance), CFA	09
4. Khurram Shehzad	MBA (Finance), CFA	11
5. Ahmed Nouman	EMBA	13
6. Abdul Rehman Warriach	B.A, LLB, CFA, FRM	14

23.1 Ms. Rukhsana Narejo is the fund manager of the Fund. She is also the fund manager of NAFA Cash Fund and NAFA Government Securities Liquid Fund.

24 TRANSACTIONS WITH TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2009
1 Dawood Equities Limited	46.69%
2 Moosani Securities (Private) Limited	24.92%
3 Alfalah Securities (Private) Limited	13.48%
4 Global Securities Pakistan Limited	9.14%
5 First Capital Equities Limited	3.22%
6 Elixir Securities Pakistan (Private) Limited	1.99%
7 First Dawood Investment Bank Limited	0.56%
	2008
1 FDM Capital Securities (Private) Limited	17.47%
2 Global Securities Pakistan Limited	17.32%
3 Noman Abid & Company Limited	10.98%
4 Orix Investment Bank limited	10.58%
5 Atlas Capital Market Limited	9.49%
6 Moosani Securities (Private) Limited	7.74%
7 Multiline Securities	7.60%
8 Dawood Equities Limited	7.19%
9 Growth Securities (Private) Limited	3.01%
10 Live Securities (Private) Limited	2.90%

NAFA INCOME FUND

25 PATTERN OF UNIT HOLDING

CATEGORY	As at June 30, 2009		
	Number of unit holders	Investment amount	Percentage investment
	(Rupees in '000)		
Individuals	466	142,001	13.71%
Associated companies / Directors	3	108,993	10.52%
Insurance companies	-	-	-
Bank / DFIs	1	25,309	2.44%
NBFCs	-	-	-
Retirement funds	15	497,422	48.01%
Public Limited companies	10	245,279	23.67%
Others	5	17,053	1.65%
	500	1,036,057	100.00%

CATEGORY	As at June 30, 2008		
	Number of unit holders	Investment amount	Percentage investment
	(Rupees in '000)		
Individuals	884	315,801	17.28%
Associated companies / Directors	1	300	0.02%
Insurance companies	3	30,543	1.67%
Bank / DFIs	7	250,232	13.69%
NBFCs	1	1,501	0.08%
Retirement funds	-	-	-
Public Limited companies	5	102,107	5.58%
Others	72	1,127,433	61.68%
	973	1,827,917	100.00%

26 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 17th, 18th, 19th, 20th and 21st Board meetings were held on July 3, 2008, August 11, 2008, October 16, 2008, February 17, 2009 and April 17, 2009 respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of director	Number of meetings			Meetings not attended
	Held	Attended	Leave Granted	
Mr. Masood Karim	5	3	2	18th 21st, meeting
Dr Amjad Waheed	5	5	-	
Mr. Gerard Lee	5	5	-	
Mr. Iqbal Hassan (Resigning Director)	3	2	1	19th meeting
Patrick Pang	5	5	-	
Shahid Anwar Khan	5	4	1	20th meeting
Masroor Qureshi (Resigning Director)	1	-	1	17th meeting
Habib Yousuf Habib (Resigning Director)	1	1	-	
Raymond H. Kotwal (New Director)	3	2	1	20th meeting
Syed Naseer ul Hasan (New Director)	3	3	-	

NAFA INCOME FUND

27 FINANCIAL RISK MANAGEMENT

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, spread transactions, continuous funding system transactions and investments in other money market instruments. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

27.1 Market risk

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

The Management Company manages the market risk by monitoring exposure on marketable securities by following internal risk management policies and regulations laid down by the Securities and Exchange Commission of Pakistan.

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

27.1.1 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 currently all the transactions are carried out in Pak Rupees.

27.1.2 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 KIBOR based interest bearing Term Finance Certificates and Sukuk bonds exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2009, 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 2.730 million (2008: Rs 2.081 million).

(b) Sensitivity analysis for fixed rate instruments

Presently, the Fund holds no fixed rate instruments. As a result, the net assets of the Fund and net income for the year would remain unaffected in case of 100 basis points increase / decrease in interest rates announced by Financial Market Association on June 30, 2009.

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by the Financial Market Association are expected to change over time. Further, in case of variable instruments, the sensitivity analysis has been done from the last repricing date. Accordingly, the sensitivity analysis prepared as of June 30, 2009 is not necessarily indicative of the impact on the Fund's net assets of future movements in interest rates.

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.

NAFA INCOME FUND

-----As at June 30, 2009-----

Effective interest rate (in percentage)	Total	--Exposed to yield / interest risk--			Not exposed to yield / interest rate risk
		Upto three months	Over three months and upto one year	Over one year	

-----Rupees in '000-----

On-balance sheet financial instruments

Financial Assets

Balances with Banks	5.00 - 12.50	179,595	176,548	-	-	3,047
Investments	13.69-17.67	823,944	513,217	310,727	-	-
Loans and receivables	-	-	-	-	-	-
Receivable against Continuous Funding System (CFS) transactions	-	-	-	-	-	-
Profit receivable	-	41,857	-	-	-	41,857
Advances, deposits and other receivables	-	3,802	-	-	-	3,802
		<u>1,049,198</u>	<u>689,765</u>	<u>310,727</u>	<u>-</u>	<u>48,706</u>

Financial Liabilities

Payable to National Fullerton Asset Management Limited - Management Company		6,805	-	-	-	6,805
Payable to Central Depository Company of Pakistan Limited - Trustee		167	-	-	-	167
Payable on redemption of units		8,032	-	-	-	8,032
Accrued expenses and other liabilities		862	-	-	-	862
		<u>15,866</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,866</u>
		<u>1,033,332</u>	<u>689,765</u>	<u>310,727</u>	<u>-</u>	<u>32,840</u>

On-balance sheet gap

Off-balance sheet financial instruments

CFS transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transactions have not been settled as at June 30, 2009

Off-balance sheet gap

-----As at June 30, 2008-----

Effective interest rate (in percentage)	Total	--Exposed to yield / interest risk--			Not exposed to yield / interest rate risk
		Upto three months	Over three months and upto one year	Over one year	

-----Rupees in '000-----

On-balance sheet financial instruments

Financial Assets

Balances with Banks	1.30 - 13.00	759,564	755,162	-	-	4,402
Investments	10.66-15.14	921,423	-	921,423	-	-
Loans and receivables	10.65	50,000	50,000	-	-	-
Receivable against Continuous Funding System (CFS) transactions	10.30 - 22.90	58,656	58,656	-	-	-
Profit receivable	-	41,451	-	-	-	41,451
Advances, deposits and other receivables	-	6,037	-	-	-	6,037
		<u>1,837,131</u>	<u>863,818</u>	<u>921,423</u>	<u>-</u>	<u>51,890</u>

Financial Liabilities

Payable to National Fullerton Asset Management Limited - Management Company		8,742	-	-	-	8,742
Payable to Central Depository Company of Pakistan Limited - Trustee		251	-	-	-	251
Payable on redemption of units		3,333	-	-	-	3,333
Accrued expenses and other liabilities		1,518	-	-	-	1,518
		<u>13,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,844</u>
		<u>1,823,287</u>	<u>863,818</u>	<u>921,423</u>	<u>-</u>	<u>38,046</u>

On-balance sheet gap

Off-balance sheet financial instruments

CFS transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transactions have not been settled as at June 30, 2009

Off-balance sheet gap

NAFA INCOME FUND

27.1.3 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 is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2009.

27.2 Credit Risk

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in debt securities. The Fund is also exposed to counterparty credit risks on loans and receivables, balances with banks, profit receivable, advances, deposits and other receivables. The credit risk on liquid fund is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, 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 financial assets as at June 30, 2009 and June 30, 2008:

Term finance certificates and sukuk bonds by rating category	2009	2008
AAA, AAA-, AAA+	-	-
AA, AA-, AA+	63.82%	78.20%
A, A-, A+	26.18%	21.80%
BBB, BBB+, BBB-	6.73%	-
Non performing	3.27%	-
Bank balances by rating category		
A1+, A-1+	98.68%	46.82%
A1	0.70%	20.20%
A2 -, A-2	0.62%	32.98%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2009 is the carrying amount of the financial assets.

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

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

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

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

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

NAFA INCOME FUND

-----As at June 30, 2009-----

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

-----Rupees in '000-----

Liabilities

Payable to National Fullerton Asset Management Limited - Management Company

Payable to Central Depository Company of Pakistan Limited - Trustee

Payable on redemption of units

Accrued expenses and other liabilities

6,805	6,805	-	-
167	167	-	-
8,032	8,032	-	-
862	862	-	-
<u>15,866</u>	<u>15,866</u>	<u>-</u>	<u>-</u>

-----As at June 30, 2008-----

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

-----Rupees in '000-----

Liabilities

Payable to National Fullerton Asset Management Limited - Management Company

Payable to Central Depository Company of Pakistan Limited - Trustee

Payable on redemption of units

Accrued expenses and other liabilities

8,742	8,742	-	-
251	251	-	-
3,333	3,333	-	-
1,809	1,809	-	-
<u>14,135</u>	<u>14,135</u>	<u>-</u>	<u>-</u>

28 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 Asset Management Company has undertaken to invest Rs 50 million for at least two years in compliance with Regulation 44 (3) (e) (ii) of NBFC Regulations.

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 27, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

NAFA INCOME FUND

30 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on July 3, 2009 approved a distribution at the rate of 1.70 percent (2008: 2.096 percent.). The financial statements of the Fund for the year ended June 30, 2009 do not include the effect of the distribution which will be accounted for in the financial statements of the Fund for the year ended June 30, 2010.

31 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 31, 2009.

32 GENERAL

- 32.1** Corresponding figures have been rearranged and reclassified wherever necessary, for the purposes of comparison and better presentation. During the current year, there were no major reclassifications.
- 32.2** Figures have been rounded off to the nearest thousand rupees.
- 32.3** The bifurcation of undistributed income into realised 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)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA INCOME FUND

PERFORMANCE TABLE

Particulars	For the year ended June 30, 2009	For the year ended June 30, 2008
Net assets (Rs. '000')	1,036,057	1,827,917
Net Income (Rs. '000')	40,049	37,719
Net Asset Value per units (Rs.)	9.9537	10.0011
Offer price per unit	10.0549	10.1032
Redemption price per unit	9.9537	10.0011
Highest offer price per unit (Rs.)	9.9974	10.1032
Lowest offer price per unit (Rs.)	9.1366	9.8935
Highest redemption price per unit (Rs.)	9.8984	10.0011
Lowest redemption price per unit (Rs.)	9.0461	9.7955
Total return of the fund	3.91%	2.11%
Capital growth	-0.46%	0.01%
Income distribution	4.37%	2.10%
Distribution		
Interim distribution per unit	0.2670	-
Final distribution per unit	0.1700	0.2096
Distribution dates		
Interim	16-Oct-08	-
Final	3-Jul-09	3-Jul-08
Average annual return (launch date 29-03-08) (Since inception to June 30, 2009)	6.10%	8.43%
Portfolio Composition (Please see Fund Manager Report)		
Weighted average portfolio duration	2 Years	2 Years
<p><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></p>		

