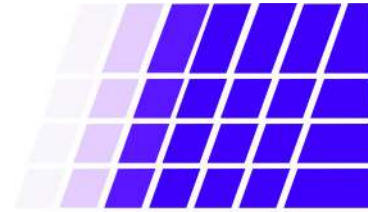


NAFA ISLAMIC INCOME FUND

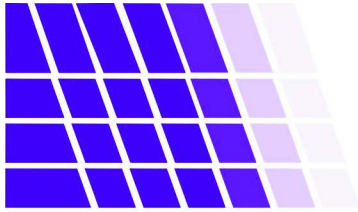


NAFA ISLAMIC INCOME FUND

QUARTERLY REPORT

FOR THE QUARTER ENDED SEPTEMBER 30, 2008

(UN-AUDITED)

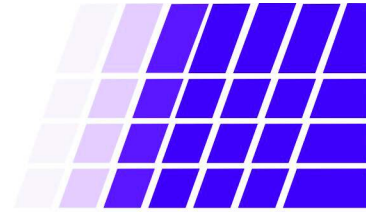


NAFA ISLAMIC INCOME FUND

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NAFA ISLAMIC INCOME FUND



DIRECTORS' REPORT

The Board of Directors of National Fullerton Asset Management Limited is pleased to present the unaudited financial statements of NAFA Islamic Income Fund for the quarter ended September 30, 2008.

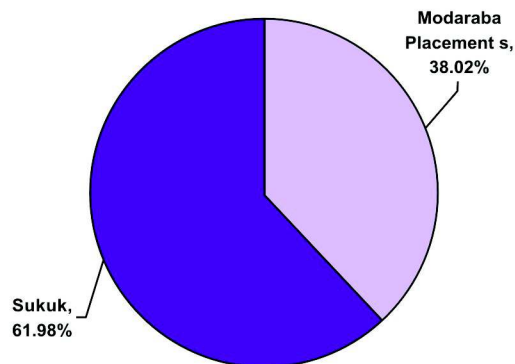
Fund's Performance

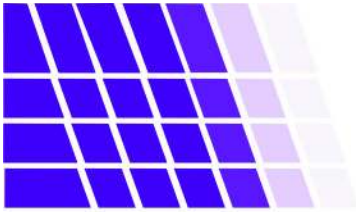
Assets under management of NAFA Islamic Income Fund have increased from Rs.881 million to Rs.915 million during the period, i.e. an appreciation of 3.86%. During this period, Unit Price of your Fund has increased from Rs.10.0932 on June 30, 2008 (Ex-Div) to Rs.10.3533 on September 30, 2008, thus showing an annualized return of 10.62%. While, the benchmark has recorded an increase by 5.46%, during the period. Thus the Fund has outperformed its benchmark by 5.16%.

NAFA Islamic Income Fund has earned total income of Rs.27.81 million during the period. After deducting expenses of Rs.4.65 million, the net income is Rs.23.16 million, translating into earning per unit of Rs.0.2601.

The asset allocation of the Fund as on September 30, 2008 is as follows:

Asset Allocation as on September 30, 2008





NAFA ISLAMIC INCOME FUND

Income Distribution

The Board of Directors of the Management Company has approved an interim distribution of 2.6% of par value. After interim distribution, the net asset value per unit will be Rs. 10.0933 on September 30, 2008.

Acknowledgement

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

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

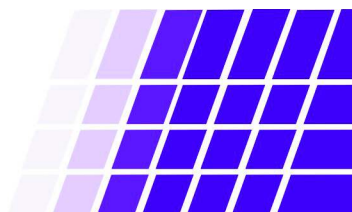
On behalf of the Board of
National Fullerton Asset Management Limited

Masood Karim Shaikh, FCA
Chairman

Date: October 16, 2008
Place: Karachi.

Dr. Amjad Waheed, CFA
Chief Executive

NAFA ISLAMIC INCOME FUND



CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2008 (UN-AUDITED)

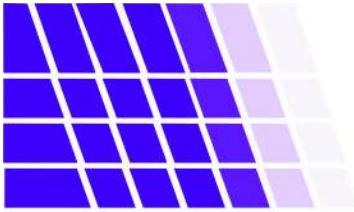
	Note	September 30, 2008 (Rupees in '000')	June 30, 2008
ASSETS			
Balances with banks	4	38,263	19,295
Investments	5	567,437	546,330
Loans and receivables		280,000	280,000
Profit receivable	6	27,564	31,089
Deposits, prepayments and other receivables		2,899	4,866
Preliminary expenses and floatation costs		2,034	2,160
Total Assets		918,197	883,740
LIABILITIES			
Payable to National Fullerton Asset Management Limited - Management Company		1,295	1,254
Payable to Central Depository Company of Pakistan Limited - Trustee		164	156
Payable to Securities and Exchange Commission of Pakistan		932	692
Accrued expenses and other liabilities	7	348	440
Total Liabilities		2,739	2,542
Net Assets		915,458	881,198
Unit Holders' Funds (as per statement attached)		915,458	881,198
Number of units in issue		88,421,691	85,113,980
Net asset value per unit		10.3533	10.3532

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

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

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman



NAFA ISLAMIC INCOME FUND

CONDENSED INTERIM INCOME STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2008 (UN-AUDITED)

	Note	Quarter Ended September 30, 2008 (Rupees in '000')
Income		
Gain on sale of investments		27
Income from sukuk bonds		20,001
Income from spread transactions		18
Income from term deposit musharika certificates		6,705
Profit on bank deposits		2,228
Total Income		28,979
Expenses		
Remuneration of National Fullerton Asset Management Limited Management Company		3,594
Remuneration of Central Depository Company of Pakistan Limited - Trustee		478
Annual fee - Securities and Exchange Commission of Pakistan		240
Securities transaction cost		15
Settlement and bank charges		48
Annual listing fee		8
Auditors' remuneration		99
Others		44
Amortization of preliminary expenses and floatation costs		126
Total Expenses		4,652
Net income from operating activities		24,327
Element of income and capital gains included in prices of units issued less those in units redeemed		(1,166)
Net income for the period		23,161
Earnings per unit	8	-

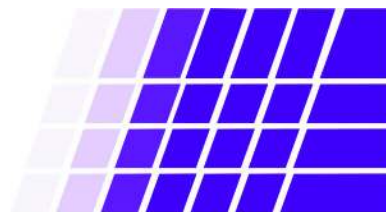
The annexed notes form an integral part of these condensed interim financial statements.

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

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA ISLAMIC INCOME FUND



CONDENSED INTERIM DISTRIBUTION STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2008 (UN-AUDITED)

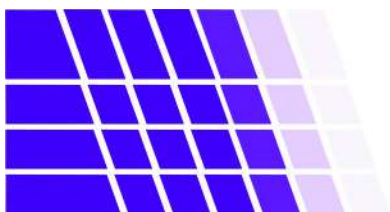
	Quarter Ended September 30, 2008 (Rupees in '000')
Undistributed income brought forward	29,760
Final distribution 2008: 2.60% (Date of distribution: 3 July 2008)	
Bonus units	(12,108)
Cash distribution	(10,004)
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased - amount representing income / (losses) that form part of the unit holders' funds	197
Net income for the period	23,161
Undistributed income carried forward	<u><u>31,006</u></u>

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

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

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman



NAFA ISLAMIC INCOME FUND

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS FOR THE QUARTER ENDED SEPTEMBER 30, 2008 (UN-AUDITED)

Quarter Ended
September 30,
2008
(Rupees in '000')

Net assets at the beginning of the period	881,198
Issue of 44,009,236 units - including 1,199,335 bonus units.	436,713
Redemption of 40,701,525 units	(416,617)
	20,096
Element of income and capital gains included in prices of units issued less those in units redeemed	
- amount representing accrued (income) / loss and capital (gains) / losses - transferred to Income Statement	1,166
- amount representing (income) / losses that form part of the unit holders' funds - transferred to Distribution Statement	(197)
	969
Net unrealised appreciation in the market value of investments classified as 'available for sale'	(159)
Gain on sale of investment	27
Other income (net of expenses)	23,134
 Net income for the period	 23,161
Distribution	
Bonus distribution	(12,108)
Cash distribution	(10,004)
Add: bonus distribution	12,108
Element of income / (loss) and capital gains / (losses) included in prices of units sold less those in units repurchased - amount representing income / (losses) that form part of the unit holders' funds	197
Net assets as at the end of the period	915,458

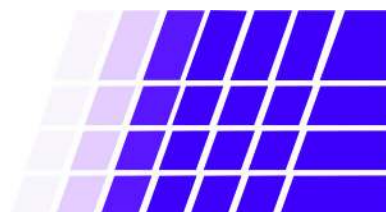
The annexed notes form an integral part of these condensed interim financial statements.

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

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

NAFA ISLAMIC INCOME FUND



CONDENSED INTERIM CASH FLOW STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2008 (UN-AUDITED)

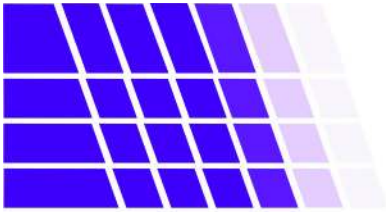
	Quarter Ended September 30' 2008 (Rupees in '000')
CASH FLOW FROM OPERATING ACTIVITIES	
Net income for the period	23,161
Adjustments	
Gain on sale of investments	(27)
Amortization of preliminary expenses and floatation costs	126
Element of income and capital gains included in of units issued less those in units redeemed	1,166
	1,265
Increase in assets	
Investments	(21,239)
Profit receivables	3,525
Deposits, prepayments and other receivables	1,967
	(15,747)
Increase in liabilities	
Payable to National Fullerton Asset Management Limited	41
Payable to Central Depository Company of Pakistan Limited	8
Payable to Securities and Exchange Commission of Pakistan - Annual fee	240
Accrued expenses and other liabilities	(92)
	197
Net cash outflow on operating activities	8,876
CASH FLOW FROM FINANCING ACTIVITIES	
Receipts from issue of units	436,713
Payments on redemption of units	(416,617)
Dividend distribution	(10,004)
	10,092
Net increase in cash and cash equivalents during the period	18,968
Opening balance of cash and cash equivalents	19,295
Cash and cash equivalents as at September 30, 2008	38,263

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

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

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman



NAFA ISLAMIC INCOME FUND

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2008 (UN-AUDITED)

1. LEGAL STATUS AND NATURE OF BUSINESS

NAFA Islamic Income Fund (NIIF) 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 August 20, 2007 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on September 03, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

NIIF is an open-ended mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can be redeemed by surrendering to the Fund. The Fund is listed on the Lahore Stock Exchange. The units of the Fund were initially offered for public subscription at par from October 22, 2007 to October 26, 2007.

The core objective of the Fund is to seek preservation of capital and earn a reasonable rate of return by investing in Shariah compliant investments. The Fund will comprise of investments of various investment horizons, with a significant amount invested in short term investments for the purpose of maintaining liquidity.

In accordance with the Trust Deed, the first accounting period of the Fund commenced on the date on which the Trust Property was first paid or transferred to the Trustee.

The JCR-VIS Credit Rating Company Limited (JCR-VIS) has assigned an asset manager rating of AM2 to the Management Company. No rating has been assigned to the Fund as the rating criteria of JCR-VIS requires a fund to be in operation for a period of twelve months to become eligible for rating.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of International Accounting Standards-34 (IAS-34) "Interim Financial Reporting", NBFC Rules, 2003 and directives issued by the SECP. These financial statements are un-audited.

3. ACCOUNTING POLICIES

The accounting policies adopted for the preparation of the financial statements for the quarter ended September 30, 2008 are same as those applied in the preparation of the annual audited financial statements for the year ended June 30, 2008.

4. BALANCES WITH BANKS

	September 30, 2008 (Un-audited)	June 30, 2008 (Audited)
	(Rupees in '000')	
Current accounts	12,032	5,580
Savings accounts	26,231	13,715
	<u>38,263</u>	<u>19,295</u>

5. INVESTMENTS

At fair value through profit or loss - held for trading

Equity securities purchased under futures sale contracts

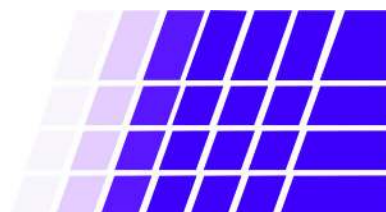
5.1	-	-
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Available for sale

Sukuk bonds

5.2	567,437	546,330
	<u>567,437</u>	<u>546,330</u>

NAFA ISLAMIC INCOME FUND



5.1 Equity securities purchased under futures sale contracts

These securities are held under ready / future transactions. These securities are purchased in the ready "T+2" market and simultaneously sold in the future market. The Fund has no open exposure to the stock market. The details are as follows:

Name of the Investee Company	Number Of Shares				Market value as at September 30, 2008	Market Value as a percentage of Net Assets	Market value as a percentage of total investment
	As at July 01, 2008	Purchases during the period	Sales during the period	As at September 30, 2008			

Rs in '000

Fully paid ordinary shares of Rs 10 each

Oil and Gas Marketing Companies
Pakistan State Oil Company Limited

7,000	7,000	-	-	-	-
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5.2 Sukuk bonds

Name of the investee company	Number of Bonds				Market value as at September 30, 2008	Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 01, 2008	Purchases during the period	Sales during the period	As at September 30, 2008			

Rs in '000

Engro Chemicals Pakistan Limited	21,000	-	-	21,000	106,522	11.64	18.77
Eden Builders Limited	-	3,312	-	3,312	16,560	1.81	2.92
Eden Housing Limited	10,000	-	-	10,000	50,415	5.51	8.88
Government of Pakistan Ijara	-	50	-	50	5,000	0.55	0.88
Kohat Cement Company Limited	20,000	-	-	20,000	96,861	10.58	17.07
Maple Leaf Cement Factory Limited	20,000	-	-	20,000	100,430	10.97	17.70
New Allied Electronics Industries (Private) Limited-1st issue	352,000	-	-	352,000	110,825	12.11	19.53
New Allied Electronics Industries (Private) Limited-2nd issue	1,000	-	-	1,000	5,029	0.55	0.89
Pak Electron Limited	15,000	5,000	5,000	15,000	75,795	8.28	13.36

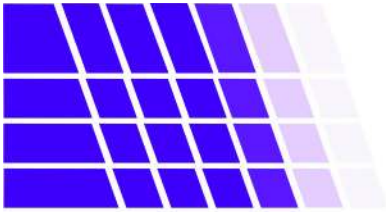
567,437

Cost of investments as at September 30, 2008

567,596

5.2.1 All sukuk bonds have a face value of Rs 5,000 each except sukuk bonds of New Allied Electronics (Private) Limited -1st issue which have a face value of Rs 312.5 each and Government of Pakistan Ijara Sukuk have a face value of Rs. 100,000 each.

5.2.2 Fair value of sukuk bonds classified as available for sale is determined using rates notified by the Mutual Funds Association of Pakistan.



NAFA ISLAMIC INCOME FUND

September 30, June 30,
2008 2008
(Rupees in '000')

6. PROFIT RECEIVABLE

Profit on savings deposits	2,184	1,089
Income accrued on sukuk bonds	20,370	12,072
Income accrued on term deposit musharika certificates	5,010	17,928
	27,564	31,089

7. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration	90	183
Payable to brokers	98	148
Bank charges payable	7	3
Withholding tax payable	42	42
Others payable	44	-
Charity payable	67	64
	348	440

8. TRANSACTIONS WITH CONNECTED PERSONS

8.1 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.

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

**Quarter Ended
September 30,
2008
(Rupees in '000)**

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

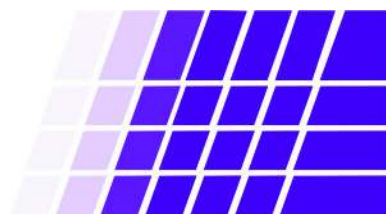
National Fullerton Asset Management Limited - Management Company

Management fee expense for the period	3,594
Front end load for the period	125

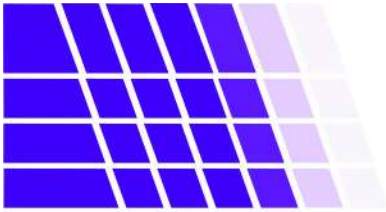
Central Depository Company of Pakistan Limited - Trustee

Remuneration	478
CDS charges for the period	8

NAFA ISLAMIC INCOME FUND



	National Bank of Pakistan - Sponsor	
	Cash dividend	1,950
	NIB Bank Limited - Sponsor	
	Cash dividend	1,950
	Alexandra Fund Management Pte. Limited - Sponsor	
	Bonus units issued (262,668)	2,651
	NAFA Islamic Multi Asset Fund	
	Units redeemed (7,488,894 units)	76,622
	Bonus units issued (188,069)	1,898
	NAFA Multi Asset Fund	
	Units redeemed (7,512,417)	77,080
	Bonus units issued (188,659)	1,904
	NAFA Stock Fund	
	Bonus units issued (447)	5
	NAFA Cash Fund	
	Payment received for the sale of sukuk bonds	25,811
	Executives of the Management Company	
	Units issued (87,436)	894
	Units redeemed (410,168)	4,167
	Bonus units issued (14,782)	42
		September 30, 2008
		(Rupees in '000)
8.4	Amounts outstanding as at period end	
	National Fullerton Asset Management Limited - Management Company	
	Management fee payable	1,146
	Front end load payable	150
	National Bank of Pakistan - Sponsor	
	Investment held by the Sponsor in the Fund (7,500,000 units)	77,650
	Balance in current account	675
	NIB Bank Limited - Sponsor	
	Investment held by the Sponsor in the Fund (7,500,000 units)	77,650
	Balance in current account	2,082



NAFA ISLAMIC INCOME FUND

Alexandra Fund Management Pte. Limited	
Investment held by the Sponsor in the Fund (10,459,429 units)	108,290
Central Depository Company of Pakistan Limited - Trustee	
Trustee fee payable	153
CDS charges payable	11
Security deposit	100
NAFA Stock Fund	
Investment held in the Fund (17,814)	184
Executives of the Management Company	
Units held in the Fund (265,899)	2,753

9. Earnings Per Unit

Earnings per unit (EPU) for the three months ended September 30, 2008 has not been disclosed as in the opinion of the management determination of weighted average units for calculating EPU is not practicable.

10. DATE OF AUTHORIZATION FOR ISSUE

These financials statements were authorized for issue on October 16, 2008 by the Board of Directors of the Management Company.

11 GENERAL

11.1 Figures have been rounded off to the nearest rupee.

11.2 Since the Fund commenced its operation on October 29, 2007, the comparative figures for corresponding quarter of last year are not available in respect of Income Statement, Statement of Movement in Unit Holders' Fund and Cash Flow Statement.

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

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman