

## ***NAFA Funds Annual Report 2008***



**Managed by:** National Fullerton Asset Management Limited



*Your investments & NAFA grow together*



*Joint - Venture Partners*

# NAFA ISLAMIC INCOME FUND



## DIRECTORS' REPORT

The Board of Directors of National Fullerton Asset Management Limited is pleased to present the first Annual Report of **NAFA Islamic Income Fund** for the period since launch to June 30, 2008.

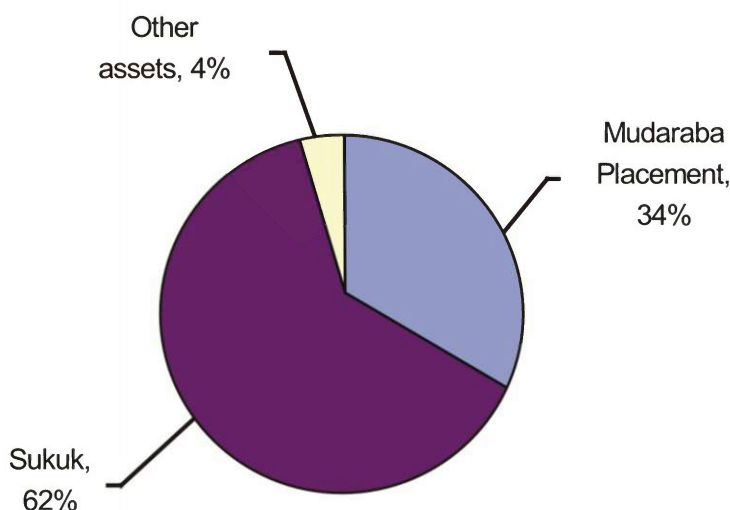
### Fund's Performance

NAFA Islamic Income Fund commenced its investment activity on October 29, 2007 with an initial fund size of Rs.976.72 million. During this period, Unit Price of your Fund has increased from Rs.9.8070 on October 28, 2007 (Ex-Div interim distribution) to Rs.10.3532 on June 30, 2008, thus showing an annualized return of 8.37%. While, its benchmark has recorded an increase by 5.31%, during the period. Thus the Fund has outperformed its benchmark by 3.06%.

NAFA Islamic Income Fund has earned a total income of Rs.66.74 million during the period. After deducting expenses of Rs.13.89 million, the net income is Rs.52.85 million, translating into earning per unit of Rs.0.5462.

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

### Asset Allocation as on June 30, 2008



### Income Distribution

In addition to interim distribution of 2.00%, the Board of Directors of the Management Company has also approved a final distribution of 2.60%, translating into total distribution of 4.60% of the par value. After final distribution, the net asset value per unit will be Rs.10.0932 on June 30, 2008.

### 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.





# NAFA ISLAMIC INCOME FUND

## Auditors

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

## Pattern of Unit-holders

The pattern of Unit-holding as on June 30, 2008 is disclosed in the note 23 to these financial statements.

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

The part of the Directors' report to unit-holders is given as required under section 236 of the Companies Ordinance 1984:

1. The financial statements, prepared by the management company of NAFA Islamic 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 Islamic 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 Islamic 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. The Board of Directors of National Fullerton Asset Management Limited held six meetings during the current financial year. The attendance of all directors is disclosed in the note 24 to these financial statements:

## Acknowledgement

The Board takes this opportunity to thank its valued unit-holders for their confidence and trust in the Management Company, and providing us with 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 enthusiasm shown by the staff and the Trustees.

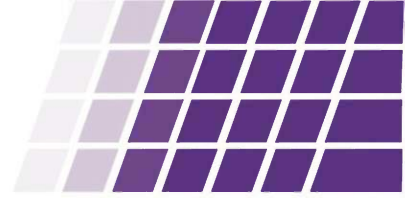
On behalf of the Board of  
National Fullerton Asset Management Limited

**Masood Karim Shaikh, FCA**  
Chairman

**Dr. Amjad Waheed, CFA**  
Chief Executive

Date: August 11, 2008  
Place: Karachi.

# NAFA ISLAMIC INCOME FUND



## TRUSTEE REPORT TO THE UNIT HOLDERS

### Report of the Trustee pursuant to regulation 58(f) and Clause 9 of schedule IV of the Non-Banking Finance Companies and Notified Entities Regulations, 2007

NAFA Islamic Income Fund (Fund), an open-end scheme was established under a trust deed dated August 20, 2007 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 Period from September 17, 2007 to June 30, 2008 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 (NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations) and the constitutive documents of the fund.

Dated: August 30, 2008  
Karachi

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



# NAFA ISLAMIC INCOME FUND

## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE PERIOD FROM SEPTEMBER 17, 2007 TO JUNE 30, 2008

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 43 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 Islamic 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 NBF1 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the period no casual vacancy was occurred in the Board.
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.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter during the period. 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. All the members of Board are well aware of operations of the Fund and the Management Company, therefore no orientation courses were arranged during the period.
10. The Board has approved the appointment of Head of Internal Audit and his terms of employment.
11. Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 18 to the financial statements "Transactions with Connected Persons".

## NAFA ISLAMIC INCOME FUND



14. The Management Company has complied with the corporate and financial reporting requirements of the Code with respect to the Fund.
15. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the chairman of the committee.
16. 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.
17. There exists an effective internal audit function within the company.
18. 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.
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 11, 2008  
Karachi

**Dr. Amjad Waheed, CFA**  
Chief Executive Officer



# NAFA ISLAMIC INCOME FUND

## FUND MANAGER'S REPORT

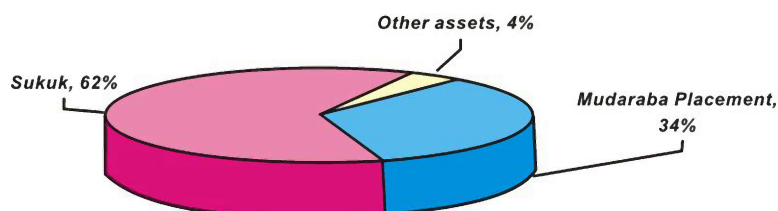
### NAFA Islamic Income Fund

NAFA Islamic Income Fund (NIIF) is an open-ended shariah compliant Fixed Income Fund. Investment Objective of the Fund is to seek maximum possible preservation of capital and a reasonable rate of return via investing primarily in Shariah Compliant money market & debt securities having good credit rating and liquidity.

NIIF commenced investment activity on October 29, 2008 with the Fund size of Rs. 975 million. The Fund generated an annualized return of 8.37% since its launch around 8-months ago. Annualized rate of return of 8.37% offered by NIIF during the period under review (October 29, 2007 to June 30, 2008) is 3.06% better than annualized return of 5.31% offered by the benchmark (average 1-month deposit rate of Islamic banks).

During the period under review major investments of the Fund has been in sukuks; short term and long term mudaraba placements; and Shariah compliant spread transactions. Focus of the Fund Manager has been to build the good quality and high yielding sukuks portfolio which is the highest yielding asset class. Asset allocation of the Fund is shown in the following chart. As at June 30, 2008 investment in sukuks accounts for 62% of the Fund size, allocation in Mudaraba placements was 34% of the Fund size and other assets comprised 4% of the Fund size.

*Asset Allocation as at June 30, 2008*



Duration of the portfolio as on June 30, 2008 is calculated at 107 days reflecting minimum vulnerability to interest rate risk. As on June 30, 2008, weighted average credit rating of the NIIF portfolio is A+.

During the outgoing fiscal year we have seen large number of sukuks issued by both private and public sector enterprises. This has helped in improving the liquidity and depth of the shariah compliant bond market. Sukuks are floating rate instruments with profit linked to KIBOR. Year on year basis 6-month KIBOR increased by 4.17% to 14.19% at June 30, 2007 from 10.02% the previous year.

As of December 2007 there were 6- full fledged Islamic banks and 12- conventional banks with Islamic banking branches. (SBP, Islamic Banking Bulletin Sep-Dec 2007). The market share of Islamic banking assets in overall banking system rose to 4.3% as of December 31, 2007 as compared to 3% in the last year. Year on year growth for assets, deposits, and financing and investments for Islamic banks was 75%, 78% and 91% respectively. Profit rate offered by the Islamic banks on the mudaraba placements has improved in the recent months due to liquidity shortfall and upward movement in the interest rate.

# NAFA ISLAMIC INCOME FUND



Spread on RFS transaction remained volatile on a month on month basis depending on the volume in the ready market. Average spread during the fiscal year ending June 30, 2008 was calculated at 5.97% compared with 6.75% during the same period last year.

Going forward, we expect further improvement in the performance of the Fund due: (i) re-setting of remaining sukuk portfolio at higher rates; (ii) improvement of profit on the maturing mudaraba placements; and (iii) increase in allocation in good credit quality and high yielding sukuk.

Following is the pattern of unit holding of the Fund by size as on June 30, 2008:

| Size of Unit Holding (Units) | # of Unit Holders |
|------------------------------|-------------------|
| 0 Upto 1,000                 | 157               |
| 1,001 - 5,000                | 70                |
| 5,001 - 10,000               | 38                |
| 10,001 - 50,000              | 77                |
| 50,001 - 100,000             | 22                |
| 100,001 - 500,000            | 19                |
| 500,001 - 1,000,000          | 4                 |
| 1,000,001 - 5,000,000        | 4                 |
| 5,000,001 - 10,000,000       | 5                 |
| 10,000,001 - 100,000,000     | 2                 |
|                              | <b>398</b>        |

During the period under review, there has been no significant change in the state of affairs of the Fund. The management company has no arrangement with brokers/ dealers for the soft commission.

Our Fund distributed final dividend of 2.6% for the year ending June 30, 2008 besides interim dividend of 2% in the quarter ending March 31, 2008. Ex-dividend NAV at June30, 2008 was calculated at 10.0932 while as at April 16, 2008 ex-dividend NAV was 10.1646.





# NAFA ISLAMIC INCOME FUND

## Report of the Shariah Advisor – NAFA Islamic Income Fund

Karachi

September 09, 2008/ Ramadan 08, 1429 A.H

Alhamdulillah, the period from September 17, 2007 to June 30, 2008 was the first year of operations of NAFA Islamic Income Fund (NIIF). This report is being issued in accordance with clause 5.D.2 and sub clause C (V) of the Trust Deed of the Fund. The scope of the report is to express an opinion on the shari'ah Compliance of the Fund's activity.

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

It is the responsibility of the management company of the fund to establish and maintain a system of internal controls to ensure Shariah compliance with the Shariah guidelines. Our responsibility is to express an opinion, based on our review, to the extent where such compliance can be objectively verified. A review is limited primarily to inquiries of the management company's personnel and review of various documents prepared by the management company to comply with the prescribed criteria.

In light of the above, we hereby certify that:

- i. We have reviewed and approved the modes of investments of NIIF in light of Shari'ah guidelines.
- ii. All the provision of the scheme and investment made on account of NIIF by NAFA are Shari'ah Compliant and in accordance with the criteria established.
- iii. On the basis of information provided by the management, all the operation of NIIF for the period ended June 30, 2008 have been in compliance with Shariah principles.

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

Bilal Ahmed Qazi  
Shari'ah Advisor

For and on behalf of Meezan bank Limited  
Shari'ah Technical Services and Support Provider

# NAFA ISLAMIC INCOME FUND



## SHARIAH COMPLIANCE AUDITORS' REPORT TO THE MANAGEMENT COMPANY

We have audited the compliance of the investments made by the NAFA Islamic Income Fund with the Shariah Advisor and Shariah Technical Services and Support Provider of the Fund for the period from September 17, 2007 to June 30, 2008.

It is the responsibility of the Management Company to appoint a Shariah Advisor and establish and maintain a system of internal control to ensure compliance with the Shariah guidelines advised by the Shariah Advisor and Shariah Technical Services and Support Provider of the Fund. Our responsibility is to carry out procedures to enable us to report on the compliance of investment made by the Fund with Shariah guidelines, as a prescribed by the Shariah Advisor and Shariah Technical Services and Support Provider.

We conducted our audit in accordance with the International Standards on Auditing applicable to compliance auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund has complied, in all material respects, with the Shariah guidelines as prescribed by the Shariah Advisor and Shariah Technical Services and Support Provider. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, investment made by the Fund during the period from September 17, 2007 to June 30, 2008 were, in all material respects, in compliance with the Shariah compliant avenues as approved by the Shariah Advisor and Shariah Technical Services and Support Provider of the Fund.

Dated: September 9, 2008  
Karachi

**A. F. Ferguson & Co.**  
Chartered Accountants



## NAFA ISLAMIC INCOME FUND

### REVIEW REPORTS 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, Management Company of **NAFA Islamic Income Fund** to comply with XIII of the Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company 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 Company 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 covers all control and the effectiveness of such internal controls.

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 Fund'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, 2008.

Dated: August 28, 2008  
Karachi

**A. F. Ferguson & Co.**  
Chartered Accountants



# NAFA ISLAMIC INCOME FUND



## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of NAFA Islamic Income Fund which comprise the statement of assets and liabilities as at June 30, 2008, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' funds for the period from September 17, 2007 to June 30, 2008 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 the 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 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 judgement, 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, 2008 and of its financial performance, cash flows and transactions for the period from September 17, 2007 to June 30, 2008 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 relevant provisions of the Trust Deed and the Non-Banking Finance Companies and Notified Entities Regulations, 2007.

Dated: August 28, 2008  
Karachi.

**A. F. Ferguson & Co.**  
Chartered Accountants

# NAFA ISLAMIC INCOME FUND

## STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2008

|  | NOTE | 2008<br>(Rupees in '000') |
|--|------|---------------------------|
| <b>Assets</b>  |      |                           |
| Balances with banks  | 4    | 19,295                    |
| Investments  | 5    | 546,330                   |
| Loans and receivables  | 6    | 280,000                   |
| Profit receivable  | 7    | 31,089                    |
| Deposits, prepayments and other receivables                                    | 8    | 4,866                     |
| Preliminary expenses and floatation costs                                      | 9    | 2,160                     |
| <b>Total assets</b>  |      | <b>883,740</b>            |
| <b>Liabilities</b>   |      |                           |
| Payable to National Fullerton Asset Management Limited -<br>Management Company | 10   | 1,254                     |
| Payable to Central Depository Company of Pakistan Limited - Trustee            | 11   | 156                       |
| Payable to Securities and Exchange Commission of Pakistan                      | 12   | 692                       |
| Accrued expenses and other liabilities   | 13   | 440                       |
| <b>Total liabilities</b>   |      | <b>2,542</b>              |
| <b>Net Assets</b>  |      | <b>881,198</b>            |
| <b>Unit Holders' Funds (as per statement attached)</b>                         |      | <b>881,198</b>            |
| <b>Number of units</b>   |      |                           |
| <b>Number of units in issue</b>  |      | <b>85,113,980</b>         |
| <b>Rupees</b>  |      |                           |
| <b>Net asset value per unit</b>  | 14   | <b>10.3532</b>            |

The annexed notes 1 to 30 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 ISLAMIC INCOME FUND



## INCOME STATEMENT

FOR THE PERIOD FROM SEPTEMBER 17, 2007 TO JUNE 30, 2008

For the period  
from September  
17, 2007 to June  
30, 2008

(Rupees in '000')

NOTE

### INCOME

|   |  |               |
|---|--|---------------|
| Gain on sale of investments                     |  | 100           |
| Income from sukuk bonds                         |  | 33,483        |
| Income from spread transactions                 |  | 4,297         |
| Income from term deposit musharika certificates |  | 17,928        |
| Profit on bank deposits                         |  | 13,170        |
| <b>Total Income</b>                             |  | <b>68,978</b> |

### EXPENSES

|  |      |               |
|--|------|---------------|
| Remuneration of National Fullerton Asset Management Limited              |      |               |
| – Management Company   | 10.1 | 10,382        |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | 11.1 | 1,354         |
| Annual fee - Securities and Exchange Commission of Pakistan              | 12.1 | 692           |
| Securities transaction cost  |      | 745           |
| Settlement and bank charges  |      | 83            |
| Annual listing fee   |      | 30            |
| Auditors' remuneration   | 15   | 261           |
| Amortisation of preliminary expenses and floatation costs                | 9    | 340           |
| <b>Total Expenses</b>  |      | <b>13,887</b> |

### Net income from operating activities

55,091

Element of loss and capital losses included in prices  
of units issued less those in units redeemed

(2,243)

### Net income for the period before taxation

52,848

### Taxation

16

-

### Net income for the period after taxation

52,848

### Earnings per unit

17

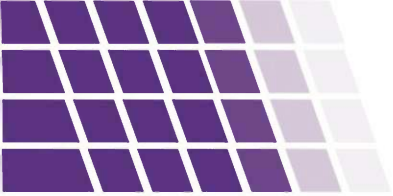
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For National Fullerton Asset Management Limited  
(Management Company)

Dr. Amjad Waheed, CFA  
Chief Executive

Masood Karim Shaikh, FCA  
Chairman





# NAFA ISLAMIC INCOME FUND

## DISTRIBUTION STATEMENT

FOR THE PERIOD FROM SEPTEMBER 17, 2007 TO JUNE 30, 2008

For the period  
from September  
17, 2007 to June  
30, 2008  
(Rupees in '000')

|   |               |
|---|---------------|
| Net income for the period   | 52,848        |
| Distribution:   |               |
| Interim distribution 2008: 2.00% (Date of distribution: 16 April 2008)  |               |
| - Bonus units   | (12,708)      |
| - Cash Distribution   | (10,312)      |
| Element of income / (loss) and capital gains / (losses) included<br>in prices of units issued less those in units redeemed - amount<br>representing income / (losses) that form part of the unit holders, funds | (68)          |
| Undistributed income carried forward  | <u>29,760</u> |

The annexed notes 1 to 30 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 ISLAMIC INCOME FUND



STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS  
FOR THE PERIOD FROM SEPTEMBER 17, 2007 TO JUNE 30, 2008

For the period  
from September  
17, 2007 to June  
30, 2008  
(Rupees in '000')

|   |                |
|---|----------------|
| Issue of 266,193,758 units - including 1,250,268 bonus units  | 2,684,709      |
| Redemption of 181,079,778 units   | (1,848,384)    |
|   | 836,325        |
| Element of loss and capital losses included in prices of units issued less those in units redeemed  |                |
| - amount representing (income) / loss and capital (gains) / losses - transferred to Income Statement  | 2,243          |
| - amount representing (income) / loss and capital (gains) / losses that form part of unit holders' fund - transferred to Distribution Statement   | 68             |
|   | 2,311          |
| Net unrealised appreciation in the market value of investments classified as 'available for sale'   | 94             |
| Gain on sale of investments   | 100            |
| Other income (net of expenses)  | 52,748         |
| Distribution:   |                |
| Interim distribution 2008: 2.00% (Date of distribution: 16 April 2008)  |                |
| - Bonus units   | (12,708)       |
| - Cash Distribution   | (10,312)       |
|   | 29,828         |
| Interim distribution: Issue of bonus units  | 12,708         |
| Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing income / (losses) that form part of the unit holders' funds | (68)           |
| <b>Net assets at the end of the period</b>  | <b>881,198</b> |

The annexed notes 1 to 30 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 ISLAMIC INCOME FUND

## CASH FLOW STATEMENT

FOR THE PERIOD FROM SEPTEMBER 17, 2007 TO JUNE 30, 2008

For the period  
from September  
17, 2007 to June  
30, 2008

NOTE

(Rupees in '000')

### CASH FLOW FROM OPERATING ACTIVITIES

Net income for the period

52,848

#### Adjustments

Amortisation of preliminary expenses and floatation costs

340

Element of loss and capital losses included in prices  
of units issued less those in units redeemed

2,243

55,431

#### (Increase) / decrease in assets

Investments

(546,236)

Loans and receivables

(280,000)

Profit receivable

(31,089)

Deposits, prepayments and other receivables

(4,866)

(862,191)

#### Increase / (decrease) in liabilities

Payable to National Fullerton Asset Management Limited - Management Company

1,254

Payable to Central Depository Company of Pakistan Limited - Trustee

156

Payable to Securities and Exchange Commission of Pakistan

692

Accrued expenses and other liabilities

440

2,542

Payment made for preliminary expenses and floatation costs

(2,500)

#### Net cash outflow on operating activities

(806,718)

### CASH FLOW FROM FINANCING ACTIVITIES

Receipts from issue of units

2,684,709

Payments on redemption of units

(1,848,384)

Distributions paid

(10,312)

#### Net cash inflow from financing activities

826,013

Cash and cash equivalents at the end of the period

4

19,295

The annexed notes 1 to 30 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 ISLAMIC INCOME FUND



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE PERIOD FROM SEPTEMBER 17, 2007 TO JUNE 30, 2008

### 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 BASIS OF PREPARATION

#### 2.1 Statement of compliance

These 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, 2007 (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 the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

#### 2.2 Amendments to published accounting standards effective in 2008

Amendments to IAS 1 - "Presentation of Financial Statements - Capital Disclosures", introduces certain new disclosures about the level of and the management of an entity's capital. Adoption of this amendment has only resulted in additional disclosures relating to the management of NIIF's unitholders' funds which have been set out in note 26 of these financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after July 1, 2007 which are not considered relevant nor have any significant effect on the Fund's operations are not detailed in these financial statements.



# NAFA ISLAMIC INCOME FUND

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

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after January 1, 2008 are either not relevant to the Fund's operations or are not expected to have significant impact on the Fund's financial statements other than increased disclosures in certain cases:

|  |                                |
|--|--------------------------------|
| IAS 1 - Presentation of Financial Statements<br>(Revised September 2007)                                       | effective from January 1, 2009 |
| IAS 23 - Borrowing Costs (Revised March 2007)  | effective from January 1, 2009 |
| Amendments to IAS 27 (Revised) -<br>Consolidated and Separate Financial Statements                             | effective from July 1, 2009    |
| IFRS 3 (Revised) - Business Combinations   | effective from July 1, 2009    |
| IFRS 7 - Financial Instruments: Disclosures  | effective from April 28, 2008  |
| IFRS 8 - Operating Segments  | effective from January 1, 2009 |
| IFRIC 12 - Service Concession Arrangements   | effective from January 1, 2008 |
| IFRIC 13 - Customer Loyalty Programmes   | effective from July 1, 2008    |
| IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset,<br>Minimum Funding Requirement and their interaction | effective from January 1, 2008 |
| IFRIC 15 - Agreements for the Construction of Real Estate  | effective from January 1, 2009 |
| IFRIC 16 - Hedges of a Net Investment in a Foreign Operation   | effective from October 1, 2008 |

## 2.4 Critical accounting estimates and judgements

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 judgement in the process of applying the Fund's accounting policies. Estimates and judgements 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 judgement was exercised in application of accounting policies are as follows:

- i) Classification and valuation of investments (note 3.2 and 5)
- ii) Amortisation of preliminary expenses and floatation cost (note 3.6 and 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

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

# NAFA ISLAMIC 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 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets. The management determines the appropriate classification of the investments made by the Fund in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments: Recognition and Measurement', at the time of purchase and re-evaluates this classification on a regular basis.

Investments are categorised as follows:

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

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in prices are classified as 'Financial assets at fair value through profit or loss'. Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the income statement. Subsequent to initial recognition these investments are marked to market using the closing market rates at the end of each day and are carried on the Statement of Assets and Liabilities at fair value. Net gains and losses arising on changes in fair values of these investments are taken to the Income Statement.

Investments in unquoted debt securities are carried at fair value.

#### b) Available for sale

Investments intended to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in prices, are classified as 'available for sale'.

Investments categorised as available for sale are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, 'available for sale' investments are measured at fair value. Net gains and losses arising on changes in fair values of these investments are taken to equity until the available for sale investment is derecognised. At this time, the cumulative gain or loss previously recognised directly in equity is transferred to the income statement.

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset classified as available for sale is impaired. If evidence of impairment exists, the cumulative loss recognised in equity is removed from equity and recognised in the income statement.

Investment in unquoted debt securities are also carried at fair value.

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





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## 3.3 Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus transaction costs. Subsequent to initial recognition these are carried at amortised cost.

## 3.4 Spread transactions (Ready-Future Transactions)

In accordance with the requirements of IAS 39, securities purchased by the Fund in the ready market are carried on the Statement of Assets and Liabilities till their eventual disposal, and the forward sale of securities in the futures market is accounted for separately as a 'derivative'.

## 3.5 Impairment

The carrying amount of assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognised immediately in the financial statements.

## 3.6 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.

## 3.7 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.

## 3.8 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.

## 3.9 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.

## 3.10 Financial assets and financial liabilities

Financial assets carried on the Statement of Assets and Liabilities include balances with banks, receivable against sale of units, investments, loans and receivables, income receivable and certain other receivables.

# NAFA ISLAMIC INCOME FUND

Financial liabilities carried on the Statement of Assets and Liabilities include payable to National Fullerton Asset Management Limited – Management Company, payable to Central Depository Company of Pakistan Limited – Trustee, and accrued expenses and other liabilities.

The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

## 3.11 Offsetting of financial instruments

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.

## 3.12 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. Currently, the fund is charging sales load (front end load) at the rate of one percent of net asset value per unit.

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.

## 3.13 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 income / (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.

## 3.14 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.
- Dividend income is recognised when the right to receive the payment is established.
- Income on sukuk bond is recognised on time proportion basis.
- Income from Term Deposit Musharika Certificates 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.

# NAFA ISLAMIC INCOME FUND

## 3.15 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 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.

| 4 | BALANCES WITH BANKS | NOTE | 2008<br>(Rupees in '000') |
|---|---------------------|------|---------------------------|
|   | Current accounts    |      | 5,580                     |
|   | Savings accounts    | 4.1  | 13,715                    |
|   |                     |      | <u>19,295</u>             |

4.1 The above balance includes riba based deposit account with Soneri Bank Limited amounting to Rs. 111.660 thousands. In accordance with the provisions contained in the Trust Deed, NIIF can only place funds in riba free deposit accounts with Islamic banks or Islamic financial institutions or with Islamic branches / windows of other banks or financial institutions. Accordingly, the interest earned by the Fund on deposit account with Soneri Bank Limited is intended to be given out for charitable purposes by the Fund.

| 5   | INVESTMENTS   | NOTE | 2008<br>(Rupees in '000') |
|-----|---|------|---------------------------|
|     | <b>At fair value through profit or loss - held for trading</b>  |      |                           |
|     | - Equity securities purchased under futures sale contracts      | 5.1  | -                         |
|     | <b>Available for sale</b>                                       |      |                           |
|     | Sukuk bonds   | 5.2  | 546,330                   |
|     |   |      | <u>546,330</u>            |
| 5.1 | <b>Equity securities purchased under futures sale contracts</b> |      |                           |

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 June 30, 2008 | Market Value as a percentage of Net Assets | Market Value as a percentage of total Investment |
|------------------------------|-----------------------------|-------------------------|---------------------|----------------------------------|--|--|
|                              | Purchases during the period | Sales during the period | As at June 30, 2008 |                                  |  |  |

Fully paid ordinary shares of Rs 10 each

### Cement

|                              |        |        |   |   |   |   |
|------------------------------|--------|--------|---|---|---|---|
| Fauji Cement Company Limited | 40,000 | 40,000 | - | - | - | - |
|------------------------------|--------|--------|---|---|---|---|

### Oil and Gas Marketing Companies

|                                    |        |        |   |   |   |   |
|------------------------------------|--------|--------|---|---|---|---|
| Pakistan State Oil Company Limited | 95,500 | 95,500 | - | - | - | - |
|------------------------------------|--------|--------|---|---|---|---|

### Oil and Gas Exploration Companies

|                                       |           |           |   |   |   |   |
|---------------------------------------|-----------|-----------|---|---|---|---|
| Oil & Gas Development Company Limited | 1,451,200 | 1,451,200 | - | - | - | - |
| Pakistan Oilfields Limited            | 199,000   | 199,000   | - | - | - | - |
| Pakistan Petroleum Limited            | 566,500   | 566,500   | - | - | - | - |



# NAFA ISLAMIC INCOME FUND

| Name of the investee company       | Number of Shares            |                         |                     | Market value as at June 30, 2008 | Market Value as a percentage of Net Assets | Market Value as a percentage of total Investment |
|------------------------------------|-----------------------------|-------------------------|---------------------|----------------------------------|--|--|
|                                    | Purchases during the period | Sales during the period | As at June 30, 2008 |                                  |  |  |
| <b>Fertilizer</b>                  |                             |                         |                     |                                  |  |  |
| Engro Chemicals Pakistan Limited   | 160,000                     | 160,000                 | -                   | -                                | -  | -  |
| Fauji Fertilizer Bin Qasim Limited | 609,500                     | 609,500                 | -                   | -                                | -  | -  |
| Fauji Fertilizer Company Limited   | 120,000                     | 120,000                 | -                   | -                                | -  | -  |

## 5.2 Sukuk bonds

| Name of the investee company                                  | Number of Bonds             |                         |                     | Market value as at June 30, 2008 | Market Value as a percentage of Net Assets | Market Value as a percentage of total Investment |
|---|-----------------------------|-------------------------|---------------------|----------------------------------|--|--|
|   | Purchases during the period | Sales during the period | As at June 30, 2008 |                                  |  |  |
| <b>Rs. In '000'</b>   |                             |                         |                     |                                  |  |  |
| Century Paper and Board Mills Limited                         | 3,000                       | 3,000                   | -                   | -                                | -  | -  |
| Engro Chemicals Pakistan Limited                              | 21,000                      | -                       | 21,000              | 107,279                          | 12.17                                      | 19.64  |
| Eden Housing Limited  | 10,000                      | -                       | 10,000              | 50,000                           | 5.67                                       | 9.15   |
| Kohat Cement Company Limited                                  | 20,000                      | -                       | 20,000              | 96,822                           | 10.99                                      | 17.72  |
| Maple Leaf Cement Factory Limited                             | 20,000                      | -                       | 20,000              | 100,580                          | 11.41                                      | 18.41  |
| New Allied Electronics Industries (Private) Limited-1st issue | 352,000                     | -                       | 352,000             | 110,737                          | 12.57                                      | 20.27  |
| New Allied Electronics Industries (Private) Limited-2nd issue | 5,000                       | 4,000                   | 1,000               | 5,034                            | 0.57                                       | 0.92   |
| Pak Electron Limited  | 15,000                      | -                       | 15,000              | 75,878                           | 8.61                                       | 13.89  |
|   |                             |                         |                     | <u>546,330</u>                   |  |  |
| <b>Cost of investments as at June 30, 2008</b>                |                             |                         |                     | <u>546,236</u>                   |  |  |

**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 .

**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.

**5.2.3** The SECP has relaxed the investments limits currently prescribed in regulation 64(5) and 64(8) of the Non-Banking Finance Companies and Notified Entities Regulations, 2007, to fifteen percent and thirty percent respectively for the fund.

## 6 LOANS AND RECEIVABLE NOTE **2008** (Rupees in '000')

Placement of funds in Term Deposit Musharika certificates with:

|                                |                |
|--------------------------------|----------------|
| - Bank Alfalah Limited         | 140,000        |
| - Emirates Global Islamic Bank | 140,000        |
|                                | <u>280,000</u> |



# NAFA ISLAMIC INCOME FUND

|  | NOTE | 2008<br>(Rupees in '000') |
|--|------|---------------------------|
| <b>7 PROFIT RECEIVABLE</b>   |      |                           |
| Profit on savings deposits   |      | 1,089                     |
| Income accrued on sukuk bonds  |      | 12,072                    |
| Income accrued on term deposit musharika certificates  |      | <u>17,928</u>             |
|  |      | <u>31,089</u>             |
| <b>8 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>   |      |                           |
| Security deposits with:  |      |                           |
| - National Clearing Company of Pakistan Limited  |      | 2,500                     |
| - Central Depository Company of Pakistan Limited   |      | 100                       |
| Prepaid listing fee  |      | 30                        |
| Receivable from NAFA Stock Fund on units transferred in  |      | <u>2,236</u>              |
|  |      | <u>4,866</u>              |
| <b>9 PRELIMINARY EXPENSES AND FLOATATION COSTS</b>   |      |                           |
| Preliminary expenses and floatation costs incurred   | 9.1  | 2,500                     |
| Less: amortisation during the period   |      | <u>340</u>                |
| Balance as at June 30, 2008  |      | <u>2,160</u>              |
| <b>9.1</b>   |      |                           |
| 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 October 27, 2007 as per the requirements set out in the Trust Deed of the Fund.   |      |                           |
|  | NOTE | 2008<br>(Rupees in '000') |
| <b>10 PAYABLE TO NATIONAL FULLERTON ASSET MANAGEMENT LIMITED – MANAGEMENT COMPANY</b>  |      |                           |
| Management fee   | 10.1 | 1,123                     |
| Others   |      | <u>131</u>                |
|  |      | <u>1,254</u>              |
| <b>10.1</b>  |      |                           |
| Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007, 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 to the Management Company monthly in arrears. |      |                           |
|  | NOTE | 2008<br>(Rupees in '000') |
| <b>11 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE</b>  |      |                           |
| Trustee fee  | 11.1 | 149                       |
| CDS Charges  |      | <u>7</u>                  |
|  |      | <u>156</u>                |

# NAFA ISLAMIC INCOME FUND



- 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, 2008 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.

|   | NOTE | 2008<br>(Rupees in '000') |
|---|------|---------------------------|
| <b>12 PAYABLE TO SECURITIES AND EXCHANGE<br/>COMMISSION OF PAKISTAN</b> |      |                           |
| Annual Fee  | 12.1 | <u>692</u>                |

- 12.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2007, the Fund is required to pay as annual fee to the Securities and Exchange Commission of Pakistan, an amount equal to one-tenth of one percent of the average annual net assets of the Scheme.

|  | 2008<br>(Rupees in '000') |
|--|---------------------------|
| <b>13 ACCRUED EXPENSES AND OTHER LIABILITIES</b> |                           |
| Auditors' remuneration                           | 183                       |
| Payable to brokers                               | 148                       |
| Bank charges payable                             | 3                         |
| Withholding tax payable                          | 42                        |
| Charity payable                                  | 64                        |
|  | <u>440</u>                |
| <b>14 Net Asset Value per unit</b>               |                           |

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<br>from September<br>17, 2007 to June<br>30, 2008<br>(Rupees in '000') |
|----------------------------------|---|
| <b>15 AUDITORS' REMUNERATION</b> |   |
| Audit fee                        | 175   |
| Half yearly review               | 70  |
| Out of pocket expenses           | 16  |
|                                  | <u>261</u>  |

# NAFA ISLAMIC INCOME FUND

## 16 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded a tax liability in respect of income relating to the current year as the management company has decided 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.

## 17 EARNINGS PER UNIT

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

## 18 TRANSACTIONS WITH CONNECTED PERSONS

**18.1** 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.

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

**18.3** 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.

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

**18.5** Details of the transactions with connected persons are as follows:

**For the period  
from September  
17, 2007 to June  
30, 2008  
(Rupees in '000')**

### **National Fullerton Asset Management Limited - Management Company**

|   |        |
|---|--------|
| Management fee expense for the period               | 10,382 |
| Preliminary expenses and floatation cost reimbursed | 2,500  |
| Front end load for the period                       | 1,010  |

### **Central Depository Company of Pakistan Limited - Trustee**

|                            |       |
|----------------------------|-------|
| Remuneration               | 1,354 |
| CDS charges for the period | 18    |

### **National Bank of Pakistan - Sponsor**

|  |        |
|--|--------|
| Investment made by the Sponsor in the Fund (7,500,000 units) | 75,000 |
| Profit paid by the Fund on pre-IPO investment                | 417    |
| Cash dividend  | 1,500  |

# NAFA ISLAMIC INCOME FUND



For the period  
from September  
17, 2007 to June  
30, 2008  
(Rupees in '000')

## NIB Bank Limited - Sponsor

|  |        |
|--|--------|
| Investment made by the Sponsor in the Fund (7,500,000 units) | 75,000 |
| Profit paid by the Fund on pre-IPO investment                | 417    |
| Cash dividend  | 1,500  |

## Alexandra Fund Management Pte. Limited - Sponsor

|   |         |
|---|---------|
| Investment made by the Sponsor in the Fund (10,000,000 units) | 100,000 |
| Profit paid by the Fund on pre-IPO investment                 | 556     |
| Bonus units issued (196,761 units)                            | 2,000   |

## Executives of Management Company

|   |        |
|---|--------|
| Units issued / transferred in (2,718,066 units)     | 27,891 |
| Units redeemed / transferred out ( 2,286,434 units) | 23,472 |
| Bonus units issued ( 6,384 units)                   | 65     |

## NAFA Islamic Multi Asset Fund

|                                  |         |
|----------------------------------|---------|
| Units issued (15,576,388 units)  | 160,000 |
| Units redeemed (8,275,562 units) | 85,000  |

## NAFA Multi Asset Fund

|  |         |
|--|---------|
| Units issued (17,050,628 units)              | 175,000 |
| Units redeemed (9,726,870 units)             | 100,000 |
| Payment made for the purchase of sukuk bonds | 50,384  |

## NAFA Stock Fund

|                                  |         |
|----------------------------------|---------|
| Units issued (9,743,740 units)   | 100,000 |
| Units redeemed (9,726,373 units) | 100,000 |

## NAFA Cash Fund

|  |        |
|--|--------|
| Payment made for the purchase of sukuk bonds | 60,461 |
| Payment received for the sale of sukuk bonds | 36,836 |



# NAFA ISLAMIC INCOME FUND

2008  
(Rupees in '000')

## 18.6 Amounts outstanding as at period end

### National Fullerton Asset Management Limited - Management Company

|                        |       |
|------------------------|-------|
| Management fee payable | 1,123 |
| Others                 | 131   |

### Central Depository Company of Pakistan Limited - Trustee

|                      |     |
|----------------------|-----|
| Remuneration payable | 149 |
| CDS Charges          | 7   |
| Secutiy deposits     | 100 |

### National Bank of Pakistan - Sponsor

|  |        |
|--|--------|
| Investment held by the Sponsor in the Fund (7,500,000 units) | 77,649 |
| Balance in current account                                   | 250    |

### NIB Bank Limited - Sponsor

|  |        |
|--|--------|
| Investment held by the Sponsor in the Fund (7,500,000 units) | 77,649 |
| Balance in current account                                   | 1,373  |

### Alexandra Fund Management Pte. Limited - Sponsor

|   |         |
|---|---------|
| Investment held by the Sponsor in the Fund (10,196,761 units) | 105,569 |
|---|---------|

### Executives of Management Company

|   |       |
|---|-------|
| Investment held by the executives in the Fund (438,016 units) | 4,535 |
|---|-------|

### NAFA Islamic Multi Asset Fund

|   |        |
|---|--------|
| Investment held in the Fund (7,300,826 units) | 75,587 |
|---|--------|

### NAFA Multi Asset Fund

|   |        |
|---|--------|
| Investment held in the Fund (7,323,758 units) | 75,824 |
|---|--------|

### NAFA Stock Fund

|  |     |
|--|-----|
| Investment held in the Fund (17,367 units) | 180 |
|--|-----|

## 19 YIELD / INTEREST RATE RISK

- 19.1 The Fund is mainly exposed to mark-up / interest rate risk on its investment portfolio. The Investment Committee of the Fund reviews the portfolio of the Fund on a regular basis to ensure that risk is managed within acceptable limits. 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 settlement date.

# NAFA ISLAMIC INCOME FUND

As at June 30, 2008

| Total | Exposed to Yield/ Interest risk |  |                    | Not exposed to Yield Interest risk |
|-------|---------------------------------|--|--------------------|------------------------------------|
|       | Upto three months               | More than three months and upto one year | More than one year |                                    |

------(Rupees in '000')-----

## On-balance sheet financial instruments

### Financial Assets

|                                |         |        |         |   |        |
|--------------------------------|---------|--------|---------|---|--------|
| Balances with banks            | 19,295  | 13,715 | -       | - | 5,580  |
| Investments                    | 546,330 | -      | 546,330 | - | -      |
| Loans and receivables          | 280,000 | -      | 280,000 | - | -      |
| Profit receivable              | 31,089  | -      | -       | - | 31,089 |
| Deposits and other receivables | 4,866   | -      | -       | - | 4,866  |
|                                | 881,580 | 13,715 | 826,330 | - | 41,535 |

### Financial Liabilities

|   |       |   |   |   |       |
|---|-------|---|---|---|-------|
| Payable to National Fullerton Asset Management Limited - Management company | 1,254 | - | - | - | 1,254 |
| Payable to Central Depository Company of Pakistan Limited - Trustee         | 156   | - | - | - | 156   |
| Accrued expenses and other liabilities                                      | 440   | - | - | - | 440   |
|   | 1,850 | - | - | - | 1,850 |

## On-balance sheet gap

|  |         |        |         |   |        |
|--|---------|--------|---------|---|--------|
|  | 879,730 | 13,715 | 826,330 | - | 39,685 |
|--|---------|--------|---------|---|--------|

## Off-balance sheet financial instruments

|  |   |   |   |   |   |
|--|---|---|---|---|---|
|  | - | - | - | - | - |
|--|---|---|---|---|---|

## Off-balance sheet gap

|  |   |   |   |   |   |
|--|---|---|---|---|---|
|  | - | - | - | - | - |
|--|---|---|---|---|---|

**2008  
Percentage  
per annum**

19.2 The rates of return on financial instruments are as follows:

|                                     |               |
|-------------------------------------|---------------|
| Balances with banks                 | 1.50 - 10.50  |
| Investment in sukuk bonds           | 11.35 - 15.14 |
| Term deposit musharika certificates | 9.5           |

## 20 MATURITIES OF ASSETS AND LIABILITIES

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

# NAFA ISLAMIC INCOME FUND

As at June 30, 2008

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

------(Rupees in '000')-----

## Assets

|   |         |        |         |         |
|---|---------|--------|---------|---------|
| Balances with banks                         | 19,295  | 19,295 | -       | -       |
| Investments                                 | 546,330 | -      | 42,382  | 503,948 |
| Loans and receivables                       | 280,000 | -      | 280,000 | -       |
| Profit receivable                           | 31,089  | 1,089  | 30,000  | -       |
| Deposits, prepayments and other receivables | 4,866   | 2,244  | 22      | 2,600   |
| Preliminary expenses and floatation costs   | 2,160   | 125    | 375     | 1,660   |
|   | 883,740 | 22,753 | 352,779 | 508,208 |

## Liabilities

|   |         |        |         |         |
|---|---------|--------|---------|---------|
| Payable to National Fullerton Asset Management Limited Management company | 1,254   | 1,254  | -       | -       |
| Payable to Central Depository Company of Pakistan Limited - Trustee       | 156     | 156    | -       | -       |
| Payable to Securities and Exchange Commission of Pakistan - Annual fee    | 692     | 692    | -       | -       |
| Accrued expenses and other liabilities                                    | 440     | 440    | -       | -       |
|   | 2,542   | 2,542  | -       | -       |
|   | 881,198 | 20,211 | 352,779 | 508,208 |

## 21 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

| 2008 |                  |  |     |
|------|------------------|--|-----|
|      | Qualification    | Experience in years                        |     |
| 1    | Dr. Amjad Waheed | Doctorate in Business Administration / CFA | 17  |
| 2    | Sajjad Anwar     | CFA / MBA Finance                          | 7.5 |
| 3    | Rukhsana Narejo  | CFA, MBA Banking and Finance               | 6   |
| 4    | Khurram Shehzad  | CFA / MBA                                  | 9   |

21.1 Sajjad Anwar is the Fund Manager of NIIF only.

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

|   | 2008 % |
|---|--------|
| 1 Orix Investment Bank Limited                    | 17.33% |
| 2 Invest and Finance Securities (Private) Limited | 16.53% |
| 3 D.J.M. Securities (Private) Limited             | 16.51% |
| 4 FDM Capital Securities (Private) Limited        | 12.23% |
| 5 AKD Securities Limited                          | 8.15%  |
| 6 JS Global Capital Limited                       | 7.06%  |
| 7 Global Securities Pakistan Limited              | 6.37%  |
| 8 Saa Capital                                     | 4.73%  |
| 9 Motiwala Securities (Private) Limited           | 3.81%  |
| 10 Khojas Capital Management (Private) Limited    | 2.98%  |

# NAFA ISLAMIC INCOME FUND



## 23 PATTERN OF UNIT HOLDING

Pattern of unit holding at June 30, 2008

| Category                         | Number of unit holders | 2008              |                       |
|----------------------------------|------------------------|-------------------|-----------------------|
|                                  |                        | Investment amount | Percentage Investment |
|                                  |                        | (Rupees in '000') |                       |
| Individuals                      | 354                    | 79,877            | 9.06%                 |
| Associated companies / Directors | 3                      | 260,867           | 29.60%                |
| Insurance companies              | -                      | -                 | 0.00%                 |
| Bank / DFIs                      | 7                      | 41,413            | 4.70%                 |
| NBFCs                            | -                      | -                 | 0.00%                 |
| Retirement funds                 | -                      | -                 | 0.00%                 |
| Public Limited companies         | -                      | -                 | 0.00%                 |
| Others                           | 34                     | 499,041           | 56.64%                |
|                                  | <b>398</b>             | <b>881,198</b>    | <b>100.00%</b>        |

## 24 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 12th, 13th, 14th, 15th and 16th Board meetings were held on July 5, 2007, August 8, 2007, October 18, 2007, February 15, 2008 and April 16, 2008 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                  | 5        | -             |                             |
| Dr Amjad Waheed  | 5                  | 5        | -             |                             |
| Mr. Gerard Lee   | 5                  | 4        | 1             | 12th meeting                |
| Mr. Iqbal Hassan | 5                  | 4        | 1             | 16th meeting                |
| Patrick Pang     | 5                  | 5        | -             |                             |
| Shahid Anwar     | 5                  | 2        | 3             | 12th, 13th and 16th meeting |
| Masroor Qureshi  | 5                  | 5        | -             |                             |

## 25 RISK MANAGEMENT POLICIES

### 25.1 Market risk

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market interest rates or market price of securities due to change in credit rating of the issuer of the instrument, change in market sentiments, supply and demand of securities and liquidity in the market. There is a possibility of default of participants and of failure of the financial markets / stock exchanges, the depositories, the settlement or the clearing system etc.

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.





# NAFA ISLAMIC INCOME FUND

## 25.2 Credit risk

### Credit risk management

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

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.

## 25.3 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset at close to its fair value. In addition the Fund is exposed to daily cash redemption of units. The Management Company manages liquidity risk by following internal guidelines such as monitoring maturities of financial assets and financial liabilities and investing in highly liquid financial assets.

## 25.4 Yield / interest rate risk

Yield risk is the risk of decline in earnings due to adverse movements of the yield curve. Yield / interest rate risk arises from the possibility that changes in market rates of return will affect the value of the financial instruments. A Fund is exposed to yield / interest rate risk as a result of mismatches or gaps in the amounts of financial assets and financial liabilities that mature or reprice in a given period. The Fund manages this risk by matching the repricing of financial assets and liabilities through risk management strategies. The position for financial instruments is based on earlier of contractual repricing date or maturity.

## 26 UNIT HOLDERS' FUND RISK MANAGEMENT

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

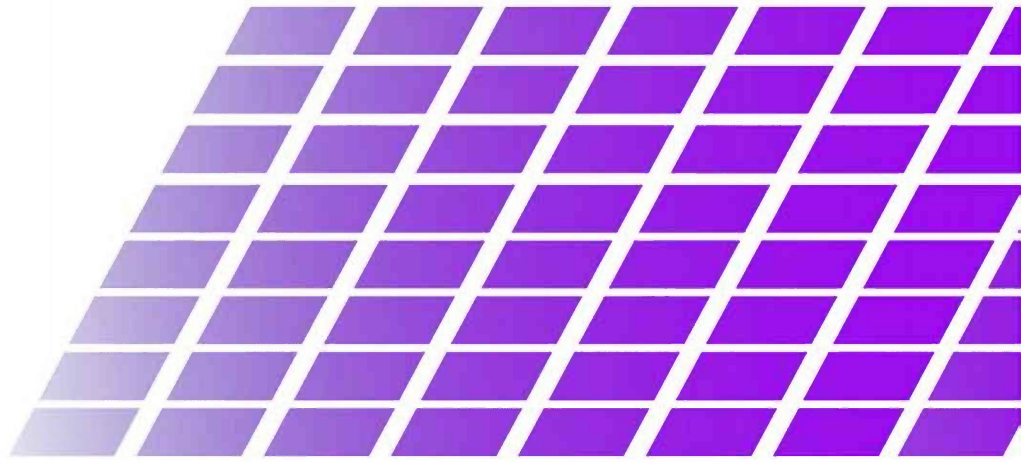
The Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable on the Fund.

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets under management. In accordance with the risk management policies stated in note 25, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

## 27 Fair value of financial instruments

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



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