

NAFA ISLAMIC INCOME FUND

NAFA ISLAMIC INCOME FUND

**HALF YEARLY REPORT
FOR THE HALF YEAR ENDED
DECEMBER 31, 2009
(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 half year ended December 31, 2009.

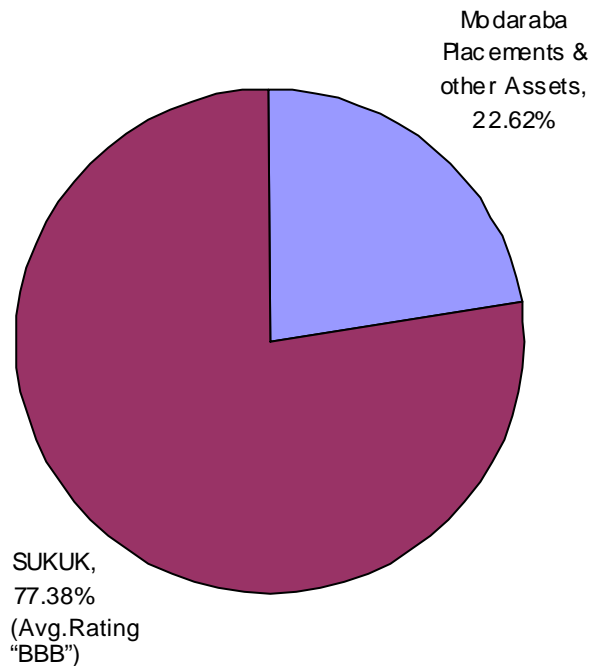
Fund's Performance

The size of NAFA Islamic Income Fund has reduced from Rs. 517 million to Rs. 233 million during the period, i.e. a decline of 54.93%. During the said period, the unit price of NAFA Islamic Income Fund has decreased from Rs. 9.4069 on June 30, 2009 to Rs. 7.0523 on December 31, 2009, thus showing a decline of 25.03%.

NAFA Islamic Income Fund has earned total income of Rs. 36.21 million during the period. After deducting expenses of Rs. 105.90 million, the net loss is Rs. 69.69 million, translating into loss per unit of Rs. 2.3546.

The asset allocation of the Fund as on December 31, 2009 is as follows:

Asset Allocation as on December 31, 2009



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Acknowledgement

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

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

On behalf of the Board of
National Fullerton Asset Management Limited

Chief Executive

Chairman

Date: February 17, 2010
Place: Karachi.

NAFA ISLAMIC INCOME FUND

TRUSTEEREPOR TTOTHEUNITHOLDERS

ReportoftheTrusteepursuanttoRegulation41(h)oftheNon-BankingFinanceCompaniesandNotified EntitiesRegulations,2008

NAFAIslamicIncomeFund(theFund),anopen-endschemewasestablishedunderatrustdeeddatedAugust20, 2007,executedbetweenNationalFullertonAssetManagementLimited,asthemanagementcompanyandCentral DepositoryCompanyofPakistanLimited,asthetrustee.

Inouropinion,theManagementCompanyhasinallmaterialrespectsmanagedtheFundduringtheperiodfromJuly 01,2009toDecember31,2009inaccordancewiththeprovisionsofthefollowing:

- (i) Limitationsimposedontheinvestmentpowersofthemanagementcompanyundertheconstitutive documentsoftheFund;
- (ii) Thepricing,issuanceandredemptionofunitsarecarriedoutinaccordancewiththerequirementsofthe constitutivedocumentsoftheFund;and
- (iii) TheNon-BankingFinanceCompanies(EstablishmentandRegulations)Rules,2003,theNon-Banking FinanceCompaniesandNotifiedEntitiesRegulations,2008andtheconstitutedocumentsoftheFund.

MuhammadHanifJakhura
ChiefExecutiveOfficer
CentralDepositoryCompanyofPakistanLimited

Karachi,February24,2010

NAFA ISLAMIC INCOME FUND

AUDITORS' REVIEW REPORT TO THE UNITHOLDERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim statement of assets and liabilities of **NAFA Islamic Income Fund** as at December 31, 2009, and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unitholders' funds and condensed interim cash flow statement together with the notes forming part thereof (here-in-after referred to as the 'condensed interim financial information'), for the half year ended December 31, 2009. The Management Company (National Fullerton Asset Management Limited) is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim statement of movement in unitholders' funds and condensed interim cash flow statement for the quarters ended December 31, 2009 and 2008 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2009.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standard on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2009 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

A.F. Ferguson & Co.
Chartered Accountants.

Date: February 24, 2010
Karachi

NAFA ISLAMIC INCOME FUND

CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2009

	Note	Unaudited December 31, 2009	Audited June 30, 2009
-----Rupees in '000-----			
ASSETS			
Balances with banks	4	42,744	65,272
Investments	5	176,574	440,291
Profit receivable	6	6,455	10,609
Advances, deposits, prepayments and other receivables		6,441	2,698
Preliminary expenses and floatation costs		1,408	1,660
Total assets		233,622	520,530
LIABILITIES			
Payable to National Fullerton Asset Management Limited - Management Company		322	1,171
Payable to Central Depository Company of Pakistan Limited - Trustee		60	89
Payable to Securities and Exchange Commission of Pakistan		135	611
Payable against redemption of units		34	1,052
Accrued expenses and other liabilities	7	267	496
Total liabilities		818	3,419
NET ASSETS		232,804	517,111
Unit holders' funds (as per statement attached)		232,804	517,111
CONTINGENCIES AND COMMITMENTS			
	8		
NUMBER OF UNITS IN ISSUE			
		33,010,957	54,971,537
NET ASSET VALUE PER UNIT			
		7.0523	9.4069

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

For National Fullerton Asset Management Limited
(Management Company)

Chief Executive

Chairman

NAFA ISLAMIC INCOME FUND

CONDENSED INTERIM INCOME STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2009

	Note	Half year ended		Quarter ended	
		December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
-----Rupees in '000-----					
INCOME					
(Loss)/gain on sale of investments-net		(143)	27	(160)	-
Income from sukuk bonds		13,159	42,357	3,426	22,356
Income from spread transactions		-	18	-	-
Income from term deposit musharikah certificates		-	8,672	-	1,967
Profit on bank deposits		4,338	4,446	1,263	2,218
Total income		17,354	55,520	4,529	26,541
EXPENSES					
Remuneration of National Fullerton Asset Management Limited- Management Company		2,701	6,115	1,042	2,521
Remuneration of Central Depository Company of Pakistan Limited-Trustee		398	814	177	336
Annual fee-Securities and Exchange Commission of Pakistan		135	393	52	153
Securities transaction cost		1	15	-	-
Settlement and bank charges		91	93	58	45
Annual listing fee		23	15	15	7
Auditors' remuneration		247	272	142	173
Impairment loss on investments classified as 'available for sale' financial assets		101,871	62,364	52,253	62,364
Legal and professional charges		158	-	158	-
Amortisation of preliminary expenses and floatation costs		252	252	126	126
Printing and related charges		19	131	4	87
Total Expenses		105,896	70,464	54,027	65,812
Net loss from operating activities		(88,542)	(14,944)	(49,498)	(39,271)
Element of income/(loss) and capital gains/(losses) included in the prices of units issued less those in units redeemed		18,855	1,279	13,693	2,445
Net loss for the period before taxation		(69,687)	(13,665)	(35,805)	(36,826)
Taxation	9	-	-	-	-
Net loss for the period after taxation		(69,687)	(13,665)	(35,805)	(36,826)
Earnings per unit	10				

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

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

Chief Executive

Chairman

NAFA ISLAMIC INCOME FUND

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2009

	Half year ended		Quarter ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
-----Rupees in '000-----				
Net loss for the period after taxation	(69,687)	(13,665)	(35,805)	(36,826)
Other comprehensive income/(loss)				
Element of income/(loss) and capital gains/(losses) included in the prices of units issued less those in units redeemed	5,742	(2,123)	3,387	(2,320)
Net unrealised diminution on remeasurement of investments classified as 'available for sale' financial assets'	(756)	(53,246)	(632)	(53,087)
Total comprehensive loss for the period	<u>(64,701)</u>	<u>(69,034)</u>	<u>(33,050)</u>	<u>(92,233)</u>

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

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

Chief Executive

Chairman

NAFA ISLAMIC INCOME FUND

CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2009

	Half year ended		Quarter ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
-----Rupees in '000-----				
(Accumulated loss)/undistributed income brought forward	(15,029)	29,760	(46,556)	31,006
Net loss for the period after taxation	(69,687)	(13,665)	(35,805)	(36,826)
Distribution:				
Final distribution 2009: Nil (2008: 2.60%) (Date of distribution: July 3, 2008)				
- Bonus units	-	(12,108)	-	-
- Cash distribution	-	(10,004)	-	-
Interim distribution 2009: Nil (2008: 2.60%) (Date of distribution: October 16, 2008)				
- Bonus units		(10,747)		(10,747)
- Cash distribution		(12,155)		(12,155)
Other comprehensive income				
Element of income/(loss) and capital gains/(losses) included in the prices of units issued less those in units redeemed	5,742	(2,123)	3,387	(2,320)
Accumulated loss carried forward	<u>(78,974)</u>	<u>(31,042)</u>	<u>(78,974)</u>	<u>(31,042)</u>

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

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

Chief Executive

Chairman

NAFA ISLAMIC INCOME FUND

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNITHOLDERS' FUNDS (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2009

	Half year ended		Quarter ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
-----Rupees in '000-----				
Net assets at the beginning of the period	517,111	881,198	348,843	915,458
Issue of 7,335,531 units (December 31, 2008: 82,317,208 units including 2,259,291 bonus units)	63,664	793,274	17,964	356,561
Redemption of 29,296,111 units (December 31, 2008: 102,836,883 units)	(258,673) (195,009)	(1,022,342) (229,068)	(83,873) (65,909)	(605,725) (249,164)
Bonus distribution: Issue of bonus units				
Final distribution 2009: Nil (2008: 2.60%) (Date of distribution: July 3, 2008)	-	12,108	-	-
Interim distribution 2009: Nil (2008: 2.60%) (Date of distribution: October 16, 2008)	-	10,747	-	10,747
	-	22,855	-	10,747
Net element of (income)/loss and capital (gains)/losses included in the prices of units issued less those units redeemed				
- amount representing income and capital gains - transferred to the income statement	(18,855)	(1,279)	(13,693)	(2,445)
- amount representing (income)/loss and capital (gains)/losses - transferred to the statement of comprehensive income	(5,742) (24,597)	2,123 844	(3,387) (17,080)	2,320 (125)
Net unrealised diminution on remeasurement of investments classified as 'available for sale financial assets'	(756)	(53,246)	(632)	(53,087)
Net loss for the period after taxation	(69,687)	(13,665)	(35,805)	(36,826)
Distribution:				
Final distribution 2009: Nil (2008: 2.60%) (Date of distribution: July 3, 2008)				
- Bonus units	-	(12,108)	-	-
- Cash distribution	-	(10,004)	-	-
Interim distribution 2009: Nil (2008: 2.60%) (Date of distribution: October 16, 2008)				
- Bonus units	-	(10,747)	-	(10,747)
- Cash distribution	-	(12,155)	-	(12,155)
	-	(45,014)	-	(22,902)
Element of income/(loss) and capital gains/(losses) included in the prices of units issued less those units redeemed	5,742	(2,123)	3,387	(2,320)
Net assets at the end of the period	<u>232,804</u>	<u>561,781</u>	<u>232,804</u>	<u>561,781</u>

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

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

Chief Executive

Chairman

NAFA ISLAMIC INCOME FUND

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2009

	Half year ended		Quarter ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
-----Rupees in '000-----				
CASH FLOW FROM OPERATING ACTIVITIES				
Net loss for the period before taxation	(69,687)	(13,665)	(35,805)	(36,826)
Adjustments				
Loss/(gain) on sale of investments	143	(27)	160	-
Impairment loss on investments classified as 'available for sale financial assets'	101,871	62,364	52,253	62,364
Amortisation of preliminary expenses and floatation costs	252	252	126	126
Element of income and capital gains included in the prices of units issued less those in units redeemed	(18,855)	(1,279)	(13,693)	(2,445)
	<u>13,724</u>	<u>47,645</u>	<u>3,041</u>	<u>23,219</u>
(Increase)/decrease in assets				
Investments-net	160,947	(10,723)	24,428	10,516
Loans and receivables	-	280,000	-	280,000
Profit receivable	4,154	4,627	(1,351)	1,102
Advances, deposits, prepayments and other receivables	(3,743)	(8,349)	(3,721)	(10,316)
	<u>161,358</u>	<u>265,555</u>	<u>19,356</u>	<u>281,302</u>
Increase/(decrease) in liabilities				
Payable to National Fullerton Asset Management Limited- Management Company	(849)	(104)	(172)	(145)
Payable to Central Depository Company of Pakistan Limited- Trustee	(29)	(53)	(4)	(61)
Payable to Securities and Exchange Commission of Pakistan	(476)	(299)	52	(539)
Payable against redemption of units	(1,018)	1,232	(174)	1,232
Accrued expenses and other liabilities	(229)	49	(84)	141
	<u>(2,601)</u>	<u>825</u>	<u>(382)</u>	<u>628</u>
Net cash inflow from operating activities	<u>172,481</u>	<u>314,025</u>	<u>22,015</u>	<u>305,149</u>
CASH FLOW FROM FINANCING ACTIVITIES				
Net receipts from issue of units	63,664	793,274	17,964	(665,781)
Payments against redemption of units	(258,673)	(1,022,342)	(83,873)	416,617
Distributions paid	-	(22,159)	-	(12,155)
Net cash outflow from financing activities	<u>(195,009)</u>	<u>(251,227)</u>	<u>(65,909)</u>	<u>(261,319)</u>
Net (decrease)/increase in cash and cash equivalents during the period	<u>(22,528)</u>	<u>62,798</u>	<u>(43,894)</u>	<u>43,830</u>
Cash and cash equivalents at the beginning of the period	65,272	19,295	86,638	38,263
Cash and cash equivalents at the end of the period	<u>42,744</u>	<u>82,093</u>	<u>42,744</u>	<u>82,093</u>

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

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

Chief Executive

Chairman

NAFA ISLAMIC INCOME FUND

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2009

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).

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 9th Floor, Adamjee House, I.I. Chundrigar Road, Karachi.

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

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 comprises of investments of various investment horizons, with a significant amount invested in short term investments for the purpose of maintaining liquidity.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an asset manager rating of AM2 to the Management Company. The Management Company has initiated the process of obtaining the rating of the Fund with PACRA. Pending completion of this process, the rating of the Fund has not been disclosed in these condensed interim financial statements.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever, the requirements of the Trust Deed, the NBFC Regulations or the directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Regulations or the directives issued by SECP prevail. The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of the International Accounting Standard 34: 'Interim Financial Reporting'.

2.2 These condensed interim financial statements are unaudited. However, a limited scope review has been performed by the external auditors in accordance with the requirements of the Code of Corporate Governance.

2.3 The directors of the asset management company declare that these condensed interim financial statements give a true and fair view of the Fund.

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3 SIGNIFICANT ACCOUNTING POLICIES

- 3.1 The accounting applied in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual published financial statements of the Fund for the year ended June 30, 2009 except for the changes mentioned below:

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position (referred to as the statement of assets and liabilities in these condensed interim financial statements) as at the beginning of the comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period.

The Fund has applied IAS 1 (revised) from July 1, 2009, and has selected to present two separate performance statements. As a result non-owner changes in equity which were previously credited directly in the statement of movement in unit holders' fund and the distribution statement are now shown as other comprehensive income in the performance statement (referred to as income statement in these condensed interim financial statements). The change in presentation has not affected the values of the net assets of the Fund for either the current or any of the prior periods and hence restated statement of assets and liabilities has not been presented.

- 3.2 The following new standards and amendments to existing standards are mandatory for the first time for the financial year beginning July 1, 2009:

IAS 39 (amendment), 'Financial Instruments: Recognition and measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with the evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The adoption of the amendment did not have a significant impact on the Fund's financial statements.

IFRS 7 (amendment) 'Financial Instruments: Disclosures'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of fair value measurement hierarchy. The adoption of the amendment results in additional disclosures, which would be detailed in the financial statements for the year ending June 30, 2010, but does not have an impact on the Fund's financial position or performance.

IAS 32 (amendment), 'Financial Instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'. The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. One of the particular features is that apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity. In this connection, Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 mandates the payment of 90% of the Fund's profits for the year as dividends, therefore the amendment has not changed the classification of units.

- 3.3 There are other standards, amendments and interpretations that were mandatory for accounting periods beginning on or after July 1, 2009 but were considered not to be relevant or did not have any significant effect on the Fund's operations.

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	Note	Unaudited December 31, 2009	Audited June 30, 2009
-----Rupees in '000-----			
4	BALANCES WITH BANKS		
	Current accounts	1,336	6,558
	Savings accounts	41,408	58,714
		<u>42,744</u>	<u>65,272</u>
5	INVESTMENTS		
	Available for sale financial assets		
	Sukuk and Ijarah bonds	5.1 <u>176,574</u>	<u>440,291</u>
		<u>176,574</u>	<u>440,291</u>

5.1 Sukuk and Ijarah bonds - available for sale

Name of the investee company	Number of bonds				Market Value as at December 31, 2009	Investment as a percentage of		
	As at July 1, 2009	Purchases during the period	Sales during the period	As at December 31, 2009		Net Assets	Market Value of Total Investment	Issue size
(Rupees in '000) ----- % -----								
Engro Chemical Pakistan Limited	16,000	-	-	16,000	75,760	32.54%	42.91%	2.67%
Eden Builders (Private) Limited	3,312	-	3,312	-	-	-	-	-
Eden Housing Limited	10,000	-	10,000	-	-	-	-	-
Kohat Cement Company Limited (note 5.1.2.1)	20,000	-	-	20,000	34,191	14.69%	19.36%	4.00%
Maple Leaf Cement Factory Limited (note 5.1.2.2)	20,000	-	14,688	5,312	22,576	9.70%	12.79%	0.33%
New Allied Electronics Industries (Private) Limited - 1st issue (note 5.1.2.3)	352,000	-	-	352,000	-	0.00%	0.00%	18.33%
New Allied Electronics Industries (Private) Limited - 2nd issue (note 5.1.2.4)	1,000	-	-	1,000	1,253	0.54%	0.71%	0.67%
Pak Elektron Limited	15,000	-	5,000	10,000	37,724	16.20%	21.36%	4.17%
Government of Pakistan Ijarah Sukuk	50	-	-	50	5,070	2.18%	2.87%	-
Total					<u>176,574</u>		<u>100%</u>	
Carrying value before fair value adjustments as at December 31, 2009					<u>357,469</u>			
Provision for impairment loss as at December 31, 2009					<u>180,139</u>			

5.1.1 All sukuk bonds have a face value of Rs5,000 each except sukuk bonds of New Allied Electronics (Private) Limited - 1st issue and Government of Pakistan Ijarah bonds which have a face value of Rs312.5 and Rs100,000 each respectively.

5.1.2 As at December 31, 2009, the Fund had not received redemption of principal and/or profit amount on some of its investments, the details of which are as follows:

5.1.2.1 This represents investment in privately placed sukuk bonds issued with a term of five years. On December 20, 2008 i.e. the scheduled redemption date, principal redemption of Rs6,800 thousand was not received by the Fund. The management has recognized an impairment loss of Rs62,409 thousand and till December 31, 2009. The minimum amount of provision required as per SECP circular no. 01 of 2009 amounts to Rs60,255 thousand. However, as a matter of prudence, the management has recognized an additional amount of provision of Rs2,154 thousand based on the provisioning policy approved by the Board of Directors. The income suspended on these term finance certificates amounted to Rs7,575 thousand.

NAFA ISLAMIC INCOME FUND

- 5.1.2.2** This represents investment in rated secured sukuk bonds issued with a term of six years. On December 3, 2009 i.e. the scheduled redemption date, profit payment amount of Rs2,056 thousand was not received by the Fund. The management has recognized an impairment loss of Rs3,984 thousand till December 31, 2009. The minimum amount of provision required as per SECP circular no. 01 of 2009 amount to Rs826 thousand. However, as a matter of prudence, the management has recognised an additional amount of provision of Rs3,158 thousand based on the provisioning policy approved by the Board of Directors. The income suspended on these term finance certificates amounted to Rs2,354 thousand.
- 5.1.2.3** This represents sukuk bonds with a term of five years. The principal was to be redeemed from the fifteenth month of drawdown by the investee company. However, on October 25, 2008, January 25, 2009, April 25, 2009, July 25, 2009 and October 25, 2009 i.e. the scheduled redemption dates, principal redemptions of Rs 34,375 thousand were not received by the Fund. The management has recognized an impairment loss of Rs110,000 thousand till December 31, 2009. The minimum amount of provision required as per SECP circular no. 01 of 2009 amount to Rs93,042 thousand. However, as a matter of prudence, the management has recognised an additional amount of provision of Rs16,958 thousand based on the provisioning policy approved by the Board of Directors. The income suspended on these term finance certificates amounted to Rs17,162 thousand.
- 5.1.2.4** This represents investment in privately placed sukuk bonds. However, on December 3, 2008, June 3, 2009 and December 3, 2009 i.e. the scheduled redemption date, profit redemption of Rs. 939 thousand was not received by the Fund. The management has recognized an impairment loss of Rs3,746 thousand till December 31, 2009. The minimum amount of provision required as per SECP circular no. 01 of 2009 amount to Rs3,311 thousand. However, as a matter of prudence, the management has recognised an additional amount of provision of Rs436 thousand based on the provisioning policy approved by the Board of Directors. The income suspended on these term finance certificates amounted to Rs 997 thousand.

	Unaudited December 31, 2009	Audited June 30, 2009
	-----Rupees in '000-----	
6 PROFIT RECEIVABLE		
Profit receivable on savings deposits	1,236	3,591
Income accrued on sukuk bonds	33,368	21,937
Less: Suspended Income	(28,149)	(14,919)
	<u>5,219</u>	<u>7,018</u>
	<u>6,455</u>	<u>10,609</u>
7 ACCRUED EXPENSES AND OTHER LIABILITIES		
Auditors' remuneration	201	212
Bank charges payable	5	11
Payable to brokers	22	54
Charity payable	3	3
Printing charges payable	36	216
	<u>267</u>	<u>496</u>

NAFA ISLAMIC INCOME FUND

8 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at December 31, 2009 or June 30, 2009.

9 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001, subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders. The Fund intends to distribute such accounting income, if any, for the year ending June 30, 2010 to its unit holders. Accordingly, no tax liability has been recorded in the current period.

10 EARNINGS PER UNIT

Earnings per unit (EPU) for the period ended December 31, 2009 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

11 TRANSACTIONS WITH CONNECTED PERSONS

11.1 Connected persons include National Fullerton Asset Management Limited being the Management Company, Central Depository Company of Pakistan Limited being the 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, any person, company or beneficially owning directly or indirectly ten percent or more of the capital of the Management Company or the Fund and directors and key management personnel of the Management Company.

11.2 Transactions with connected persons essentially comprise of sale and repurchase of units, fee on account of managing the affairs of the Fund, sales load and other charges and distribution made to the connected persons. The transactions with connected persons are in the normal course of business, at contracted rates and at terms determined in accordance with market rates.

11.3 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. Similarly, remuneration payable to the Trustees is determined in accordance with the provisions of the Trust Deed.

11.4 Details of transactions during the period with connected persons are as follows:

	-----Unaudited-----			
	Half year ended		Quarter ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	-----Rupees in '000-----			
National Fullerton Asset Management Limited- Management Company				
Management remuneration for the period	2,701	6,115	1,042	2,521
Front-end load for the period	111	652	14	527
Central Depository Company of Pakistan Limited-Trustee				
Remuneration for the period	398	814	177	336
CDS charges for the period	1	1	-	(7)
National Bank of Pakistan-Sponsor				
Cash dividend	-	3,900	-	1,950
NIB Bank Limited-Sponsor				
Cash dividend	-	3,900	-	1,950

NAFA ISLAMIC INCOME FUND

	-----Unaudited-----			
	Halfyear ended		Quarter ended	
	December31, 2009	December31, 2008	December31, 2009	December31, 2008
	-----Rupeesin'000-----			
AlexandraFundManagementPte.Limited-Sponsor				
Bonusunitsissued(December31,2009:Nilunits; December31,2008:530,885units)	-	5,371	-	2,720
NAFAIslamicMultiAssetFund				
Unitsissued(December31,2009:Nilunits; December31,2008:7,194,267units)	-	70,000	-	70,000
Unitsredeemed(December31,2009:Nilunits; December31,2008:7,488,895units)	-	76,622	-	-
Bonusunitsissued(December31,2009:Nilunits; December31,2008:299,202units)	-	3,025	-	1,127
Paymentreceivedforthesaleofsukukbonds	21,175	-	21,175	-
NAFAMultiAssetFund				
Unitsissued(December31,2009:Nilunits; December31,2008:6,737,137units)	-	70,000	-	70,000
Unitsredeemed(December31,2009:3,891,359units; December31,2008:7,512,417units)	36,920	77,080	-	-
Bonusunitsissued(December31,2009:Nilunits; December31,2008:361,423units)	-	3,656	-	1,752
Paymentreceivedfromthesaleofsukukbonds	134,475	-	-	-
NAFAStockFund				
Bonusunitsissued(December31,2009:Nilunits; December31,2008:904units)	-	9	-	4
NAFACashFund				
Paymentreceivedfromthesaleofsukukbonds	-	25,811	-	-
Directorsandkeymanagementpersonnelofthe ManagementCompany				
Unitsissued(December31,2009:214,152units; December31,2008:380,793units)	1,874	3,462	58	2,568
Unitsredeemed(December31,2009:837,945units; December31,2008:416,812units)	7,262	4,013	1,116	1,228
Bonusunitsissued(December31,2009:Nilunits; December31,2008:18,017units)	-	182	-	68

NAFA ISLAMIC INCOME FUND

	Unaudited as at December 31, 2009	Audited as at June 30, 2009
	-----Rupees in '000-----	
11.5 Balances with connected persons as at period end		
National Fullerton Asset Management Limited-Management Company		
Management remuneration payable	304	644
Front-end load payable	18	527
Central Depository Company of Pakistan Limited-Trustee		
Remuneration payable	60	86
CD Charges payable	-	3
Security deposits	100	100
National Bank of Pakistan-Sponsor		
Investment held by the Sponsor in the Fund (7,500,000 units; June 30, 2009: 7,500,000 units)	52,892	70,552
Balance in current account	312	231
NIB Bank Limited-Sponsor		
Investment held by the Sponsor in the Fund (7,500,000 units; June 30, 2009: 7,500,000 units)	52,892	70,552
Balance in current account	324	2,068
Alexandra Fund Management Pte. Limited-Sponsor		
Investment held by the Sponsor in the Fund (10,727,646 units; June 30, 2009: 10,727,646 units)	75,655	100,914
Directors and key management personnel of the Management Company		
Investment held by the executives in the Fund (8,135 units; June 30, 2009: 648,870 units)	57	6,104
NAFA Multi Asset Fund		
Investment held in the Fund (Nil units; June 30, 2009: 3,891,359 units)	-	36,606
NAFA Government Securities Liquid Fund		
Payable on account of units transferred out	34	-

12 DATE OF AUTHORISATION FOR ISSUE

These condensed interim financial statements were authorised for issue by the Board of Directors of the Management Company on February 17, 2010.

13 GENERAL

13.1 Figures have been rounded off to the nearest thousand Rupees unless otherwise stated.

13.2 Corresponding figures have been rearranged and reclassified, where necessary, for the purpose of comparison. There were no significant rearrangements or reclassification except as required because of the change in accounting policy as more fully explained in note 3.1 to these financial statements.

13.2 The bifurcation of fund distributed income into realised and unrealised income at the beginning and end of the period as required by the NBFC Regulations has not been disclosed as such bifurcation is not practicable.

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

Chief Executive

Chairman

