



NAFA ISLAMIC INCOME FUND

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 Second Annual Report of NAFA Islamic Income Fund for the year ended June 30, 2009.

Fund's Performance

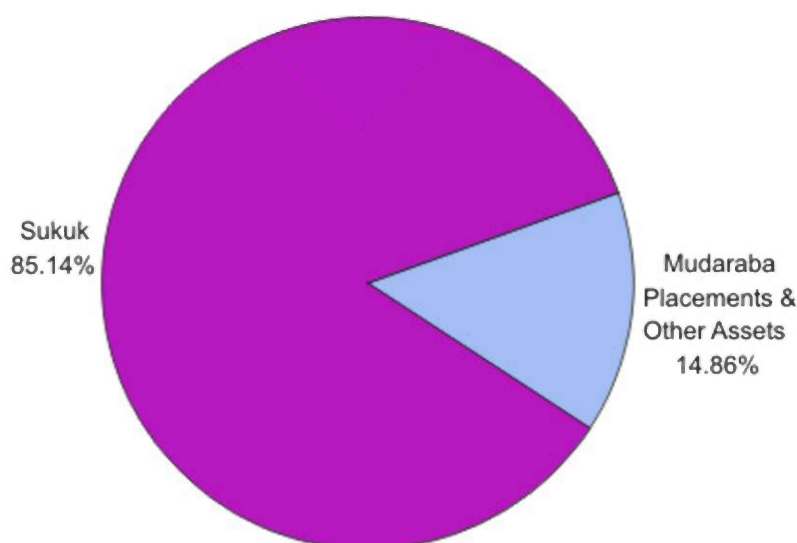
The mutual fund industry went through a crisis in the second half of 2008 due to fall in the value of TFCs followed by a redemption run. This was a result of macro-economic situation where there was severe liquidity shortage stemming from a fall in foreign exchange reserves, loss of investor confidence, rising inflation and interest rates, etc. The income fund industry in Pakistan is about 5 years old, and this was its first major crises. NAFA Islamic Income Fund paid back all its redemptions in time. In line with the industry, the size of NAFA Islamic Income Fund dropped to its lowest at Rs.505 million during the year.

In the second half of the FY 2008-09, the liquidity eased in the system resulting in a rise in TFC prices. As a result, the annualized return on NAFA Islamic Income Fund for the period from January 2009 to June 2009 was 17.14% as compared to its benchmark return (Average 1-month deposit rate of Islamic Banks) of 7.51% for the same period.

NAFA Islamic Income Fund has earned a total income of Rs.92.97 million during the year. After deducting total expenses of Rs.92.21 million, the net income is Rs.0.76 million. During the year, the unit price of NAFA Islamic Income Fund has decreased from Rs.9.8409 on June 30, 2008 (Ex-Div) to Rs.9.4069 on June 30, 2009. The resultant per unit loss is Re.0.434.

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

Asset Allocation as on June 30, 2009



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Income Distribution

The Board of Directors of the Management Company has approved an interim distribution of 2.60% on October 16, 2009.

Taxation

As the above distribution is more than 90% of the income earned during the year, excluding realized and unrealized capital gains on investments, the Fund is not subject to tax under Clause 99 of the Part I of the Second Schedule of the Income Tax Ordinance, 2001.

Auditors

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

Directors' Statement in Compliance with Code of Corporate Governance

1. The financial statements, prepared by the management company of NAFA 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. A performance table/ key financial data is given in this annual report.
9. Outstanding statutory payments on account of taxes, duties, levies and charges, if any, have been fully disclosed in the financial statements.
10. The Board of Directors of National Fullerton Asset Management Limited held five meetings during the current financial year. The attendance of all directors is disclosed in the note 24 to these financial statements.
11. The detailed pattern of unit holding is disclosed in the note 23 to these financial statements.
12. All trades in the units of the Fund, carried out by directors, CEO, CFO, Company Secretary and their spouses and minor children are disclosed in note 20 to these financial statements.

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Acknowledgement

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

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

On behalf of the Board of
National Fullerton Asset Management Limited

Masood Karim Shaikh, FCA
Chairman

Dr. Amjad Waheed, CFA
Chief Executive

Date: August 31, 2009
Place: Karachi.

NAFA ISLAMIC INCOME FUND

TRUSTEE REPORT TO THE UNIT HOLDERS

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

NAFA Islamic Income Fund (the 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 year ended June 30, 2009 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the management company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

Kamran Qazi

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

Karachi, October 7, 2009

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

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

NAFA 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 consists of 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred during the year in the Board of the Management Company due to resignation of Khawaja Iqbal Hassan and Mr. Habib Yousuf Habib which were filled by Syed Naseer ul Hassan and Mr. Raymond H. Kotwal on October 16, 2008.
5. The Management Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the directors and distributed to employees of the Management Company.
6. The Board has developed a vision/mission statement overall corporate strategy and significant policies of the Fund. A complete record of the particulars along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.

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8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
9. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justification for non arm's length transactions if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
10. All the members of Board are well aware of operations of the Fund and Management Company, therefore no orientation courses were arranged during the year.
11. The Board has approved the appointment of Head of Internal Audit and his terms of employment.
12. Directors' Report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
14. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 20 to the financial statements "Transactions with Connected Persons".
15. The Management Company has complied with the corporate and financial reporting requirements of the Code with respect to the Fund.
16. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors including the chairman of the Committee.
17. The meetings of the Audit Committee were held at least once every quarter prior to approval of the interim and final results of the Fund as required by the Code. Terms of Reference of the Audit Committee have been prepared and advised to the Committee for compliance.
18. There exists an effective internal audit function within the Management Company. The Management Company has appointed the Head of Internal Audit, who is considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
19. The Statutory Auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.

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20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

Dated: August 31, 2009
Karachi

Dr. Amjad Waheed, CFA
Chief Executive Officer

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FUND MANAGER REPORT

NAFA Islamic Income Fund

NAFA Islamic Income Fund (NIIF) is an open-end Shariah Compliant Income Fund.

Investment Objective of the Fund

The objective of NAFA Islamic Income 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.

Benchmark

Average 1-month deposit rate of Islamic banks

Fund's Performance Review

This is the second Annual report since the launch of the Fund on October 29, 2007. The Fund size as on June 30, 2009 is Rs. 517 million. The Fund's annualized return since inception is 0.54%. During the same period the benchmark return has been 6.11%. The Fund's annual return during FY 2009 is (4.41%). During the same period the benchmark return has been 6.66%. The return is low because of the factors mentioned below.

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

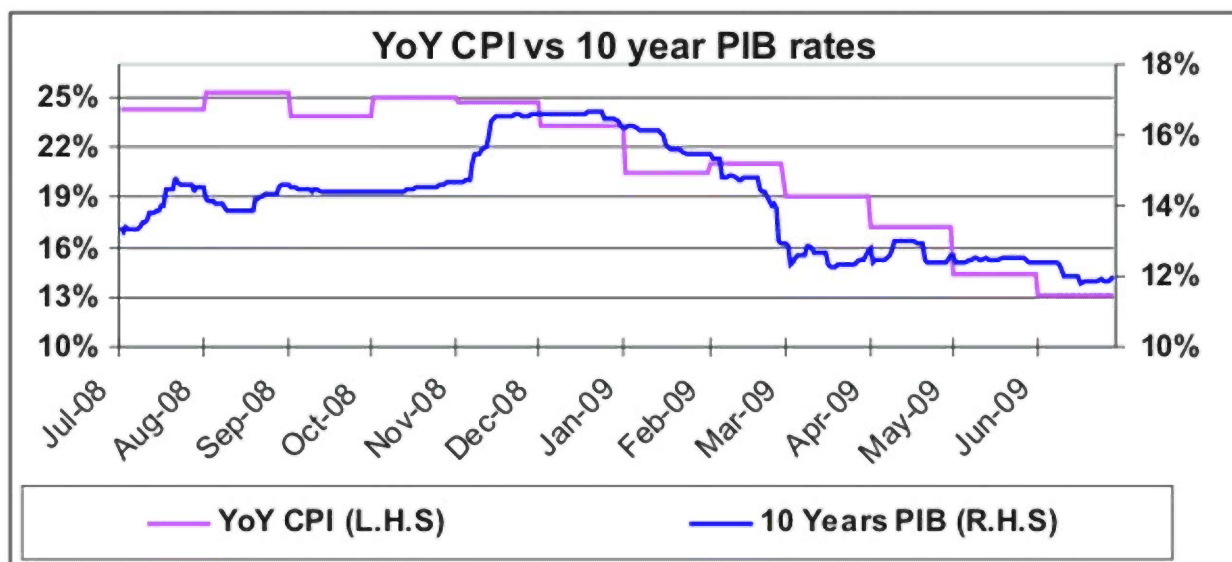
Some Sukuks in your Fund also defaulted in this scenario, namely New Allied Electronics Sukuks I and II, and Kohat Cement Company Sukuk. Kohat Cement Sukuk has been restructured since then and is now regular on its payments. We have provided 42.67% of the New Allied Sukuk I and 32.33% of New Allied Sukuk II.

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

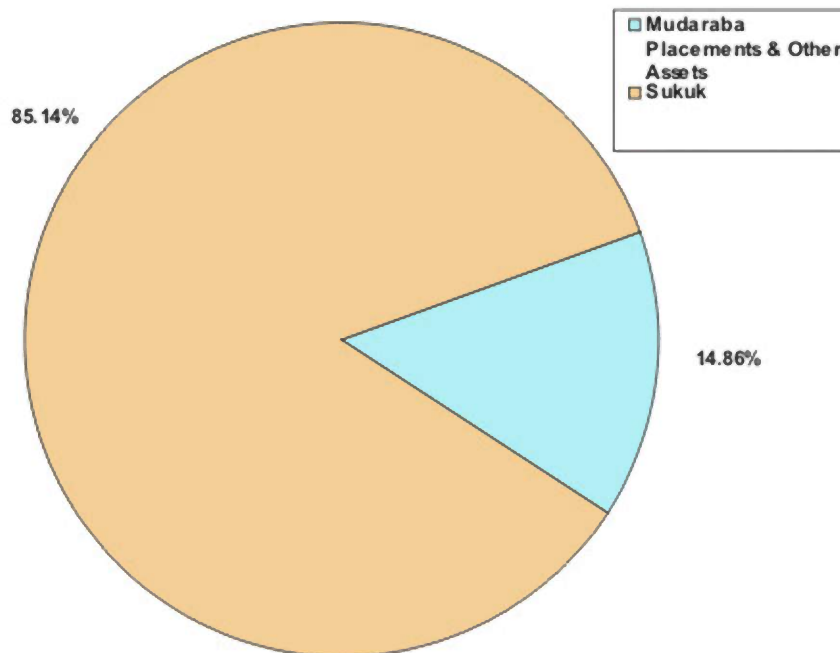
As the economic situation improved from January onwards, Sukuks have started rising in value. Improved Fiscal and Current account deficits combined with declining inflation has resulted in gradual improvement in the capital markets. The graph below shows the Positive relation between inflation and yields of PIBs (Pakistan Investment

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Bonds) observed during FY 2009. A significant improvement in inflation can be seen in the second half of the FY 2009, in alignment with the improvement in capital markets.



The asset allocation of NIIF as on June 30, 2009 is as follows:



The Fund declared interim dividend of 2.60% for the first quarter ending September 30, 2008. The Net Asset Value before declaration was 10.3990, which on ex-NAV basis became 10.139. The Fund did not declare any further distribution during the year.

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

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

| Size of Unit holding (Units) | # of Unit Holders |
|------------------------------|-------------------|
| 0 upto 1000 | 40 |
| 1,001-5,000 | 196 |
| 5,001-10,000 | 62 |
| 10,001-50,000 | 175 |
| 50,001-100,000 | 36 |
| 100,001-500,000 | 51 |
| 500,001-1,000,000 | 2 |
| 1,000,001-5,000,000 | 5 |
| 5,000,001-10,000,000 | 2 |
| 10,000,001-100,000,000 | 1 |
| 100,000,001-1,000,000,000 | - |

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Report of the Shariah Advisor

Karachi
September 30, 2009/ Shawwal 10, 1430 A.H

Alhamdulillah, the period from July 1, 2008 to June 30, 2009 was the second 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, 2009 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

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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 guidelines prescribed by the Shariah Advisor and Shariah Technical Services and Support Provider of the Fund for the period from July 1, 2008 to June 30, 2009.

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 investments made by the Fund with the Shariah guidelines, as 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, the investments made by the Fund during the period from July 1, 2008 to June 30, 2009 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.

A.F. Ferguson & Co.
Chartered Accountants

Karachi

Dated: October 08, 2009

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **National Fullerton Asset Management Limited** (the Management Company) of **NAFA Islamic Income Fund** to comply with the Listing Regulation No. 35 (Chapter XI) of Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Sub-Regulation (xiii a) of Listing Regulation 35 notified by The Lahore Stock Exchange (Guarantee) Limited requires the company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the above requirements to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2009.

A.F. Ferguson & Co.
Chartered Accountants
Karachi

Dated: 14 September 2009

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, 2009, and the related income statement, distribution statement, cash flow statement and statement of movement in unit holders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Company's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2009 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Other matters

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

A.F. Ferguson & Co.
Chartered Accountants

Engagement Partner: **Rashid A. Jafer**

Dated: 14 September 2009

Karachi

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STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30, 2009

| | Note | 2009 | 2008 |
|--|------|---------------------------|-------------------|
| | | -----Rupees in '000----- | |
| Assets | | | |
| Balances with banks | 4 | 65,272 | 19,295 |
| Investments | 5 | 440,291 | 546,330 |
| Loans and receivables | 6 | - | 280,000 |
| Profit receivable | 7 | 10,609 | 31,089 |
| Advances, deposits, prepayments and other receivables | 8 | 2,698 | 4,866 |
| Preliminary expenses and floatation costs | 9 | 1,660 | 2,160 |
| Total assets | | 520,530 | 883,740 |
| Liabilities | | | |
| Payable to National Fullerton Asset Management Limited - Management Company | 10 | 1,171 | 1,254 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 11 | 89 | 156 |
| Payable to Securities and Exchange Commission of Pakistan | 12 | 611 | 692 |
| Payable on redemption of units | | 1,052 | - |
| Accrued expenses and other liabilities | 13 | 496 | 440 |
| Total liabilities | | 3,419 | 2,542 |
| Net Assets | | 517,111 | 881,198 |
| Unit Holders' Funds (as per statement attached) | | 517,111 | 881,198 |
| Commitments | 14 | - | - |
| | | -----Number of units----- | |
| Number of units in issue | | 54,971,537 | 85,113,980 |
| | | Rupees | Rupees |
| Net asset value per unit | 15 | 9.4069 | 10.3532 |

The annexed notes 1 to 29 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 YEAR ENDED JUNE 30, 2009

| | Note | For the year ended June 30, 2009 | For the period from September 17,2007 to June 30, 2008 |
|--|------|---|---|
| -----Rupees in '000----- | | | |
| INCOME | | | |
| (Loss) / gain on sale of investments - net | | (3,015) | 100 |
| Income from sukuk bonds | | 69,978 | 33,483 |
| Income from spread transactions | | 18 | 4,297 |
| Income from term deposit musharika certificates | | 8,672 | 17,928 |
| Profit on bank deposits | | 11,483 | 13,170 |
| Total Income | | <u>87,136</u> | <u>68,978</u> |
| EXPENSES | | | |
| Remuneration of National Fullerton Asset Management Limited – Management Company | 10.1 | 10,472 | 10,382 |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | 11.1 | 1,395 | 1,354 |
| Annual fee - Securities and Exchange Commission of Pakistan | 12.1 | 611 | 692 |
| Securities transaction cost | | 28 | 745 |
| Settlement and bank charges | | 199 | 83 |
| Annual listing fee | | 30 | 30 |
| Auditors' remuneration | 16 | 385 | 261 |
| Amortisation of preliminary expenses and floatation costs | 9 | 500 | 340 |
| Printing and related cost | | 307 | - |
| Others expenses | | 19 | - |
| Impairment loss on sukuk bonds classified as investments 'available for sale' | | 78,268 | - |
| Total Expenses | | <u>92,214</u> | <u>13,887</u> |
| | | (5,078) | 55,091 |
| Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed | | 5,839 | (2,243) |
| Net income for the year / period before taxation | | <u>761</u> | <u>52,848</u> |
| Taxation | 17 | - | - |
| Net income for the year / period after taxation | | <u>761</u> | <u>52,848</u> |
| Earnings per unit | 18 | | |

The annexed notes 1 to 29 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

DISTRIBUTION STATEMENT FOR THE YEAR ENDED JUNE 30, 2009

| | For the year ended June 30, 2009 | For the period from September 17, 2007 to June 30, 2008 |
|--|---|--|
| | ------(Rupees in '000)----- | |
| Undistributed income brought forward | 29,760 | - |
| Distribution: | | |
| Final distribution for the period ended June 30, 2008: 2.60% (Date of distribution: 03 July 2008) (2007: Nil) | | |
| -Bonus units | (12,108) | - |
| -Cash Distribution | (10,004) | - |
| Net income for the year / period | 761 | 52,848 |
| Interim distribution for the year ended June 30, 2009: 2.60%* Date of distribution: 16 October 2008) (2008: 2.00%) | | |
| -Bonus units | (10,747) | (12,708) |
| -Cash Distribution | (12,155) | (10,312) |
| Element of loss and capital losses included in prices of units issued less those in units redeemed - amount representing losses that form part of the unit holders' fund | (536) | (68) |
| Undistributed income carried forward | <u>(15,029)</u> | <u>29,760</u> |

The annexed notes 1 to 29 form an integral part of these financial statements.

- ★ The Fund on the basis of results of its quarter ended September 30, 2008 (accounting period) has distributed dividend, in the form of bonus and cash, out of the total profit for that period.

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

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

| | For the year ended June, 30, 2009 | For the period from September 17, 2007 to June 30, 2008 |
|--|---|--|
| | -----Rupees in '000----- | |
| Net assets at the beginning of the year / period | 881,198 | - |
| Issue of 128,153,549 units - including 2,259,291 bonus units (2008:266,193,758 units) | 1,231,253 | 2,684,709 |
| Redemption of 160,555,284 units (2008: 181,079,778 units) | (1,549,965) 562,486 | (1,848,384) 836,325 |
| Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed | | |
| -amount representing (income) / loss and capital (gains) / losses - transferred to Income Statement | (5,839) | 2,243 |
| -amount representing loss and capital losses that form part of unit holders' fund - transferred to Distribution Statement | 536 (5,303) | 68 2,311 |
| Net unrealised (diminution) / appreciation during the year / period in the market value of investments classified as 'available for sale' | (18,138) | 94 |
| (Loss) / gain on sale of investments | (3,015) | 100 |
| Other Income (net of expenses) | 3,776 | 52,748 |
| Distribution: | | |
| Final distribution for the year ended June 30, 2008: 2.60% (Date of distribution: 03 July 2008) (2007: Nil) | | |
| - Bonus units | (12,108) | - |
| - Cash Distribution | (10,004) | - |
| Interim distribution 2009: 2.60% (Date of distribution: 16 October 2008) (2008: 2.00%) | | |
| - Bonus units | (10,747) | (12,708) |
| - Cash Distribution | (12,155) (44,253) | (10,312) 29,828 |
| Final Distribution: Issue of bonus units | 12,108 | - |
| Interim distribution: Issue of bonus units | 10,747 | 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' fund | (536) | (68) |
| Net assets as at the end of the year / period | <u>517,111</u> | <u>881,198</u> |

The annexed notes 1 to 29 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 YEAR ENDED JUNE 30, 2009

| | Note | For the year ended June 30, 2009 | For the period from September 17,2007 to June 30, 2008 |
|---|------|---|---|
| -----Rupees in '000----- | | | |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Net income for the year / period | | 761 | 52,848 |
| Adjustments | | | |
| Amortisation of preliminary expenses and floatation costs | | 500 | 340 |
| Impairment loss on sukuk bonds classified as investments 'available for sale' | | 78,268 | - |
| Element of loss and capital losses included in prices of units issued less those in units redeemed | | (5,839) | 2,243 |
| | | <u>73,690</u> | <u>55,431</u> |
| (Increase) / decrease in assets | | | |
| Investments | | 9,633 | (546,236) |
| Loans and receivables | | 280,000 | (280,000) |
| Profit receivable | | 20,480 | (31,089) |
| Deposits, prepayments and other receivables | | 2,168 | (4,866) |
| | | <u>312,281</u> | <u>(862,191)</u> |
| Increase / (decrease) in liabilities | | | |
| Payable to Management Company | | (83) | 1,254 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | | (67) | 156 |
| Payable to Securities and Exchange Commission of Pakistan | | (81) | 692 |
| Payable on redemption of units | | 1,052 | - |
| Accrued expenses and other liabilities | | 56 | 440 |
| | | <u>877</u> | <u>2,542</u> |
| Payment made for preliminary expenses and floatation costs | | - | (2,500) |
| Net cash inflow / (outflow) from operating activities | | <u>386,848</u> | <u>(806,718)</u> |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Receipts from issue of units | | 1,231,253 | 2,684,709 |
| Payments on redemption of units | | (1,549,965) | (1,848,384) |
| Distributions paid | | (22,159) | (10,312) |
| Net cash (outflow) / inflow from financing activities | | <u>(340,871)</u> | <u>826,013</u> |
| Net increase in cash and cash equivalents during the year / period | | <u>45,977</u> | <u>19,295</u> |
| Cash and cash equivalents at the beginning of the year / period | | 19,295 | - |
| Cash and cash equivalents at the end of the year/ period | 4 | <u><u>65,272</u></u> | <u><u>19,295</u></u> |

The annexed notes 1 to 29 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 YEAR ENDED JUNE 30, 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).

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 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 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 financial statements.

2 BASIS OF PREPARATION

2.1 Statement Of Compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by 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 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

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

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

NAFA ISLAMIC INCOME FUND

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

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

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

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

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

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

2.4 Critical accounting estimates and judgments

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

- i) Classification and valuation of investments (note 3)
- ii) Amortisation of preliminary expenses and floatation cost (note 3.6 and note 9)

2.5 Accounting Convention

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

2.6 Functional and Presentation Currency

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

NAFA 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 Financial assets

3.2.1 The Fund classifies its financial assets in the following categories: at fair value through profit or loss, available for sale and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

Investments are categorized as follows:

a) Financial assets at fair value through profit or loss

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

b) Available for sale

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

c) Loans and receivables

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

3.2.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

3.2.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

3.2.4.1 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued as follows:

a) Basis of valuation of Debt Securities

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

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

NAFA ISLAMIC INCOME FUND

b) Basis of valuation of Equity Securities

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

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

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

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

3.2.5 Impairment

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

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

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

3.2.6 Derecognition

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

3.2.7 Offsetting of financial assets and liabilities

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

3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

3.4 Derivatives

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

3.5 Spread transactions (Ready-Future Transactions)

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

NAFA ISLAMIC INCOME FUND

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 Issue and redemption of units

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

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

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

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

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

3.9 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.

3.10 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.

3.11 Proposed distributions

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

NAFA ISLAMIC INCOME FUND

3.12 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 bonds 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.

3.13 Foreign currency translation

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

| | Note | 2009 | 2008 |
|----------|--|------------------|----------------|
| | | (Rupees in '000) | |
| 4 | BALANCES WITH BANKS | | |
| | Current accounts | 6,558 | 5,580 |
| | Savings accounts | 58,714 | 13,715 |
| | | <u>65,272</u> | <u>19,295</u> |
| 5 | INVESTMENTS | | |
| | At fair value through profit or loss - held for trading | | |
| | Equity securities purchased under futures sale contracts | 5.1 | - |
| | Available for sale | | |
| | Sukuk bonds | 5.2 | - |
| | | <u>440,291</u> | <u>546,330</u> |
| | | <u>440,291</u> | <u>546,330</u> |

NAFA ISLAMIC INCOME FUND

5.1 Equity securities purchased under futures sale contracts

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

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

Fully paid ordinary shares of Rs 10 each

Oil and Gas Marketing Companies
Pakistan State Oil Company Limited

- 7,000 7,000 - - -

5.2 Sukuk and Ijara bonds - available for sale

| Name of the investee company | Number of bonds | | | | Market value as at June 30, 2009 (Rs. in "000") | Investment as a percentage of | | |
|------------------------------|--------------------|---------------------------|-----------------------|---------------------|--|-------------------------------|-----------------------------------|------------|
| | As at July 1, 2008 | Purchases during the year | Sales during the year | As at June 30, 2009 | | Net Assets | Market value of total investments | Issue size |

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

| | | | | | | | | |
|--|---------|-------|-------|---------|--------|--------|--------|--------|
| Engro Chemicals Pakistan Limited | 21,000 | - | 5,000 | 16,000 | 78,608 | 15.20% | 17.85% | 2.67% |
| Eden Building Limited | - | 3,312 | - | 3,312 | 16,584 | 3.21% | 3.77% | 0.83% |
| Eden Housing Limited | 10,000 | - | - | 10,000 | 48,457 | 9.37% | 11.01% | 6.85% |
| Kohat Cement Company Limited (note 5.2.2.1) | 20,000 | - | - | 20,000 | 67,051 | 12.97% | 15.23% | 3.86% |
| Maple Leaf Cement Factory Limited | 20,000 | - | - | 20,000 | 90,010 | 17.41% | 20.44% | 1.25% |
| New Allied Electronics Industries (Private) Limited-1st issue (note 5.2.2.2) | 352,000 | - | - | 352,000 | 62,906 | 12.16% | 14.29% | 18.33% |
| New Allied Electronics Industries (Private) Limited-2nd issue (note 5.2.2.3) | 1,000 | - | - | 1,000 | 3,375 | 0.65% | 0.77% | 0.67% |
| Pak Electron Limited | 15,000 | 5,000 | 5,000 | 15,000 | 68,300 | 13.21% | 15.51% | 1.07% |
| Government of Pakistan Ijara bond | - | 50 | - | 50 | 5,000 | 0.97% | 1.14% | |

440,291

Cost of investments as at June 30, 2009

536,697

Impairment losses recognised during the year

78,268

5.2.1 These carry a rate of return ranging from 11.76% to 17.74% (2008: 11.35% to 16.65%) per annum.

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

5.2.2.1 This represents investment in privately placed sukuk bonds issue with a term of five years. On December 20, 2008 i.e. the scheduled redemption date, principal redemption of Rs 6,800 thousand was not received by the Fund. Therefore as a matter of prudence, the management has suspended income amounting to Rs. 3,235 thousand and have recognized impairment losses amounting to Rs 29,549 thousand. The redemption terms have now been revised and the redemptions will now commence from December 2009 on quarterly basis.

5.2.2.2 This represents sukuk bonds with a term of five years. The principal was to be redeemed from the fifteenth month of draw down by the investee company. However, on October 25, 2008, January 25, 2009 and April 25, 2009 i.e. the scheduled redemption dates, principal redemptions of Rs.20,625 thousand were not received by the Fund. Therefore as a matter of prudence, the management has suspended income amounting to Rs. 11,083 thousand and have recognized impairment losses amounting to Rs 47,094 thousand.

NAFA ISLAMIC INCOME FUND

5.2.2.3 This represents investment in privately placed sukuk bonds. However, on December 3, 2008 and June 3, 2009 i.e. The scheduled redemption date, profit redemption of Rs 540 thousand was not received by the Fund. Therefore as a matter of prudence, the management has suspended income amounting to Rs. 601 thousand and have recognized impairment losses amounting to Rs 1,625 thousand.

5.2.2.4 The sukuk bonds held by the fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the user..

| | Note | 2009 | 2008 |
|--|-------------|-------------------------|----------------|
| 6 | | (Rupees in '000) | |
| LOANS AND RECEIVABLE | | | |
| Placement of funds in Term Deposit Musharika certificates with: | | | |
| - Bank Alfalah Limited | | - | 140,000 |
| - Emirates Global Islamic Bank | | - | 140,000 |
| | | <u>-</u> | <u>280,000</u> |
| 7 | | | |
| PROFIT RECEIVABLE | | | |
| Profit on savings deposits | | 3,591 | 1,089 |
| Income accrued on sukuk bonds | | 21,937 | 12,072 |
| Less: Suspended Income | | (14,919) | - |
| | | <u>7,018</u> | <u>12,072</u> |
| Income accrued on term deposit musharika certificates | | - | 17,928 |
| | | <u>10,609</u> | <u>31,089</u> |
| 8 | | | |
| ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES | | | |
| Security deposits with: | | | |
| -National Clearing Company of Pakistan Limited | | 2,500 | 2,500 |
| -Central Depository Company of Pakistan Limited | | 100 | 100 |
| Prepayments | | 65 | 30 |
| Advance Tax | | 33 | - |
| Receivable from NAFA Stock Fund on units transferred in | | - | 2,236 |
| | | <u>2,698</u> | <u>4,866</u> |
| 9 | | | |
| PRELIMINARY EXPENSES AND FLOATATION COSTS | | | |
| Opening balance | 9.1 | 2,160 | 2,500 |
| Less: amortisation during the year / period | | 500 | 340 |
| Balance as at June 30, 2009 | | <u>1,660</u> | <u>2,160</u> |
| 9.1 | | | |
| Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from October 27, 2007 as per the requirements set out in the Trust Deed of the Fund. | | | |
| 10 | | 2009 | 2008 |
| PAYABLE TO NATIONAL FULLERTON ASSET MANAGEMENT LIMITED – MANAGEMENT COMPANY | Note | (Rupees in '000) | |
| Management fee | 10.1 | 644 | 1,123 |
| Others | | 527 | 131 |
| | | <u>1,171</u> | <u>1,254</u> |

NAFA ISLAMIC INCOME FUND

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

| | | 2009 | 2008 |
|---|------|------------------|------------|
| | Note | (Rupees in '000) | |
| 11 PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE | | | |
| Trustee fee | 11.1 | 86 | 149 |
| CDS Charges | | 3 | 7 |
| | | <u>89</u> | <u>156</u> |

11.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, based on the daily net assets of the Fund.

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

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

The remuneration is paid to the trustee monthly in arrears.

| | | 2009 | 2008 |
|---|------|------------------|------|
| | Note | (Rupees in '000) | |
| 12 PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN | | | |
| Annual fee | 12.1 | 611 | 692 |

12.1 Under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme is required to pay as annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund with effect from November 21, 2008. Previously, annual fee of an amount equal to one tenth of one percent was accrued under the provisions of the Non Banking Finance Companies and Notified Entities Regulations, 2008.

| | | 2009 | 2008 |
|--|------|------------------|------------|
| | Note | (Rupees in '000) | |
| 13 ACCRUED EXPENSES AND OTHER LIABILITIES | | | |
| Auditors' remuneration | | 212 | 183 |
| Withholding tax payable | | - | 42 |
| Bank charges payable | | 11 | 3 |
| Payable to brokers | | 54 | 148 |
| Charity payable | | 3 | 64 |
| Printing charges payable | | 216 | |
| | | <u>496</u> | <u>440</u> |

14 COMMITMENTS

There has been no commitments at the end of the year / period.

| | | |
|--|----------|----------|
| | <u>-</u> | <u>-</u> |
|--|----------|----------|

NAFA ISLAMIC INCOME FUND

15 NET ASSET VALUE PER UNIT

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

For the year
ended June
30, 2009

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

(Rupees in '000)

16 AUDITORS' REMUNERATION

| | | |
|------------------------------|-----|-----|
| Audit fee | 200 | 175 |
| Half yearly review | 80 | 70 |
| Shariah Compliance Audit fee | 75 | - |
| Out of pocket expenses | 30 | 16 |
| | 385 | 261 |

17 TAXATION

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

18 EARNINGS PER UNIT

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

19 FINANCIAL INSTRUMENTS BY CATEGORY

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

| | | | |
|-----------------------|---|--------------------|-------|
| Loans and receivables | Assets at fair value through profit or loss | Available for sale | Total |
|-----------------------|---|--------------------|-------|

Assets

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

| | | | |
|--------------------------------|--------|---------|---------|
| Balances with banks | 65,272 | | 65,272 |
| Investments | - | 440,291 | 440,291 |
| Loans and receivables | - | - | - |
| Profit receivable | 10,609 | | 10,609 |
| Deposits and other receivables | 2,600 | - | 2,600 |
| | 78,481 | 440,291 | 518,772 |

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

| | | |
|--|-----------------------------|-------|
| Liabilities at fair value through profit or loss | Other financial liabilities | Total |
|--|-----------------------------|-------|

Liabilities

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

| | | | |
|---|---|-------|-------|
| Payable to National Fullerton Asset Management Limited - Management Company | - | 1,171 | 1,171 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | 89 | 89 |
| Payable on redemption of units | - | 1,052 | 1,052 |
| Accrued expenses and other liabilities | - | 496 | 496 |
| | - | 2,808 | 2,808 |

NAFA ISLAMIC INCOME FUND

| -----As at June 30, 2008----- | | | | |
|--------------------------------|-----------------------|---|--------------------|----------------|
| | Loans and receivables | Assets at fair value through profit or loss | Available for sale | Total |
| -----Rupees in '000----- | | | | |
| Assets | | | | |
| Balances with banks | 19,295 | - | - | 19,295 |
| Investments | - | - | 546,330 | 546,330 |
| Loans and receivables | 280,000 | - | - | 280,000 |
| Profit receivable | 31,089 | - | - | 31,089 |
| Deposits and other receivables | 4,836 | - | - | 4,836 |
| | <u>335,220</u> | <u>-</u> | <u>546,330</u> | <u>881,550</u> |

| -----As at June 30, 2008----- | | | |
|---|--|-----------------------------|--------------|
| | Liabilities at fair value through profit or loss | Other financial liabilities | Total |
| -----Rupees in '000----- | | | |
| Liabilities | | | |
| Payable to National Fullerton Asset Management Limited - Management Company | - | 1,254 | 1,254 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | 156 | 156 |
| Payable on redemption of units | - | - | - |
| Accrued expenses and other liabilities | - | 440 | 440 |
| | <u>-</u> | <u>1,850</u> | <u>1,850</u> |

20 TRANSACTIONS WITH CONNECTED PERSONS

- 20.1** 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.
- 20.2** The transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.
- 20.3** 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.
- 20.4** Remuneration payable to the Trustee is determined in accordance with the provisions of the Trust Deed.

| For the year ended June 30, 2009 | For the period from September 17, 2007 to June 30, 2008 |
|----------------------------------|---|
| (Rupees in '000) | |

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

| National Fullerton Asset Management Limited - Management Company | | |
|---|--------|--------|
| Management fee expense for the year / period | 10,472 | 10,382 |
| Preliminary expenses and floatation cost reimbursed | - | 2,500 |
| Front end load for the year / period | 2,404 | 1,010 |

NAFA ISLAMIC INCOME FUND

| | For the year ended June 30, 2009 | For the period from September 17, 2007 to June 30, 2008 |
|--|--|--|
| | (Rupees in '000) | |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Remuneration | 1,395 | 1,354 |
| CDS charges for the year / period | 4 | 18 |
| National Bank of Pakistan - Sponsor | | |
| Investment made by the Sponsor in the Fund (Nil units; 2008: 7,500,000 units) | - | 75,000 |
| Profit paid by the Fund on pre-IPO investment | - | 417 |
| Cash dividend | 3,900 | 1,500 |
| NIB Bank Limited - Sponsor | | |
| Investment made by the Sponsor in the Fund (Nil units; 2008: 7,500,000 units) | - | 75,000 |
| Profit paid by the Fund on pre-IPO investment | - | 417 |
| Cash dividend | 3,900 | 1,500 |
| Alexandra Fund Management Pte. Limited - Sponsor | | |
| Investment made by the Sponsor in the Fund (Nil units; 2008: 10,000,000 units) | - | 100,000 |
| Profit paid by the Fund on pre-IPO investment | - | 556 |
| Bonus units issued (530,885 units; 2008:196,761 units) | 5,371 | 2,000 |
| Employees of Management Company | | |
| Units issued / transferred in (4,023,752 units; 2008: 2,718,066 units) | 37,823 | 27,891 |
| Units redeemed / transferred out (4,111,097 units; 2008: 2,286,434 units) | 37,418 | 23,472 |
| Bonus units issued (52,452 units; 2008: 6,384 units) | 531 | 65 |
| Chief Financial Officer | | |
| Units issued / transferred in (52,427 units; 2008: Nil) | 460 | - |
| Units redeemed / transferred out (52,427 units; 2008: Nil) | 455 | - |
| NAFA Islamic Multi Asset Fund | | |
| Units issued (7,194,267 units; 2008: 15,576,388 units) | 70,000 | 160,000 |
| Units redeemed (14,794,295 units; 2008: 8,275,562 units) | 141,894 | 85,000 |
| Bonus units issued (299,202 units; 2008: Nil) | 3,025 | - |
| NAFA Multi Asset Fund | | |
| Units issued (6,737,137 units; 2008: 17,050,628 units) | 70,000 | 175,000 |
| Units redeemed (10,530,959 units; 2008: 9,726,870 units) | 104,864 | 100,000 |
| Bonus units issued (361,424 units; 2008: Nil) | 3,656 | - |
| Payment made for the purchase of sukuk bonds | - | 50,384 |
| NAFA Stock Fund | | |
| Units issued (Nil units; 2008: 9,743,740 units) | - | 100,000 |
| Units redeemed (18,271 units; 2008: 9,726,373 units) | 164 | 100,000 |
| Bonus units issued (904 units; 2008: Nil) | 9 | - |
| NAFA Cash Fund | | |
| Payment made for the purchase of sukuk bonds | - | 60,461 |
| Payment received for the sale of sukuk bonds | 25,811 | 36,836 |

NAFA ISLAMIC INCOME FUND

| 20.6 | Amounts outstanding as at year / period end | 2009 (Rupees in '000) | 2008 |
|------|---|--------------------------|---------|
| | National Fullerton Asset Management Limited - Management Company | | |
| | Management fee payable | 644 | 1,123 |
| | Others | 527 | 131 |
| | Central Depository Company of Pakistan Limited - Trustee | | |
| | Remuneration payable | 86 | 149 |
| | CDS Charges | 3 | 7 |
| | Security deposits | 100 | 100 |
| | National Bank of Pakistan - Sponsor | | |
| | Investment held by the Sponsor in the Fund (7,500,000 units; 2008: 7,500,000 units) | 70,552 | 77,649 |
| | Balance in current account | 231 | 250 |
| | NIB Bank Limited - Sponsor | | |
| | Investment held by the Sponsor in the Fund (7,500,000 units; 2008: 7,500,000 units) | 70,552 | 77,649 |
| | Balance in current account | 2,068 | 1,373 |
| | Alexandra Fund Management Pte. Limited - Sponsor | | |
| | Investment held by the Sponsor in the Fund (10,727,646 units; 2008:10,196,761 units) | 100,914 | 105,569 |
| | Executives of Management Company | | |
| | Investment held by the executives in the Fund (648,870 units; 2008: 438,016 units) | 6,104 | 4,535 |
| | NAFA Islamic Multi Asset Fund | | |
| | Investment held in the Fund (Nil units; 2008: 7,300,826 units) | - | 75,587 |
| | NAFA Multi Asset Fund | | |
| | Investment held in the Fund (3,891,359 units; 2008: 7,323,758 units) | 36,606 | 75,824 |
| | NAFA Stock Fund | | |
| | Investment held in the Fund (Nil units; 2008: 17,367 units) | - | 180 |

21 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

| | -----2009----- | |
|--------------------------|---|---------------------|
| | Qualification | Experience in years |
| 1. Dr. Amjad Waheed | Doctorate in Business Administration, CFA | 21 |
| 2. Sajjad Anwar | CFA, MBA Finance | 09 |
| 3. Rukhsana Narejo | CFA, MBA (Banking and Finance) | 09 |
| 4. Khurram Shehzad | CFA, MBA (Finance) | 11 |
| 5. Ahmed Nouman | EMBA | 13 |
| 6. Abdul Rehman Warriach | B.A, LLB, CFA, FRM | 14 |

21.1 Sajjad Anwar is the Fund Manager of NIIFonly.

NAFA ISLAMIC INCOME FUND

22 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

| | 2009 % |
|---|-------------------|
| 1 Global Securities Pakistan Limited | 46.94% |
| 2 Alfalah Securities Limited | 45.75% |
| 3 Orix Investment Bank Limited | 7.32% |
| | 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 Saao Capital | 4.73% |
| 9 Motiwala Securities (Private) Limited | 3.81% |
| 10 Khojas Capital Management (Private) Limited | 2.98% |

23 PATTERN OF UNIT HOLDING

| CATEGORY | As at June 30, 2009 | | |
|----------------------------------|---------------------|-------------------|-----------------------|
| | Number of unit | Investment amount | Percentage Investment |
| Individuals | 539 | 156,785 | 30.32% |
| Associated companies / Directors | 4 | 278,623 | 53.88% |
| Insurance companies | - | - | 0.00% |
| Bank / DFIs | 2 | 23,517 | 4.55% |
| NBFCs | - | - | 0.00% |
| Retirement funds | 11 | 10,592 | 2.05% |
| Public Limited companies | 7 | 17,205 | 3.33% |
| Others | 7 | 30,389 | 5.87% |
| | <u>570</u> | <u>517,111</u> | <u>100.00%</u> |

PATTERN OF UNIT HOLDING

| CATEGORY | As at June 30, 2008 | | |
|----------------------------------|---------------------|-------------------|-----------------------|
| | Number of unit | Investment amount | Percentage Investment |
| 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% |
| | <u>398</u> | <u>881,198</u> | <u>100.00%</u> |

NAFA ISLAMIC INCOME FUND

24 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

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

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

25 FINANCIAL RISK MANAGEMENT

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

25.1 Market risk

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

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

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

25.1.1 Currency risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as its operations are geographically restricted to Pakistan and all transactions are carried out in Pak Rupees.

25.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

(a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing sukuks exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2009, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 0.48 million (2008: Rs 0.96 million).

NAFA ISLAMIC INCOME FUND

(b) Sensitivity analysis for fixed rate instruments

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

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

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

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

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

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

On-balance sheet financial instruments

Financial Assets

| | | | | | | |
|--------------------------------|---------------|----------------|----------------|----------------|----------|---------------|
| Balances with Banks | 5.00 - 15.60 | 65,272 | 58,714 | - | - | 6,558 |
| Investments | 11.76 - 17.74 | 440,291 | 216,949 | 223,342 | - | - |
| Loans and receivable | 9.5 | - | - | - | - | - |
| Profit receivable | | 10,609 | - | - | - | 10,609 |
| Deposits and other receivables | | 2,600 | - | - | - | 2,600 |
| | | <u>518,772</u> | <u>275,663</u> | <u>223,342</u> | <u>-</u> | <u>19,767</u> |

Financial Liabilities

| | | | | | | |
|---|--|----------------|----------------|----------------|----------|---------------|
| Payable to National Fullerton Asset Management Limited - Management Company | | 1,171 | - | - | - | 1,171 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | | 89 | - | - | - | 89 |
| Payable on redemption of units | | 1,052 | - | - | - | 1,052 |
| Accrued expenses and other liabilities | | 496 | - | - | - | 496 |
| | | <u>2,808</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,808</u> |
| On-balance sheet gap | | <u>515,964</u> | <u>275,663</u> | <u>223,342</u> | <u>-</u> | <u>16,959</u> |

Off-balance sheet financial instruments

| | | | | | | |
|-----------------------|--|---|---|---|---|---|
| Off-balance sheet gap | | - | - | - | - | - |
|-----------------------|--|---|---|---|---|---|

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

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

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

On-balance sheet financial instruments

Financial Assets

| | | | | | | |
|--------------------------------|---------------|----------------|---------------|----------------|----------|---------------|
| Balances with banks | 1.50 - 10.50 | 19,295 | 13,715 | - | - | 5,580 |
| Investments | 11.35 - 16.65 | 546,330 | - | 546,330 | - | - |
| Loans and receivables | 9.5 | 280,000 | - | 280,000 | - | - |
| Profit receivable | | 31,089 | - | - | - | 31,089 |
| Deposits and other receivables | | 4,836 | - | - | - | 4,836 |
| | | <u>881,550</u> | <u>13,715</u> | <u>826,330</u> | <u>-</u> | <u>41,505</u> |

Financial Liabilities

| | | | | | | |
|---|--|----------------|---------------|----------------|----------|---------------|
| Payable to National Fullerton Asset Management Limited - Management Company | | 1,254 | - | - | - | 1,254 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | | - | - | - | - | - |
| Payable on redemption of units | | 156 | - | - | - | 156 |
| Accrued expenses and other liabilities | | 440 | - | - | - | 440 |
| | | <u>1,850</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,850</u> |
| On-balance sheet gap | | <u>879,700</u> | <u>13,715</u> | <u>826,330</u> | <u>-</u> | <u>39,655</u> |

Off-balance sheet financial instruments

| | | | | | | |
|-----------------------|--|---|---|---|---|---|
| Off-balance sheet gap | | - | - | - | - | - |
|-----------------------|--|---|---|---|---|---|

NAFA ISLAMIC INCOME FUND

25.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2009.

25.2 Credit Risk

Credit risk represents the risk of a loss if the counter parties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in debt securities. The Fund is also exposed to counterparty credit risks on loans and receivables, balances with banks, profit receivable, advances, deposits and prepayments and other receivable. The credit risk on liquid fund is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, The Fund's policy is to enter into financial instrument contracts by following internal guidelines such as approving counterparties, approving credit, obtaining adequate collateral and transacting through approved brokers.

The analysis below summarises the credit quality of the Fund's bank balances and investment in sukuk bonds as at June 30, 2009 and June 30, 2008:

| Bank Balances by rating category | 2009 | 2008 |
|------------------------------------|--------|--------|
| A1+ | 11.33% | 30.42% |
| A2 | 0.60% | 62.65% |
| A-1+ | 0.95% | 2.79% |
| A1 | 87.12% | 4.15% |
| Debt securities by rating category | 2009 | 2008 |
| AAA, AAA-, AAA+ | - | - |
| AA, AA-, AA+ | 36.23% | 19.64% |
| A, A-, A+ | 50.73% | 35.08% |
| BBB, BBB+, BBB- | 30.91% | 0% |
| D | 30.55% | 0% |
| Not Rated | 1.14% | 45% |

The maximum exposure to credit risk before any credit enhancement as at June 30, 2009 is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse creditworthy counterparties thereby mitigating any significant concentration of credit risk.

25.3 Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous.

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

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

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

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

NAFA ISLAMIC INCOME FUND

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

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

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

Liabilities

Payable to National Fullerton Asset Management Limited -

Management Company

Payable to Central Depository Company of Pakistan Limited - Trustee

Payable on redemption of units

Accrued expenses and other liabilities

| | | | |
|--------------|--------------|----------|----------|
| 1,171 | 1,171 | - | - |
| 89 | 89 | - | - |
| 1,052 | 1,052 | - | - |
| 496 | 496 | - | - |
| <u>2,808</u> | <u>2,808</u> | <u>-</u> | <u>-</u> |

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

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

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

Liabilities

Payable to National Fullerton Asset Management Limited -

Management Company

Payable to Central Depository Company of Pakistan Limited - Trustee

Payable on redemption of units

Accrued expenses and other liabilities

| | | | |
|--------------|--------------|----------|----------|
| 1,254 | 1,254 | - | - |
| 156 | 156 | - | - |
| - | - | - | - |
| 440 | 440 | - | - |
| <u>1,850</u> | <u>1,850</u> | <u>-</u> | <u>-</u> |

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

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets under management.

In accordance with the risk management policies stated in note 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.

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

NAFA ISLAMIC INCOME FUND

28 DATE OF AUTHORISATION FOR ISSUE

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

29 GENERAL

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

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

For National Fullerton Asset Management Limited
(Management Company)

Dr. Amjad Waheed, CFA
Chief Executive

Masood Karim Shaikh, FCA
Chairman

Annual Report

NAFA ISLAMIC INCOME FUND

PERFORMANCE TABLE

| PARTICULARS | For the year ended June 30, 2009 | For the period from September 17, 2007 to June 30, 2008 |
|--|-------------------------------------|---|
| Net assets at the period end (Rs '000) | 517,111 | 881,198 |
| Net income for the period end (Rs '000) | 761 | 52,848 |
| Net Asset Value per unit at the period end (Rs) | 9.4069 | 10.0932 |
| Offer Price per unit | 9.5010 | 10.1967 |
| Redemption Price per unit | 9.4069 | 10.0932 |
| Highest offer price per unit (Rs) | 10.2404 | 10.0082 |
| Lowest offer price per unit (Rs) | 8.6724 | 9.6471 |
| Highest redemption price per unit (Rs) | 10.1390 | 9.9046 |
| Lowest redemption price per unit (Rs) | 8.5865 | 9.5407 |
| Total return of the fund | -4.41% | 5.53% |
| Capital growth | -7.01% | 0.93% |
| Income distribution | 2.60% | 4.60% |
| Distribution | | |
| Interim distribution per unit | 0.2600 | 0.2000 |
| Final distribution per unit | - | 0.2600 |
| Distribution Dates | | |
| Interim | 16-Oct-08 | 15-Apr-08 |
| Final | - | 3-Jul-08 |
| Average annual return of the fund (launch date October 29, 2007) | | |
| (Since inception to June 30, 2009) | 0.54% | |
| (Since inception to June 30, 2008) | | 8.37% |
| Portfolio Composition (Please see Fund Manager Report) | | |
| Weighted average portfolio duration | 2 years | 2 years |
| Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up | | |

