

**NAFA ISLAMIC INCOME FUND**

**QUARTERLY REPORT  
FOR THE QUARTER ENDED  
SEPTEMBER 30, 2009  
(UN-AUDITED)**

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# NAFA ISLAMIC INCOME FUND

## DIRECTORS' REPORT

The Board of Directors of National Fullerton Asset Management Limited is pleased to present the unaudited financial statements of NAFA Islamic Income Fund for the quarter ended September 30, 2009.

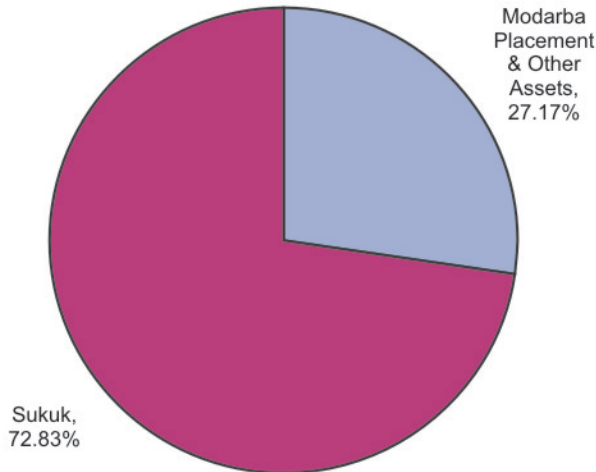
### Fund's Performance

The size of NAFA Islamic Income Fund has reduced from Rs.517 million to Rs.349 million during the quarter, i.e. a decline of 32.50%. During the quarter, the unit price of NAFA Islamic Income Fund has decreased from Rs.9.4069 on June 30, 2009 to Rs.8.4446 on September 30, 2009, thus showing a decline of 10.23%.

NAFA Islamic Income Fund has earned total income of Rs.17.99 million during the period. After deducting expenses of Rs.51.87 million, the net loss is Rs.33.88 million, translating into loss per unit of Re.0.9623.

The asset allocation of the Fund as on September 30, 2009 is as follows:

### **Asset Allocation as on September 30, 2009**



# NAFA ISLAMIC INCOME FUND

## **Acknowledgement**

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

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

On behalf of the Board of  
National Fullerton Asset Management Limited

Chief Executive

Director

Date: October 28, 2009  
Place: Karachi.

# NAFA ISLAMIC INCOME FUND

## CONDENSED INTERIM STATEMENT OF ASSETS AND LIABILITIES AS AT SEPTEMBER 30, 2009 (Un-audited)

	Note	September 30, 2009	June 30, 2009
----- Rupees in '000 -----			
<b>Assets</b>			
Balances with banks		86,638	65,272
Investments	4	254,047	440,291
Profit receivable	5	5,104	10,609
Advances, deposits, prepayments and other receivables		2,720	2,698
Preliminary expenses and floatation costs		1,534	1,660
<b>Total assets</b>		<b>350,043</b>	<b>520,530</b>
<b>Liabilities</b>			
Payable to National Fullerton Asset Management Limited - Management Company		494	1,171
Payable to Central Depository Company of Pakistan Limited - Trustee		64	89
Payable to Securities and Exchange Commission of Pakistan		83	611
Payable on redemption of units		208	1,052
Accrued expenses and other liabilities	6	351	496
<b>Total liabilities</b>		<b>1,200</b>	<b>3,419</b>
<b>Net Assets</b>		<b>348,843</b>	<b>517,111</b>
<b>Unit Holders' Funds (as per statement attached)</b>		<b>348,843</b>	<b>517,111</b>
<b>Commitments</b>	10	-	-
<b>Number of units</b>			
<b>Number of units in issue</b>		<b>41,309,814</b>	<b>54,971,537</b>
<b>Rupees</b>			
<b>Net asset value per unit</b>		<b>8.4446</b>	<b>9.4069</b>

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

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

Chief Executive

Director

# NAFA ISLAMIC INCOME FUND

## CONDENSED INTERIM INCOME STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2009 (Un-audited)

	Note	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008
----- Rupees in '000 -----			
<b>INCOME</b>			
Gain on sale of investments - net		17	27
Income from sukuk bonds		9,733	20,001
Income from spread transactions		-	18
Income from term deposit musharika certificates		-	6,705
Profit on bank deposits		3,075	2,228
<b>Total Income</b>		<b>12,825</b>	<b>28,979</b>
<b>EXPENSES</b>			
Remuneration of National Fullerton Asset Management Limited - Management Company		1,659	3,594
Remuneration of Central Depository Company of Pakistan Limited - Trustee		221	478
Annual fee - Securities and Exchange Commission of Pakistan		83	240
Securities transaction cost		1	15
Settlement and bank charges		33	48
Annual listing fee		8	8
Auditors' remuneration		105	99
Amortisation of preliminary expenses and floatation costs		126	126
Printing and related cost		15	-
Others expenses		-	44
Impairment loss on sukuk bonds classified as investments 'available for sale'		49,618	-
<b>Total Expenses</b>		<b>51,869</b>	<b>4,652</b>
<b>Net (loss) / income from operating activities</b>		<b>(39,044)</b>	<b>24,327</b>
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		5,162	(1,166)
<b>Net (loss)/ income for the period before taxation</b>		<b>(33,882)</b>	<b>23,161</b>
Taxation	9	-	-
<b>Net (loss)/ income for the period after taxation</b>		<b>(33,882)</b>	<b>23,161</b>
<b>Earnings per unit</b>	8		

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

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

Chief Executive

Director

# NAFA ISLAMIC INCOME FUND

## CONDENSED INTERIM DISTRIBUTION STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2009 (Un-audited)

	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008
	----- Rupees in '000 -----	
Undistributed (loss) / income brought forward	(15,029)	29,760
Distribution:		
Final distribution for the period ended June 30, 2009: Nil (2008: 2.60%)(Date of distribution: 3 July 2008)		
-Bonus units	-	(12,108)
-Cash Distribution	-	(10,004)
Net (loss) / income for the period	(33,882)	23,161
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	2,355	197
Undistributed (loss) / income carried forward	<u>(46,556)</u>	<u>31,006</u>

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

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

Chief Executive

Director

# NAFA ISLAMIC INCOME FUND

## CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND FOR THE QUARTER ENDED SEPTEMBER 30, 2009 (Un-audited)

	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008
	----- Rupees in '000 -----	
Net assets at the beginning of the period	517,111	881,198
Issue of 5,183,866 units (September 30, 2008:44,009,236 units - including 1,199,335 bonus units)	45,700	436,713
Redemption of 18,845,589 units (September 30, 2008: 40,701,525 units)	(174,800) (129,100)	(416,617) 20,096
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	(5,162)	1,166
-amount representing loss and capital losses that form part of unit holders' fund - transferred to Distribution Statement	(2,355) (7,517)	(197) 969
Net unrealised (diminution) / appreciation during the year / period in the market value of investments classified as 'available for sale'	(124)	(159)
Gain / (loss) on sale of investments	17	27
Other income (net of expenses)	(33,899)	23,134
Distribution:		
Final distribution for the period ended June 30, 2009: Nil (2008: 2.60%)(Date of distribution: 3 July 2008)		
- Bonus units	-	(12,108)
- Cash Distribution	-	(10,004)
	(33,882)	1,049
Add: bonus distribution	-	12,108
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	2,355	197
<b>Net assets as at the end of the period</b>	<b>348,843</b>	<b>915,458</b>

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

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

Chief Executive

Director



# NAFA ISLAMIC INCOME FUND

## CONDENSED INTERIM CASH FLOW STATEMENT FOR THE QUARTER ENDED SEPTEMBER 30, 2009 (Un-audited)

	Note	Quarter Ended September 30, 2009	Quarter Ended September 30, 2008
----- Rupees in '000 -----			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net income for the period		(33,882)	23,161
<b>Adjustments</b>			
Amortisation of preliminary expenses and floatation costs		126	126
Gain on sale of investments		(17)	(27)
Impairment loss on sukuk bonds classified as investments 'available for sale'		49,618	-
Element of loss and capital losses included in prices of units issued less those in units redeemed		(5,162)	1,166
		<u>10,683</u>	<u>24,426</u>
<b>(Increase) / decrease in assets</b>			
Investments		136,519	(21,239)
Profit receivable		5,505	3,525
Deposits, prepayments and other receivables		(22)	1,967
		<u>142,002</u>	<u>(15,747)</u>
<b>Increase / (decrease) in liabilities</b>			
Payable to Management Company		(677)	41
Payable to Central Depository Company of Pakistan Limited - Trustee		(25)	8
Payable to Securities and Exchange Commission of Pakistan		(528)	240
Payable on redemption of units		(844)	-
Accrued expenses and other liabilities		(145)	(92)
		<u>(2,219)</u>	<u>197</u>
<b>Net cash inflow / (outflow) from operating activities</b>		<u>150,466</u>	<u>8,876</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Receipts from issue of units		45,700	436,713
Payments on redemption of units		(174,800)	(416,617)
Distributions paid		-	(10,004)
<b>Net cash (outflow) / inflow from financing activities</b>		<u>(129,100)</u>	<u>10,092</u>
<b>Net increase in cash and cash equivalents during the period</b>		<u>21,366</u>	<u>18,968</u>
Cash and cash equivalents at the beginning of the period		65,272	19,295
<b>Cash and cash equivalents at the end of the period</b>		<u>86,638</u>	<u>38,263</u>

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

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

Chief Executive

Director

# NAFA ISLAMIC INCOME FUND

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2009 (Un-audited)

### 1 LEGAL STATUS AND NATURE OF BUSINESS

NAFA Islamic Income Fund (NIIF) was established under a Trust Deed executed between National Fullerton Asset Management Limited (NAFA) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on August 20, 2007 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on September 03, 2007 in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

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

The 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 STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprises of such International Financial Reporting Standards (IFRS) issued by 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 Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by SECP prevail. The disclosures made in these condensed interim financial statements have, however, been limited based on the requirements of the International Accounting Standards 34, Interim Financial Reporting.

### 3 ACCOUNTING POLICIES

The accounting policies adopted for the preparation of the financial statements for the quarter ended September 30, 2009 are same as those applied in the preparation of the annual audited financial statements for the year ended June 30, 2009.

### 4 INVESTMENTS

Available for sale  
Sukuk bonds

Note	September 30, 2009 Un-audited	June 30, 2009 Audited
	----- Rupees in '000 -----	
4.1	254,047	440,291
	<u>254,047</u>	<u>440,291</u>

# NAFA ISLAMIC INCOME FUND

## 4.1 Sukuk and Ijara bonds - available for sale

Name of the investee company	Number of certificates				Market Value as at September 30, 2009	Investment as a percentage of		
	As at July 1, 2009	Purchases during the period	Sales during the period	As at September 30, 2009		Market Value of net assets	Market Value of total investment	Issue size
(Rupees in '000)								
Engro Chemicals Pakistan Limited	16,000	-	-	16,000	78,642	22.54%	30.96%	2.67%
Eden Building Limited	3,312	-	3,312	-	-	0.00%	0.00%	0.00%
Eden Housing Limited	10,000	-	10,000	-	-	0.00%	0.00%	0.00%
Kohat Cement Company Limited (note 4.1.2)	20,000	-	-	20,000	81,825	23.46%	32.21%	3.86%
Maple Leaf Cement Factory Limited	20,000	-	14,688	5,312	24,170	6.93%	9.51%	0.33%
New Allied Electronics Industries (Private) Limited-1st issue (note 4.1.3)	352,000	-	-	352,000	-	0.00%	0.00%	18.33%
New Allied Electronics Industries (Private) Limited-2nd issue (note 4.1.4)	1,000	-	-	1,000	1,888	0.54%	0.74%	0.67%
Pak Electron Limited	15,000	-	-	15,000	62,472	17.91%	24.59%	0.99%
Government of Pakistan Ijara bond	50	-	-	50	5,050	1.45%	1.99%	
					254,047			
Cost of investments as at September 30, 2009					303,789			
Impairment losses recognised during the period					127,886			

4.1.1 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.

4.1.2 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 6.8 million was not received by the Fund. The management has recognized an impairment loss of Rs.14.775 million till September 30, 2009. The income suspended on these bonds is amounting to Rs.4.009 million.

4.1.3 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, April 25, 2009 and July 25, 2009 i.e. the scheduled redemption dates, principal redemptions of Rs.27.5 million were not received by the Fund. The management has recognized an impairment loss of Rs.110 million till September 30, 2009 out of which Rs.62.906 million pertains to the current period. In accordance with the requirement of SECP Circular no. 01/2009 and the provisioning policy approved by the Board of Directors, the excess provision comes out to Rs.47.6 million as on September 30, 2009. The income suspended on these bonds is amounting to Rs.14.218 million.

4.1.4 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 0.54 million was not received by the Fund. The management has recognized an impairment loss of Rs.3.112 million till September 30, 2009 out of which Rs.1.486 million pertains to the current period. In accordance with the requirement of SECP Circular no. 01/2009 and the provisioning policy approved by the Board of Directors, the excess provision comes out to Rs.0.727 million as on September 30, 2009. The income suspended on these bonds is amounting to Rs.0.802 million.

# NAFA ISLAMIC INCOME FUND

Note      September 30,      June 30,  
2009      2009  
----- Rupees in '000 -----

## 5 PROFIT RECEIVABLE

Profit on savings deposits	2,992	3,591
Income accrued on sukuk bonds	21,141	21,937
Less: Suspended Income	(19,029)	(14,919)
	2,112	7,018
	<u>5,104</u>	<u>10,609</u>

## ACCRUED EXPENSES AND OTHER LIABILITIES

<b>6</b>			
Auditors' remuneration		95	212
Bank charges payable		2	11
Payable to brokers		22	54
Charity payable		3	3
Printing charges payable		229	216
		<u>351</u>	<u>496</u>

## 7 TRANSACTIONS WITH CONNECTED PERSONS

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.

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

Quarter Ended      Quarter Ended  
September      September  
30,2009      30,2008  
----- Rupees in '000 -----

### 7.1 Details of the transactions with connected persons are as follows:

<b>National Fullerton Asset Management Limited - Management Company</b>		
Management fee expense for the period	1,659	3,594
Front end load for the period	97	125
<b>National Bank of Pakistan - Sponsor</b>		
Cash Dividend	-	1,950
<b>NIB Bank Limited - Sponsor</b>		
Cash Dividend	-	1,950
<b>Alexandra Fund Management Pte. Limited - Sponsor</b>		
Bonus units issued (September 30, 2009; Nil units: September 30, 2008: 262,668 units)	-	2,651
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Trustee fee for the period	221	478
CDS charges	1	8
<b>NAFA Islamic Multi Asset Fund</b>		
Units redeemed (September 30, 2009; Nil units: September 30, 2008: 7,488,894 units)	-	76,622
Bonus units issued (September 30, 2009; Nil units: September 30, 2008: 188,069 units)	-	1,898
<b>NAFA Multi Asset Fund</b>		
Units redeemed (September 30, 2009; 3,891,359 units: September 30, 2008: 7,512,417 units)	36,920	77,080
Bonus units issued (September 30, 2009; Nil units: September 30, 2008: 188,659 units)	-	1,904
Payment received for the sale of sukuk bonds	134,475	-

# NAFA ISLAMIC INCOME FUND

	Quarter Ended September 30,2009	Quarter Ended September 30,2008
	----- Rupees in '000 -----	
<b>NAFA Stock Fund</b>		
Bonus units issued (September 30, 2009; Nil units: September 30, 2008: 447 units)	-	5
<b>NAFA Cash Fund</b>		
Payment received for the sale of sukuk bonds	-	25,811
<b>Executives of the Management Company</b>		
Units issued (September 30, 2009; 206,076 units: September 30, 2008: 87,436 units)	1,816	894
Units redeemed (September 30, 2009; 699,674 units: September 30, 2008: 410,168 units)	6,146	4,167
Bonus units issued (September 30, 2009; Nil units: September 30, 2008: 14,782 units)	-	42
	As at September 30,2009	As at June 30,2009
	----- Rupees in '000 -----	
<b>7.2 Amounts outstanding as at period end</b>		
<b>National Fullerton Asset Management Limited - Management Company</b>		
Management fee payable	467	644
Front end load payable	27	527
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	62	86
CDS Charges	2	3
Security deposits	100	100
<b>National Bank of Pakistan - Sponsor</b>		
Investment held by the Sponsor in the Fund (7,500,000 units; June 30, 2009: 7,500,000 units)	63,335	70,552
Balance in current account	142	231
<b>NIB Bank Limited - Sponsor</b>		
Investment held by the Sponsor in the Fund (7,500,000 units; June 30, 2009: 7,500,000 units)	63,335	70,552
Balance in current account	1,044	2,068
<b>Alexandra Fund Management Pte. Limited - Sponsor</b>		
Investment held by the Sponsor in the Fund (10,727,646 units; June 30, 2009: 10,727,646 units)	90,591	100,914
<b>Executives of Management Company</b>		
Investment held by the executives in the Fund (138,329 units; June 30, 2009: 648,870 units)	1,168	6,104
<b>NAFA Multi Asset Fund</b>		
Investment held in the Fund (Nil units; June 30, 2009: 3,891,359 units)	-	36,606

## 8 EARNING PER UNIT

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

# NAFA ISLAMIC INCOME FUND

## 9 TAXATION

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

## 10 COMMITMENTS

There were no commitments as on September 30, 2009.

## 11 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on 28 October 2009.

## 12 GENERAL

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

12.2 The bifurcation of undistributed income into realized and unrealized 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)**

Chief Executive

Director