

First Habib Income Fund

First Habib Stock Fund



Annual Report
June 2010



Habib Asset Management Limited
(An Associate Company of Bank AL Habib Ltd.)

Vision

We at Habib Asset Management Limited make it possible for everyone to invest in Mutual Funds by providing innovative products.

Mission

We aim to excel in Fund Management business by:

- ◆ **Understanding the customer needs through close interaction.**
- ◆ **Focusing on offering our investors the best possible returns on a diverse range of products.**
- ◆ **Attaining sustained growth in an ethical manner.**
- ◆ **Providing a conducive working environment that stimulates talent.**

FIRST HABIB INCOME FUND

CONTENTS	Page No.
Fund's Information	4
Directors' Report to the Unit Holders	5
Trustee Report to the Unit Holders	8
Statement of Compliance with the Code of Corporate Governance	9
Independent Auditors' Report to the Unit Holders	11
Review Report to the Unit Holders on Statement of Compliance with best practices of Code of Corporate Governance	12
Statement of Assets and Liabilities	13
Income Statement	14
Statement of Comprehensive Income	15
Distribution Statement	16
Statement of Movement in Unit Holders' Funds	17
Cash Flow Statement	18
Notes to the Financial Statements	19
Fund Manager Report	46

FIRST HABIB STOCK FUND

CONTENTS	Page No.
Fund's Information	50
Directors' Report to the Unit Holders	51
Trustee Report to the Unit Holders	54
Statement of Compliance with the Code of Corporate Governance	55
Independent Auditors' Report to the Unit Holders	57
Review Report to the Unit Holders on Statement of Compliance with best practices of Code of Corporate Governance	58
Statement of Assets and Liabilities	59
Income Statement	60
Statement of Comprehensive Income	61
Distribution Statement	62
Statement of Movement in Unit Holders' Funds	63
Cash Flow Statement	64
Notes to the Financial Statements	65
Fund Manager Report	83

FIRST HABIB INCOME FUND
Annual Report
For the year ended June 30, 2010

FUND'S INFORMATION

Management Company

Habib Asset Management Limited

Board of Directors of the Management Company

Mr. Ali Raza D. Habib	Chairman
Mr. Imran Azim	Chief Executive
Mr. Mohammad Ali Jameel	Director
Mr. Mansoor Ali	Director

CFO and Company Secretary

Mr. Muhammad Shakeel Musani	Chief Financial Officer / Company Secretary
-----------------------------	--

Audit Committee

Mr. Mohammad Ali Jameel	Chairman
Mr. Ali Raza D. Habib	Member
Mr. Mansoor Ali	Member

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants
Shiekh Sultan Trust Building No.2,
Beaumont Road, Karachi.

Internal Auditors

A.F Ferguson & Co.
Chartered Accountants
State Life Building, 1-C,
I.I. Chundrigar Road, Karachi.

Trustee

Central Depository Company
of Pakistan Limited
CDC House, 99-B, Block 'B', S.M.C.H.S,
Main Shakra-e-Faisal, Karachi.

Registrar

Gangjees Registrar Services
(Pvt.) Limited
516, Clifton Centre, Block-5,
Khayaban-e-Roomi, Clifton, Karachi.

Bankers to the Fund

Bank AL Habib Limited
Bank Alfalah Limited
My Bank Limited
JS Bank Limited
NIB Bank Limited
Habib Metropolitan Bank Limited

Legal Advisor

Mohsin Tayebaly & Co.
Barristers & Advocates,
2nd Floor, DIME Centre, BC-4, Block 9,
Kehkashan, Clifton, Karachi.

Registered Office: 1st Floor, Imperial Court, Dr. Ziauddin Ahmed Road, Karachi-75530

DIRECTORS' REPORT TO THE UNIT HOLDERS

The Board of Directors' of Habib Asset Management Limited is pleased to present the fourth Annual Report of First Habib Income Fund (FHIF) for the year ended June 30, 2010.

The money market remained inconsistent during the year. State Bank of Pakistan (SBP) reduced the discount rate by 150 bps during the year in an effort to stabilize monetary conditions. However, the market did not sufficiently respond particularly in terms of long term exposure.

FUND'S PERFORMANCE

During the year under review, the management assumed a cautious stance and consequently more funds were shifted towards Treasury Bills (T-Bills) from Term Finance Certificates (TFCs) & Term Deposit Receipts (TDRs), reducing the elements of risk in these uncertain conditions.

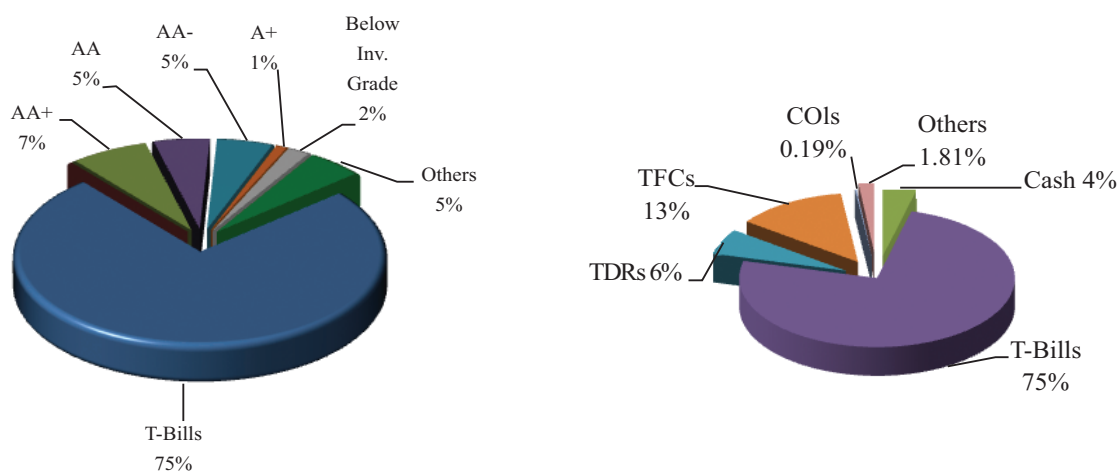
This massive diversion raises the present percentage of T-Bills to 75% of the Fund as compared to 29% of the previous year. On the other hand, TFCs reduced to 13% from 31% and TDRs reduced to 6% from 32% of the corresponding period of last year. As a result of these substantial changes, we are confident that InshAllah FHIF will be more secure, strengthened with the higher acquisition of the safer T-Bills & more flexible in terms of trading.

The total income and net income of First Habib Income Fund earned was Rs. 228.43 million and Rs. 179.76 million respectively for the year ended June 30, 2010. The net assets of the Fund stood at Rs. 1,695.46 million as on June 30, 2010.

The NAV and distribution for each quarter is as under

Quarter Ended	NAV at beginning of Quarter	NAV at close of Quarter	Distribution
September 30, 2009	100.05	102.77	2.50
December 31, 2009	100.27	103.31	3.00
March 31, 2010	100.31	102.36	2.25
June 30, 2010	100.11	102.53	2.50

The credit quality and asset allocation on June 30, 2010, can be viewed as under:



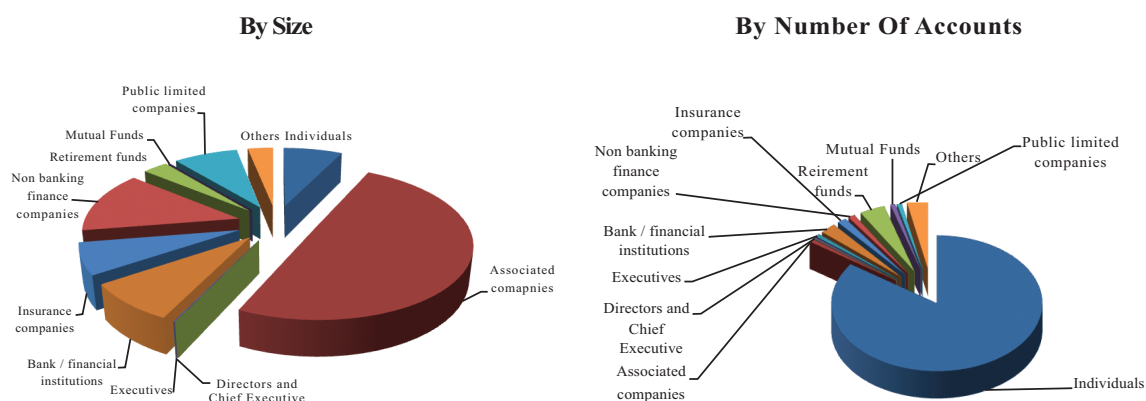
FIRST HABIB INCOME FUND

INCOME DISTRIBUTION

For the year 2010, FHIF has declared a total distribution of Rs. 10.25 per Unit. Of this amount, Rs. 7.75 was paid as interim dividends and Rs. 2.50 was towards final dividend.

PATTERN OF UNIT HOLDING

Unit holders' classification by holding and number of accounts is as follows:



Unit-holders' classification by holding and number of accounts is given in note 23 to the Accounts.

MUTUAL FUND RATING

The Pakistan Credit Rating Agency Limited (PACRA) has assigned fund stability rating of "AA-(f)" to First Habib Income Fund which is highest rating assigned to any fund among the income fund category. The rating denotes a very strong capacity to maintain relative stability in returns at low exposure to risks. The rating signifies strong credit quality of the Fund's assets in terms of liquidity with relatively low exposure to interest rate volatility.

FUTURE OUTLOOK

Despite the difficult conditions being witnessed in the county, we pray and remain hopeful that InshAllah the Nation will come through the current crisis and that stability and progress return to our country. The interest rates are expected to increase which will have a positive impact on the return of our Fund.

AUDITORS

The Fund's external auditors Messrs KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the Fund's auditors for the year ending 30 June 2011. The Board of Directors of the Management Company has re-appointed Messrs KPMG Taseer Hadi & Co., Chartered Accountants as the Fund's auditors for the year ending June 30, 2011 as recommended by the Audit Committee.

CORPORATE GOVERNANCE

1. The management company has implemented the requirements of the Code of Corporate Governance last year. A prescribed statement by the management along with the auditors' report thereon for the year ended June 30, 2010 forms part of this annual report.
2. Statements under clause xix of the Code:
 - The financial statements, prepared by the Management Company of FHIF, present fairly the state of affairs of the Fund, the result of its operations, cash flows and movement in Unit-holders' funds.
 - Proper books of account of FHIF have been maintained.

- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no doubt upon FHIF's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- Outstanding statutory payments on account of taxes, if any, have fully disclosed in the accounts.
- The details of Board Meetings held and attended by the directors are disclosed in note 26 to the accounts.
- Particulars of all investments and redemptions by the Directors, Chief Executive, Chief Financial Officer, Company Secretary and their spouses and minor children during the period ended June 30, 2010 is provided in note 20 to the accounts.

ACKNOWLEDGEMENT

The Board takes this opportunity to thank its valued Unit-holders for their confidence. We would also like to place on record our appreciation for the help and guidance provided by the Central Depository Company of Pakistan Limited as Trustee, the Securities and Exchange Commission of Pakistan and the management of Lahore Stock Exchange.

The Board also appreciates the employees of the Management Company for their dedication and hard work.

On behalf of the Board of
Habib Asset Management Limited

Ali Raza D. Habib
Chairman

September 27, 2010

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**

The First Habib Income Fund (the Fund), an open-end fund was established under a trust deed dated September 06, 2006, executed between Habib 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, 2010 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.

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

October 13, 2010
Karachi

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30 JUNE 2010**

This statement is being presented by the Board of Directors of Habib Asset Management Limited, the management company of First Habib Income Fund to comply with the Code of Corporate Governance in Chapter XIII 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.

Habib Asset Management Limited (HAML), the Management Company, is not listed and hence, the Code is not applicable to it. However, First Habib Income Fund (FHIF) managed by HAML, is listed on the Lahore Stock Exchange, therefore it comes under the ambit of the Code. 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 and other necessary personnel to manage the affairs of the Fund.

The Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of non-executive directors. At present the Board consists of four directors including three non-executive directors.
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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. There is a casual vacancy on the Board for independent director which shall be filled with the approval of SECP.
5. The Management Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the Directors and employees of the Management Company.
6. The Board has developed a vision / mission statement and significant policies for 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 the remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter during the period. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. All the members of the Board are professionally qualified persons with rich experience in financial sector and are well aware of their duties and responsibilities under Memorandum and Articles of HAML and NBFC Rules, 2003 and NBFC Regulations. Therefore, no orientation courses were arranged during the year.

FIRST HABIB INCOME FUND

10. The Board has approved the appointment of CFO and Company Secretary including their remuneration and terms and conditions of employment as determined by the CEO.
11. The Directors' Report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before the approval of the Board.
13. The Directors, CEO and Executives do not hold units other than those disclosed in note 20 to the financial statements "Transactions with Connected Persons".
14. As required under regulation 35 (xiii a) of the listing regulations of Lahore Stock Exchange, the management company of the fund is in the process of evaluating and introducing necessary procedures and systems for related party transactions vis-à-vis the pricing methods for related parties transactions, separate consideration and maintenance of records of transactions with related parties etc.
15. The Management Company has complied with the corporate and financial reporting requirements of the Code.
16. The Board has formed an Audit Committee. It comprises of 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 financial statements of the Fund as required by the Code.
18. The Management Company has outsourced the internal audit function of the Fund to M/s A. F. Ferguson & Co., Chartered Accountants, Karachi who are 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 the Code of Ethics as adopted by the Institute of Chartered Accountant of Pakistan.
20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

Karachi : 27 September, 2010

Imran Azim
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of First Habib Income Fund ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2010, and the income statement, statement of comprehensive income, distribution statement, statement of cash flows, statement of movement in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 30 June 2010, 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 (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: September 27, 2010

Karachi

**KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem**

**REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE
WITH BEST PRACTICES OF 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 the Management Company of the First Habib Income Fund ("the Fund") to comply with the listing regulation of the Lahore Stock Exchange, where the Fund is listed.

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

As part of our audit of 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such controls, the Fund's corporate governance procedures and risks.

Further sub-regulation (xiii-a) of Listing Regulation 35 notified by the Lahore Stock Exchange (Guarantee) Limited requires the Fund 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 requirement 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 price 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 Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2010.

Date: September 27, 2010

Karachi

**KPMG Taseer Hadi & Co.
Chartered Accountants**

STATEMENT OF ASSETS AND LIABILITIES

AS AT 30 JUNE 2010

	<i>Note</i>	2010	2009
(Rupees in '000)			
Assets			
Bank balances	4	164,847	635,245
Investments	5	1,570,925	1,028,240
Certificate of investments	6	3,375	25,000
Income receivable	7	20,121	42,116
Advances, deposits, prepayments and other receivables	8	2,600	2,606
Preliminary expenses and floatation costs	9	1,005	1,529
Total assets		1,762,873	1,734,736
Liabilities			
Payable to Habib Asset Management Limited - Management Company	11	2,237	71
Payable to Central Depository Company of Pakistan Limited - Trustee	12	232	232
Payable to Securities and Exchange Commission of Pakistan	13	1,408	1,499
Payable against redemption of units		56,668	-
Workers' Welfare Fund	14	5,941	-
Accrued expenses and other liabilities	15	924	1,254
Total liabilities		67,410	3,056
Net assets		1,695,463	1,731,680
Unit holders' funds (as per statement attached)		1,695,463	1,731,680
(Number of Units)			
Number of units in issue	16	16,536,076	16,952,168
(Rupees)			
Net asset value per unit		102.53	102.15

The annexed notes 1 to 28 form an integral part of these financial statements.

**For Habib Asset Management Limited
(Management Company)**

Chief Executive

Director

FIRST HABIB INCOME FUND

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 (Rupees in '000)	2009
Income			
Profit on bank deposits	17	45,905	72,704
Income on Continuous Funding System Transactions		-	14,080
Income from Term Finance Certificates		61,542	101,833
Income from Certificate of Investments and Deposits		3,434	49,108
Income from Government Securities		121,748	8,251
Income from Clean Placements		9,517	4,672
Income from reverse repurchase transactions		2,097	-
Gain /(loss) on sale of investments at fair value through profit or loss		66	(38,707)
Unrealised diminution on investments at fair value through profit or loss	5.1.1	(5,730)	(56,486)
Dividend Income		-	8
Total income		238,579	155,463
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	11	28,152	26,242
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12.1	2,877	2,749
Annual fee - Securities and Exchange Commission of Pakistan	13	1,408	1,499
Brokerage		599	1,025
Settlement and bank charges		273	1,039
Annual listing fee		30	30
Auditors' remuneration	18	347	311
Amortisation of preliminary expenses and floatation costs	9	524	524
Fee and charges to National Clearing Company of Pakistan Limited		-	871
Financial charges		-	104
Legal expenses		69	255
Mutual fund rating fee		75	200
Printing charges		286	-
Workers' Welfare Fund	14	5,941	-
Provision against debt securities		8,091	7,253
Total expenses		48,672	42,102
Net income from operating activities		189,907	113,361
Element of income and capital gains included in prices of units Issue less those in units redeemed - net		(10,153)	(2,027)
Net income for the year		179,754	111,334
Earnings per unit	19		

The annexed notes 1 to 28 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	2010	2009
	(Rupees in '000)	
Net income for the year	179,754	111,334
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u><u>179,754</u></u>	<u><u>111,334</u></u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB INCOME FUND

DISTRIBUTION STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	2010 (Rupees in '000)	2009
Undistributed income as at 1 July (Realised)	96,553	47,045
Accumulated losses as at 1 July (Un-realized)	<u>(60,087)</u>	<u>(3,601)</u>
	36,466	43,444
Net income for the year	179,754	111,334
Final cash dividend for class 'C' unit holders @ Rs. 2.25/- per unit and bonus units @ 2.2482/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2008	-	(41,923)
Interim cash dividend for class 'C' unit holders @ Rs. 2.5/- per unit and bonus units @ 2.4925/- for class 'A' and 'B' unit holders for every 100 units held as at 30 September 2008	-	(47,669)
Interim cash dividend for class 'C' unit holders @ Rs. 1.75/- per unit and bonus units @ 1.7301/- for class 'A' and 'B' unit holders for every 100 units held as at 30 April 2009	-	(28,720)
Final cash dividend for class 'C' unit holders @ Rs. 2.10/- per unit and bonus units @ 2.0989/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2009	(35,602)	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.50/- per unit and bonus units @ 2.4900/- for class 'A' and 'B' unit holders for every 100 units held as at 6 October 2009	(47,557)	-
Interim cash dividend for class 'C' unit holders @ Rs. 3.00/- per unit and bonus units @ 2.9898/- for class 'A' and 'B' unit holders for every 100 units held as at 3 January 2010	(52,843)	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.25/- per unit and bonus units @ 2.2430/- for class 'A' and 'B' unit holders for every 100 units held as at 31 March 2010	(38,362)	-
Undistributed income carried forward	<u>41,856</u>	<u>36,466</u>
Undistributed income as at 30 June (Realized)	107,673	96,553
Accumulated losses as at 30 June (Un-realized)	(65,817)	(60,087)
Undistributed income carried forward	<u>41,856</u>	<u>36,466</u>

The annexed notes 1 to 28 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS
FOR THE YEAR ENDED 30 JUNE 2010

	2010		2009	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Net assets at the beginning of the year	16,952,168	1,731,680	18,632,666	1,906,711
Amount received on issue of units	25,251,524	2,572,311	13,981,820	1,413,764
Amount paid on redemption of units	(26,466,048)	(2,704,159)	(16,186,321)	(1,636,443)
	(1,214,524)	(131,848)	(2,204,501)	(222,679)
Element of income and capital gains included in prices of units issued less those in units redeemed	-	10,153	-	2,027
Issue of bonus units on 1 July 2008 @ 2.2482% for Class 'A' and 'B'	-	-	193,156	-
Issue of bonus units on 8 October 2008 @ 2.4925% for Class 'A' and 'B'	-	-	230,041	-
Issue of bonus units on 4 May 2009 @ 1.7301% for Class 'A' and 'B'	-	-	100,806	-
Issue of bonus units on 1 July 2009 @ 2.0989% for Class 'A' and 'B'	133,852	-	-	-
Issue of bonus units on 6 October 2009 @ 2.49% for Class 'A' and 'B'	239,686	-	-	-
Issue of bonus units on 3 January 2010 @ 2.9898% for Class 'A' and 'B'	248,719	-	-	-
Issue of bonus units on 5 April 2010 @ 2.2430% for Class 'A' and 'B'	176,175	-	-	-
Final dividend distribution on 1 July 2008 @ 2.25 for Class 'C'	-	-	-	(22,592)
Interim dividend distribution on 8 October 2008 @ 2.5% for Class 'C'	-	-	-	(24,596)
Interim dividend distribution on 4 May 2009 @ 1.75% for Class 'C'	-	-	-	(18,525)
Final dividend distribution on 1 July 2009 @ 2.1 for Class 'C'	-	(22,207)	-	-
Interim dividend distribution on 6 October 2009 @ 2.5 for Class 'C'	-	(23,493)	-	-
Interim dividend distribution on 3 January 2010 @ 3.00 for Class 'C'	-	(27,886)	-	-
Interim dividend distribution on 5 April 2010 @ 2.25 for Class 'C'	-	(20,690)	-	-
Net income for the year	-	179,754	-	111,334
Net assets at the end of the year	16,536,076	1,695,463	16,952,168	1,731,680

The annexed notes 1 to 28 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB INCOME FUND

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	2010	2009
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	179,754	111,334
Adjustments		
Unrealised diminution on investments at fair value through profit or loss	5,730	56,486
Provision against debt securities and Certificate of Investment	8,091	7,253
Workers' Welfare Fund	5,941	-
Element of income and capital gains included in prices of units issued less those in units redeemed	10,153	2,027
Amortisation of preliminary expenses and floatation costs	524	524
	<u>210,193</u>	<u>177,624</u>
(Increase) / decrease in assets		
Short term investment in term deposit receipt	150,000	100,000
Receivable against Continuous Funding System transactions	-	275,422
Investments	(553,881)	(274,868)
Certificate of investments and deposits	19,000	425,000
Income receivable	21,995	9,880
Security deposits and other receivables	6	3,889
Receivable against sale of investments	-	1,315
	<u>(362,880)</u>	<u>540,638</u>
Increase / (decrease) in liabilities		
Payable to Habib Asset Management Limited - Management Company	2,166	(2,372)
Payable to Central Depository Company of Pakistan Limited - Trustee	-	(36)
Payable to Securities and Exchange Commission of Pakistan	(91)	(740)
Payable against redemption of units	56,668	-
Accrued expenses and other liabilities	(330)	(376)
	<u>58,413</u>	<u>(3,524)</u>
Net cash inflow / (outflow) from operating activities	<u>(94,274)</u>	<u>714,738</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Net (payments) / receipts from sale and redemption of units	(131,848)	(222,679)
Dividend paid	(94,276)	(65,713)
Net (decrease) / increase in cash and cash equivalents during the year	<u>(320,398)</u>	<u>426,346</u>
Cash and cash equivalents at beginning of the year	<u>385,245</u>	<u>(41,101)</u>
Cash and cash equivalents at the end of the year	<u><u>64,847</u></u>	<u><u>385,245</u></u>
Cash and cash equivalents at the end of the year comprise of :		
Cash at bank - saving accounts	64,847	85,245
Term deposit receipt having maturity of 3 months or less	-	300,000
	<u><u>64,847</u></u>	<u><u>385,245</u></u>

The annexed notes 1 to 28 form an integral part of these financial statements.

**For Habib Asset Management Limited
(Management Company)**

Chief Executive

Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**1. LEGAL STATUS AND NATURE OF BUSINESS**

First Habib Income Fund (the "Fund") was established under a Trust Deed executed between Habib Asset Management Limited (HAML) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 6 September 2006 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 3 August 2006 under Rule 67 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to undertake Asset Management Services as Non Banking Finance Company under the NBFC Rules by the SECP. The registered office of the Management Company is situated at Imperial Court Building, Dr. Ziauddin Ahmed Road Karachi, Pakistan.

The Fund is an open-end mutual fund and is listed on the Lahore Stock Exchange. Units are offered for public subscription on a continuous basis. Units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder.

The Fund has been formed to provide reasonable rate of return consistent with reasonable concern for safety of principal amount to the unit holders, along with facility to join or leave the fund at their convenience. The management team would seek to enhance returns through active portfolio management using efficiency tools.

Pakistan Credit Rating Agency (PACRA) has assigned asset management rating of 'AM3 -' and 'AA-(f)' to the Management Company and the Fund respectively.

The Fund invests in a diversified portfolio of investment grade term finance certificates, government securities, corporate debt securities, certificates of investments, term deposit receipts, continuous funding system and other money market instruments (including the clean placements). The Fund has been categorised as income scheme.

Title of the assets of the Fund are held in the name of CDC as a trustee of the Fund.

2. BASIS OF PREPARATION**2.1 Statement of compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, requirements of Trust Deed, requirements of Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008. In case, requirements differ, the provisions and directive of Companies Ordinance 1984, the requirements of Trust deed, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that investments classified as 'at fair value through profit or loss' are measured at fair value.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form basis of making the judgements about the carrying values of assets and liabilities that are readily not apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of its revision and future periods if the revision affects both current and future periods.

Judgments made by the management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material judgment are discussed below:

At fair value through profit or loss

The Management Company has determined fair value of investments classified as 'at fair value through profit or loss' by using rates quoted by Mutual Fund Association of Pakistan (MUFAP) in accordance with the circular no.1 dated 6 January 2009. Further Circular no.1 has provided the discretion to the asset management company to apply the mark up/ mark down (within the available limits as prescribed in that circular) to the non-traded debt securities for their valuation (refer note no. 3.1). Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgements (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

Impairment of investment

The Fund determines that investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Fund evaluates among other factors, the normal volatility in prices. In addition the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational financial cash flows (refer note 3.1 for policy on impairment). Actual results may differ and the difference could be material.

Other assets

Judgement is also involved in assessing the realisability of assets balances.

Workers' welfare fund

For details refer note 14 to these financial statements.

2.5 Changes in accounting policies

Presentation of financial statements

The Fund has adopted IAS - 1 "Presentation of Financial Statements (Revised)" which became effective during the year. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity / unit holders' fund includes only details of transactions with owners, with non-owners changes in equity presented as a single line item in the statement of changes in equity / unit holds' fund. In addition, the standard introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Fund has elected to present two statements.

Comparative information has been re-presented in conformity with the above received IAS. The change in accounting policy only impact presentation and disclosure aspects.

2.6 Other accounting developments

- a) Disclosures pertaining to fair values and liquidity risk for financial instruments The Fund has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair values of financial instruments are included in note 22.

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

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after 1 January 2010. However these are not relevant to the Fund except in few cases these may require additional disclosures:

Improvements to IFRSs 2009

- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in IFRS 5. The amendment is not relevant to the Fund's operations.
- Amendments to IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker. The amendment is not relevant to the Fund's operations.
- Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments. These amendments are unlikely to have an impact on the Fund's financial statements.
- Amendments to IAS 7 Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. These amendments are unlikely to have a significant impact on the Fund's financial statements.
- Amendments to IAS 17 Leases (effective for annual periods beginning on or after 1 January 2010). The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of IAS 17, taking account of the fact that land normally has an indefinite economic life. The amendment is not relevant to the Fund's operations.
- Amendments to IAS 36 Impairment of Assets (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendments apply prospectively. The amendment is not relevant to the Fund's operations. These amendments are unlikely to have a significant impact on the Fund's financial statements.

FIRST HABIB INCOME FUND

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010). The IASB provided additional optional exemptions for first-time adopters of IFRSs that will permit entities to not reassess the determination of whether an arrangement contains a lease if the same assessment as that required by IFRIC 4 was made under previous GAAP; and allow entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed cost at the date of transition for oil and gas assets. The amendment is not relevant to the Fund's operations.
- Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). The IASB amended IFRS 2 to require an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. This principle even applies if another group entity or shareholder settles the transaction (settling entity) and the receiving entity has no obligation to settle the payment. Retrospective application is subject to the transitional requirements in IFRS 2. The amendment is not relevant to the Fund's operations.
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights (effective for annual periods beginning on or after 1 January 2010). Issues The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. These amendments are unlikely to have an impact on the Fund's financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. The amendment is not relevant to the Fund's operations.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010). The amendment provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the Amendments to IFRS 7. The amendment also clarifies the transitional provisions of the Amendments to IFRS 7. The amendment is not relevant to the Fund's operations.

Improvements to IFRSs 2010

- Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2010). The amendments clarify that contingent consideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004); limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendment is not relevant to the Fund's operations.
- Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2010). The amendments clarify that the consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendment is not relevant to the Fund's operations.
- IAS 24 Related Party Disclosures (revised 2009) These amendments will result in increase in disclosures in the Fund's financial statements. The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. These amendments are unlikely to have an impact on the Fund's financial statements other than increase in disclosures.

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum Funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. These amendments are unlikely to have an impact on the Fund’s financial statements.
- Amendments to IFRS 1 First-time Adoption of IFRSs (effective for annual periods beginning on or after 1 January 2011). The amendments clarify that IAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity’s first IFRS financial statements; introduce guidance for entities that publish interim financial information under IAS 34 Interim Financial Reporting and change either their accounting policies or use of the IFRS 1 exemptions during the period covered by their first IFRS financial statements; extend the scope of paragraph D8 of IFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first IFRS financial statements; and introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to IFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendment is not relevant to the Fund’s operations.
- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011). The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity’s exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. These amendments would result in increase in disclosures in the financial statements of the Fund.
- Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011). The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. These amendments are unlikely to have an impact on the Fund’s financial statements other than increase in disclosures.
- Amendments to IAS 34 Interim Financial Reporting (effective for annual periods beginning on or after 1 January 2011). The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures. These amendments are unlikely to have an impact on the Fund’s financial statements other than increase in disclosures.
- Amendments to IFRIC 13 Customer Loyalty Programmes These amendments are unlikely. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendment is not relevant to the Fund’s operations.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund’s documented risk management or investment strategy.

Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in Income Statement.

FIRST HABIB INCOME FUND

b) *Available-for-sale*

Available for sale financial assets are non-derivative that are either designated in this category or not classified in any other category.

c) *Loans and receivables originated by the enterprise*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as 'at fair value through profit or loss' or 'available for sale'.

d) *Financial liabilities*

Financial liabilities, other than those 'at fair value through profit or loss', are measured at amortised cost using the effective yield method.

Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Transaction costs on financial instrument at fair value through profit or loss are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as 'fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Statement of Comprehensive Income until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement.

Basis of valuation of Term Finance Certificates (TFC's) / Debt Securities

The Fund's investment in term finance certificates and sukuk certificates are revalued at the year end rates quoted by Mutual Fund Association of Pakistan (MUFAP) in accordance with the circular no.1 dated 6 January 2009. Further Circular no.1 has provided the discretion to the asset management company to apply the mark up/ mark down (within the available limits as prescribed in that circular) to the non- traded debt securities for their valuation. Application of discretionary mark up/ mark down shall be approved by the Investment Committee (with proper written justification) and shall be reported on the same day to the Board of Directors (of AMC), MUFAP, SECP and the Trustees. The decision in relation to application of the discretionary mark up/ mark down shall be ratified by the Board of the AMC in the next meeting. Accordingly, the Fund has valued certain non traded debt securities by applying the discretion which has been approved by the Board.

Basis of valuation of Government Securities

The investment of the Fund in government securities are valued at their fair values (determined by reference to the quotations obtained from the PKRV rate sheet on the Reuters page), based on the remaining tenor of the security.

Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. This objective evidence of impairment is determined in accordance with the provisioning criteria for non-performing debt securities specified by the Securities and Exchange Commission of Pakistan (SECP) vide its Circular no. 1 of 2009 dated 06 January 2009 and the provisioning criteria / policy for non performing exposures approved by the Board of Directors of the management company in accordance with the requirements of SECP communicated vide its Circular no. 13 of 2009 dated 4 May 2009. Amount of impairment is the higher of the amount determined under the above provisioning criteria.

The Fund's policy for provision against impaired debt securities essentially is the same as prescribed by the Securities and Exchange Commission of Pakistan (SECP) in its circular no. 1 of 2009. However, provision in excess of the minimum requirements as prescribed by the SECP can be made by the Investment Committee after considering the objective evidence of impairment.

In respect of the exposures other than those described by the said circular , it shall at minimum follow the time bands as determined by the Board of Directors of the Management Company and as mentioned in the Fund's provisioning policy. Further the Investment Committee may also consider additional provisioning keeping in view the information available of the borrower.

In respect of other financial assets, at each balance sheet date an assessment is carried out to determine whether there is any objective evidence of impairment. The Financial assets are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in the income statement currently.

Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments; Recognition and Measurement.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting of financial instruments

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

3.2 Derivative financial instruments

Derivative instruments that are held by the Fund primarily comprise of futures contracts in the capital market and are classified in held for trading investments, subcategory under investment 'at fair value through profit or loss'. These are measured initially and of each subsequent measurement at their fair values which is calculated as being the net difference between the contract price and the closing price reported on the primary exchange of the futures contract. All derivatives in a net receivables positions (positive fair values) and reported as financial asset held for trading. All derivatives in a net payable position (negative fair values) are reported as financial liabilities held for trading. The resultant gains and losses are included in the income currently. Derivative financial instruments entered into by the Fund do not meet the hedging criteria as defined by International Accounting Standard 39: Financial Instruments; Recognition and Measurement, consequently hedge accounting is not used by the Fund.

3.3 Securities under resale agreements

Transactions of purchase under resale (reverse-repo) of the securities purchased under continuous funding system, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognised in the statement of assets and liabilities. Amounts paid under these agreements are recognised as receivable against continuous funding system. The difference between purchase and resale price is treated as income from continuous funding system and accrued over the life of the agreement.

All Continuous Funding System transactions are accounted for on the settlement date.

3.4 Unit holders' fund

Unit holders' fund representing the units issued by the Fund, is carried at the net assets value representing the investors' right to a residual interest in the Fund's assets.

3.5 Issue and redemption of units

Units issued are recorded at the net assets value, determined by the Management Company for the applications received during business hours on that day. Allotment of units is recorded on acceptance of application and units are issued upon realization of the proceeds in the Fund's bank account.

Units redeemed are recorded at the net assets value, applicable on units for which the management company receives redemption applications during business hours on that day. Redemption of units is recorded on acceptance of application for redemption.

3.6 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 the net element of accrued income / (loss) and realised capital gains / (losses) relating to units issued and redeemed during an accounting period in the income statement.

3.7 Net asset value - per unit

The net asset value per unit disclosed in the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at the year end.

3.8 Taxation

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

The Fund provides for deferred taxation using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax assets on unutilised tax losses to the extent that these will be available for set off against future taxable profits.

However, the Fund intends to continue availing the tax exemption 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. Accordingly, no tax liability or deferred tax has been recognised in these financial statements.

3.9 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- 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.
- Unrealised gains / (losses) arising on the revaluation of derivatives to fair value are taken to the Income Statement in the period in which they arise.
- Income on reverse repurchase transactions, continuous funding system, term finance certificates, clean placements and government securities is recognised on an accrual basis using the effective interest rate method.
- Profit on bank deposit is recognised on time proportion basis taking in to account effective yield.
- Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.10 Expenses

All expenses including management fee, trustee fee and annual fee of SECP are recognised in the Income Statement on an accrual basis.

3.11 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events and 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.

3.12 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from 2 June 2007 as per the Trust Deed of the Fund.

3.13 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and term deposits receipts maturing within three months. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.14 Other assets

Other assets are stated at cost less impairment losses, if any.

3.15 Dividend distributions and appropriations

Dividends declared (including distribution in the form of bonus units) subsequent to the balance sheet date are considered as a non-adjusting event and are recognised in the period in which they are authorised or approved.

FIRST HABIB INCOME FUND

4. BANK BALANCES		2010	2009
		(Rupees in '000)	
In saving accounts	4.1	64,847	85,245
Term deposit receipts (TDRs)	4.2	100,000	550,000
		164,847	635,245

4.1 Savings accounts carry profit rates ranging from 5% to 12.5% (2009: 5% to 12.5%) per annum.

4.2 Term deposit receipts carry profit rates of 12.00% (2009: 12.00% to 13.40%) per annum and will mature on 3 September 2010.

5. INVESTMENTS - at fair value through profit or loss - held for trading

Term Finance Certificates	5.2	250,432	541,635
Provision	5.2.1	(12,719)	(7,253)
		237,713	534,382
Government securities	5.3	1,333,212	493,858
		1,570,925	1,028,240

5.1 Details of deviations from circular no. 7 of 2009 dated 6 March 2009 issued by SECP required vide circular no. 16 dated 7 July 2010 are as follows:

Name of Non-Compliant Investment	Type of Investment	Value of investment before provision	Provision held, if any	Value of investment after provisioning	% of Gross Assets	% of Net Assets
----------------------------------	--------------------	--------------------------------------	------------------------	--	-------------------	-----------------

(Rupees in '000)

Clause v

Non-investment grade debt securities

Saudi Pak Leasing Company	Term Finance Certificate	16,174	-	16,174	0.92%	0.95%
First Dawood Investment Bank Limited	Term Finance Certificate	10,105	-	10,105	0.57%	0.60%
Gharibwal Cement Limited	Term Finance Certificate	16,678	(12,719)	3,959	0.22%	0.23%

Clause vi

Saudi Pak Leasing Company Limited	Certificate of investments	6,000	(2,625)	3,375	0.19%	0.20%
-----------------------------------	----------------------------	-------	---------	-------	--------------	--------------

5.1.1 Unrealised (diminution) / appreciation on investments at fair value through profit or loss

		2010	2009
		(Rupees in '000)	
Term Finance Certificates		(4,664)	(56,532)
Government Securities		(1,066)	46
		(5,730)	(56,486)

5.2 Term Finance Certificates

Name of the investee company	Status	Number of certificates				As at 30 June 2010		Market value as a percentage of net assets	Market value as a percentage of total investments
		As at 1 July 2009	Acquired during the year	Sold during the year	As at 30 June 2010	Carrying value	Market Value		
Term Finance Certificates - Held for trading									
(Rupees in '000)									
Allied Bank Limited	Listed	7,900	-	5,900	2,000	9,728	9,759	0.58	0.62
Askari Bank Limited - I issue	Listed	7,990	-	5,000	2,990	14,516	14,773	0.87	0.94
Askari Bank Limited - II issue	Listed	7,190	-	3,000	4,190	20,176	20,262	1.20	1.29
Askari Bank Limited - III issue	Listed	-	2,000	2,000	-	-	-	-	-
Bank AL Habib Limited - II issue	Listed	9,104	-	9,104	-	-	-	-	-
Bank Alfalah Limited - II issue	Listed	3,140	-	-	3,140	15,403	15,415	0.91	0.98
Engro Corporation Limited PPTFC - I issue	Unlisted	12,000	-	10,000	2,000	8,910	8,924	0.53	0.57
Engro Corporation Limited PPTFC - II issue	Unlisted	6,000	-	2,200	3,800	16,881	17,015	1.00	1.08
First Dawood Investment Bank Limited	Unlisted	2,900	-	-	2,900	11,896	10,105	0.60	0.64
IGI Investment Bank Limited	Listed	5,379	-	-	5,379	9,965	10,017	0.59	0.64
Gharibwal Cement Limited	Unlisted	4,450	-	-	4,450	20,944	16,678	0.98	1.06
Jahangir Siddiqui & Company Limited	Unlisted	9,400	-	9,400	-	-	-	-	-
KASB Securities Limited	Unlisted	5,000	-	5,000	-	-	-	-	-
NIB Bank Limited	Listed	6,600	-	6,600	-	-	-	-	-
Orix Leasing Pakistan Limited	Listed	5,500	-	-	5,500	16,047	18,256	1.08	1.16
Pak American Fertilizers Limited PPTFC - II issue	Unlisted	3,000	-	3,000	-	-	-	-	-
The Royal Bank of Scotland	Listed	3,090	-	-	3,090	11,472	11,481	0.68	0.73
Saudi Pak Leasing Company Limited - III issue	Listed	5,999	-	-	5,999	18,300	16,174	0.95	1.03
Sitara Chemicals Limited	Listed	4,000	-	-	4,000	18,331	18,044	1.06	1.15
Standard Chartered Bank (Pakistan) Limited	Listed	4,548	2,000	2,000	4,548	22,657	22,604	1.33	1.44
United Bank Limited - III issue	Listed	4,400	-	-	4,400	21,411	21,926	1.29	1.40
United Bank Limited - IV issue	Listed	3,000	1,000	-	4,000	18,459	18,999	1.12	1.21
Total as at 30 June 2010						255,096	250,432		
Total as at 30 June 2009						598,167	541,635		

Total as at 30 June 2009

5.2.1 Provision	2010	2009
	(Rupees in '000)	
Opening balance	7,253	-
Provision for the year	5.2.1.1 12,719	7,253
Reversal of provision	5.2.3.3 (7,253)	-
Closing balance	<u>12,719</u>	<u>7,253</u>

5.2.1.1 This represents specific provision made against Gharibwal Cement Limited in accordance with the provisioning policy of the Fund approved by the Board of Directors of the Management Company as mentioned in note 5.2.3.5.

5.2.2 All Term Finance Certificates have a face value of Rs 5,000 each.

5.2.3 Significant terms and conditions of Term Finance Certificates outstanding as at year end:

Name of the investee company	Note	Remaining principal (per TFC) as at 30 June 2010	Start date	Maturity	Credit rating	Mark-up Rate (Per annum)	Secured / Unsecured
Term Finance Certificates - Held for trading							
Allied Bank Limited - I issue		4,993.00	6-Dec-06	6-Dec-14	AA -	6 Month KIBOR + 1.90 %	Un-Secured
Askari Commercial Bank Limited - I issue		4,990.00	4-Feb-05	4-Feb-13	AA -	6 Month KIBOR + 1.50 %	Un-Secured
Askari Commercial Bank Limited - II issue		4,991.00	31-Oct-05	31-Oct-13	AA -	6 Month KIBOR + 1.50 %	Un-Secured
Bank Al-Falah Limited - II issue		4,989.42	23-Nov-04	23-Nov-12	AA -	6 Month KIBOR + 1.50 %	Un-Secured
Engro Corporation Limited PP -TFC - I	5.2.3.1	5,000.00	18-Mar-08	18-Mar-18	AA	6 Month KIBOR + 1.25 %	Secured
Engro Corporation Limited PP -TFC - II	5.2.3.2	5,000.00	18-Mar-08	18-Mar-18	AA	6 Month KIBOR + 1.7 %	Secured
First Dawood Investment Bank Limited PP TFC	5.2.3.3	5,000.00	11-Sep-07	11-Sep-12	CCC	6 Month KIBOR + 1.60 %	Secured
IGI Investment Bank Limited	5.2.3.4	1,874.25	11-Jul-06	11-Jul-11	A +	6 Month KIBOR + 2.25 %	Secured
Gharibwal Cement Limited PP TFC	5.2.3.5	4,996.00	18-Jan-08	18-Jan-13	D	6 Month KIBOR + 3.00 %	Secured
Orix Leasing Pakistan Limited	5.2.3.6	3,330.68	25-May-07	25-May-12	AA +	6 Month KIBOR + 1.50 %	Secured
The Royal Bank of Scotland		3,744.00	10-Feb-05	10-Feb-13	AA -	6 Month KIBOR + 1.90 %	Un-Secured
Saudi Pak Leasing Company Limited - III issue	5.2.3.7	3,748.50	13-Mar-08	13-Mar-13	B	6 Month KIBOR + 1.50 %	Secured
Sitara Chemicals Limited	5.2.3.8	4,583.33	2-Jan-08	2-Jan-13	AA-	3 Month KIBOR + 1.00 %	Secured
Standard Chartered Bank Limited - III issue		4,992.00	1-Feb-06	1-Feb-13	AA	6 Month KIBOR + 2.00 %	Un-Secured
United Bank Limited - III issue		4,993.00	8-Sep-06	8-Sep-14	AA	6 Month KIBOR + 1.70 %	Un-Secured
United Bank Limited - IV issue		4,996.00	14-Feb-08	14-Feb-18	AA	6 Month KIBOR + 0.85 %	Un-Secured

5.2.3.1 These term finance certificates are secured through a ranking charge created to ensure that the investors have a claim on assets of Engro after the claim of the Senior Debt Provider(s) is settled.

5.2.3.2 These term finance certificates are secured through a subordinated floating charge created to ensure the investors have a claim on the present and future fixed assets of Engro after the claim of the Senior Debt Provider(s) is settled.

5.2.3.3 These term finance certificates are secured by First pari passu charge on leased assets and associated rental receivables. The management had made a provision of Rs 7,253 million against the said TFC as at 30 June 2009. However, the said provision has been reversed during the year in line with the requirements of circular no 3 of 2010 dated 20 January 2010 issued by SECP which requires no provision to be maintained against performing securities.

5.2.3.4 The term finance certificate are secured by charge on all present and future movable, fixed assets (excluding land and buildings) and current assets of bank with 25% margin.

5.2.3.5 These term finance certificates are secured by first pari passu charge over all the present and future fixed assets of the company including land, building, plant and machinery with 25% margin.

FIRST HABIB INCOME FUND

These TFCs were classified as non-performing from 2 August 2009 by the Fund as the borrower could not pay the scheduled installments since 18 July 2009. Therefore, a provision of Rs. 12.719 million has been made in accordance with provisioning policy of the Fund and circular 1 of 2009 dated 6 January 2009. As the collateral is held by a number of participants, hence it is impracticable to determine its fair value.

- 5.2.3.6 These term finance certificates are secured by the first exclusive and specific charge, along with a 25% margin over all of the issuer's moveable assets and receivables as per the terms and conditions of the trust deed.
- 5.2.3.7 These term finance certificates are secured by way of first exclusive charge on specific leases including lease, rental and receivables against these leases with 25% margin.
- 5.2.3.8 These term finance certificates are secured by specific and exclusive hypothecation charge in respect of the musharaka assets in favour of the investors to the extent of entire legal ownership rights of the investee. The charge will include 18.22% margin.

5.3 Government Securities

Issue date	Tenor	Face Value				As at 30 June 2010		Market value as percentage of	
		As at 01 July 2009	Purchases during the year	Sold / Matured during the year	As at 30 June 2010	Carrying value	Market value	net assets	total investments
----- (Rupees in '000) -----									
29-Jan-2009	1 Year	-	100,000	100,000	-	-	-	-	-
12-Feb-2009	1 Year	-	300,000	300,000	-	-	-	-	-
12-Mar-2009	1 Year	-	300,000	300,000	-	-	-	-	-
26-Feb-2009	1 Year	-	350,000	350,000	-	-	-	-	-
7-May-2009	1 Year	-	33,000	33,000	-	-	-	-	-
11-Mar-2010	1 Year	-	75,000	-	75,000	69,304	69,112	4.08	4.40
13-Aug-2009	1 Year	-	150,000	-	150,000	147,998	147,940	8.73	9.42
25-Feb-2010	1 Year	-	50,000	-	50,000	46,433	46,276	2.73	2.95
26-Mar-2009	1 Year	-	100,000	100,000	-	-	-	-	-
27-Aug-2009	1 Year	-	100,000	-	100,000	98,238	98,177	5.79	6.25
18-Jun-2009	1 Year	-	150,000	150,000	-	-	-	-	-
9-Apr-2010	1 Year	-	100,000	100,000	-	-	-	-	-
10-Sep-2010	1 Year	-	25,000	-	25,000	24,443	24,432	1.44	1.56
20-May-2010	1 Year	-	50,000	-	50,000	45,214	45,077	2.66	2.87
23-Apr-2009	1 Year	-	50,000	50,000	-	-	-	-	-
29-Jan-2009	6 Months	200,000	-	200,000	-	-	-	-	-
12-Feb-2009	6 Months	250,000	50,000	300,000	-	-	-	-	-
26-Feb-2009	6 Months	-	200,000	200,000	-	-	-	-	-
12-Mar-2009	6 Months	-	200,000	200,000	-	-	-	-	-
26-Mar-2009	6 Months	-	300,000	300,000	-	-	-	-	-
23-Apr-2009	6 Months	-	100,000	100,000	-	-	-	-	-
7-May-2009	6 Months	-	150,000	150,000	-	-	-	-	-
4-Jun-2009	6 Months	-	40,000	40,000	-	-	-	-	-
27-Aug-2009	6 Months	-	100,000	100,000	-	-	-	-	-
10-Sep-2009	6 Months	-	150,000	150,000	-	-	-	-	-
26-Sep-2009	6 Months	-	50,000	50,000	-	-	-	-	-
22-Oct-2009	6 Months	-	25,000	25,000	-	-	-	-	-
3-Dec-2009	6 Months	-	150,000	150,000	-	-	-	-	-
11-Mar-2010	6 Months	-	75,000	-	75,000	73,339	73,295	4.32	4.67
25-Feb-2010	6 Months	-	200,000	-	200,000	196,471	196,355	11.58	12.50
3-Jun-2010	6 Months	-	50,000	-	50,000	47,575	47,541	2.80	3.03
11-Feb-2010	6 Months	-	100,000	-	100,000	98,665	98,627	5.82	6.28
17-Jun-2010	6 Months	-	75,000	-	75,000	71,005	70,994	4.19	4.52
6-May-2010	6 Months	-	175,000	-	175,000	168,057	167,894	9.90	10.69
7-May-2009	3 Months	50,000	-	50,000	-	-	-	-	-
27-Aug-2009	3 Months	-	50,000	50,000	-	-	-	-	-
10-Sep-2009	3 Months	-	127,000	127,000	-	-	-	-	-
26-Sep-2009	3 Months	-	134,000	134,000	-	-	-	-	-
8-Oct-2009	3 Months	-	200,000	200,000	-	-	-	-	-
22-Oct-2009	3 Months	-	50,000	50,000	-	-	-	-	-
19-Nov-2009	3 Months	-	50,000	50,000	-	-	-	-	-
11-Feb-2010	3 Months	-	200,000	200,000	-	-	-	-	-
11-Mar-2010	3 Months	-	50,000	50,000	-	-	-	-	-
25-Feb-2010	3 Months	-	100,000	100,000	-	-	-	-	-
25-Mar-2010	3 Months	-	50,000	50,000	-	-	-	-	-
3-Jun-2010	3 Months	-	50,000	-	50,000	49,103	49,088	2.90	3.12
8-Apr-2010	3 Months	-	150,000	150,000	-	-	-	-	-
22-Apr-2010	3 Months	-	50,000	-	50,000	49,773	49,773	2.94	3.17
6-May-2010	3 Months	-	150,000	-	150,000	148,660	148,631	8.77	9.46
Total as at 30 June 2010						1,334,278	1,333,212		
Total as at 30 June 2009						493,812	493,858		

FIRST HABIB INCOME FUND

6. CERTIFICATE OF INVESTMENTS		2010	2009
		(Rupees in '000)	
Saudi Pak Leasing Company Limited	6.1	6,000	25,000
Provision	6.2	(2,625)	-
		<u>3,375</u>	<u>25,000</u>

6.1 This carries profit rate of 9.5% (30 June 2009: 15.24%) per annum and will mature on 26 September 2010.

6.2 The Certificate of Investments was due to mature during last year. However, due to financial constraints, Saudi Pak Leasing Company Limited ("SPLC") agreed with the management of the Fund to pay the outstanding balance in installments. Considering the financial difficulties being faced by SPLC, the management decided to make a provision of Rs. 2.625 million in accordance with the provisioning policy of the Fund approved by the Board of Directors of the Management Company. Subsequent to the year end, SPLC has paid Rs. 4.9 million as final settlement and remaining amount has been written off.

7. INCOME RECEIVABLE

Profit accrued on Term Finance Certificates		9,853	27,587
Profit receivable on Bank Deposits		10,268	13,965
Profit accrued on Certificate of Investments and Deposits		-	564
		<u>20,121</u>	<u>42,116</u>

8. ADVANCES, DEPOSITS AND OTHER RECEIVABLES

Deposit with National Clearing Company of Pakistan Limited	8.1	2,500	2,500
Deposit with Central Depository Company of Pakistan Limited	8.1	100	100
Others		-	6
		<u>2,600</u>	<u>2,606</u>

8.1 These deposits are non remunerative.

9. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs		1,529	2,053
Less: Amortisation during the year	9.1	(524)	(524)
		<u>1,005</u>	<u>1,529</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 2 June 2007.

10. SHORT TERM RUNNING FINANCE

The Fund has obtained running finance facility under mark-up arrangement from Bank AL Habib Limited (a related party) amounting to Rs. 200 million (2009: 200 million). This facility carries mark-up at the rate of 3 months KIBOR plus 1.25% (2009: 3 months KIBOR plus 1.25%). This arrangement is secured by way of lien/pledge over Term Finance Certificates, Term Deposits Receipts Certificates of Investment and Deposits, and Government Securities. However, the facility remained unavailed at year end.

11. PAYABLE TO HABIB ASSET MANAGEMENT LIMITED – MANAGEMENT COMPANY

Under the provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Company and Notified Entities Regulation 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 net 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 year in accordance with the Trust Deed.

FIRST HABIB INCOME FUND

12. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE		2010	2009
		(Rupees in '000)	
Trustee fee	12.1	231	231
CDS charges		1	1
		<u>232</u>	<u>232</u>

12.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed at the rate of Rs. 2 million plus 0.1% per annum of the net assets value exceeding Rs. 1 billion, based on the daily average net assets value of the Fund.

13. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

This represents annual fee payable to Securities and Exchange Commission of Pakistan (SECP) in accordance with the rule 62 of the NBFC Regulations 2008, whereby the Fund is required to pay SECP an amount at the rate of 0.075% of the average daily net assets of the Fund.

14. WORKERS' WELFARE FUND

The Finance Act, 2008 brought an amendment in section 2 (f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) with the intention to make the definition of "Industrial Establishment" applicable to any establishment to which the West Pakistan Shop and Establishment Ordinance, 1969 (1969 Ordinance) applies. As a result of this amendment, the WWF Ordinance has apparently become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs.0.5 million in a tax year, thus rendering them liable to pay two percent of their total income to Workers Welfare Fund (as defined in section 4 of the WWF Ordinance). The Mutual Fund Association of Pakistan (MUFAP) had filed a constitutional petition before High Court of Sindh in this regard.

On 25 May 2010, the Honourable High Court of Sindh dismissed the petition on the main ground that the MUFAP (petitioner) cannot be held to be entitled to maintain a petition in respect of its member as MUFAP is not aggrieved party in respect of its members and held that the Workers' Welfare Fund Ordinance, 1971 is applicable to the establishment of the petitioner. Consequently, certain representative CISs through their trustees filed a separate petition before Honourable High Court on individual basis on 30 June 2010, which is pending adjudication.

Subsequent to the year ended 30 June 2010, the Ministry of Labour and Manpower, Workers' Welfare Fund, in response to MUFAP's letter dated 31 May 2010 advised that WWF is not applicable on CISs. However, due to differing legal opinions, pending adjudication of the petition filed by the CISs and as a matter of prudence and abundant caution the management company has made provision for Workers Welfare Fund of Rs. 5.941 million in the financial statements for the year ended 30 June 2010.

15. ACCRUED EXPENSES AND OTHER LIABILITIES		2010	2009
		(Rupees in '000)	
Auditors' remuneration		285	251
Brokerage		34	26
Credit rating fee		-	200
Others		605	777
		<u>924</u>	<u>1,254</u>

16. CLASS OF UNITS IN ISSUE

The Fund has three classes of units as per the Trust Deed. Class 'A' units pertain to core investors. Such units are redeemable after two years of issue. Class 'B' and 'C' units are issued and redeemed in the usual course of business on a daily basis. Class 'C' units only rank for cash dividend.

Units in issue as at June 30 in each class are:

	(Number of Units)	
Type 'A' Units	788,892	1,050,979
Type 'B' Units	7,141,324	5,326,091
Type 'C' Units	8,605,860	10,575,098
	16,536,076	16,952,168

17. PROFIT ON BANK DEPOSITS

	(Rupees in '000)	
Income on saving accounts	8,659	11,654
Income on term deposit receipts	37,246	61,050
	45,905	72,704

18. AUDITORS' REMUNERATION

Annual audit fee	210	188
Half yearly review fee	50	50
Fee for review of statement of compliance with the best practices of Code of Corporate Governance	25	25
Fee for Audit of the Statement of Net Incomes and Gains	20	15
Out of pocket expenses	42	33
	347	311

19. EARNINGS PER UNIT

Earnings per unit (EPU) for the year ended 30 June 2010 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

20. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Habib Asset Management Limited being the Management Company, associated companies of the Management Company, First Habib Stock Fund being the Fund managed by common Management Company, Central Depository Company of Pakistan Limited being the trustee of the Fund and all other concerns that fall under common management or control.

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

Remuneration to management company and trustee is determined in accordance with the provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Company and Notified Entities Regulation 2008 and the Trust Deed respectively.

FIRST HABIB INCOME FUND

Details of the transactions with connected persons and balances with then at year end are as follows:

Units sold to:	2010		2009	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Management Company				
Habib Asset Management Limited	173,794	17,640	957,012	96,497
Associated Companies				
- Habib Insurance Company Limited	5,945,772	607,500	2,515,086	253,000
- AL Habib Capital Market (Pvt) Limited	245,266	25,000	-	-
Other related parties:				
- Directors and executives of the Management Company	8,602	875	58,810	5,881
- Habib Asset Management Limited - Employees Provident Fund	1,663	169	2,936	300
- Mr. Imran Ali Habib	2,927	300	2,741	280
- Mr. Murtaza Habib	2,927	300	2,938	300
- Mr. Asghar D. Habib	2,927	300	2,937	300
- Mr. Qumail Habib	2,927	300	2,937	300
- Mr. Abbas D. Habib	2,927	300	2,937	300
- Mr. Ali Asad Habib	2,927	300	2,937	300
- Mrs. Razia Ali Habib	-	-	5,398	550
Bonus Units Issued:				
Management Company				
Habib Asset Management Limited	75,560	7,578	41,070	4,132
Associated Companies				
- Habib Insurance Company Limited	76,594	7,680	47,857	4,812
- AL Habib Capital Market (Pvt) Limited	12,999	1,304	-	-
- Trakker Direct Insurance Limited	-	-	3,355	337
Other related parties				
- Directors and executives of the Management Company	2,618	262	1,005	102
- Habib Sugar Mills Limited - Staff Provident Fund	11,244	1,128	8,972	901
- Habib Sugar Mills Limited - Employees Gratuity Fund	11,244	1,128	8,972	901
- Hyderi Hostel Trust	1,622	163	3,817	383
- Habib Insurance Company Limited Employees Provident Fund	5,286	516	3,217	324
- Habib Asset Management Limited - Employees Provident Fund	391	40	146	14
- Mrs. Shama Sajjad Habib	11,801	1,314	7,183	721
- Mr. Salman Hussain D Habib	125	13	76	8
- Mr. Imran Ali Habib	559	56	170	17
- Mr. Murtaza Habib	618	62	194	19
- Mr. Asghar D. Habib	618	63	194	19
- Mr. Qumail Habib	618	62	194	194
- Mr. Abas D. Habib	618	62	194	194
- Mr. Ali Asad Habib	527	53	139	14
- Mrs. Razia Ali Habib	559	56	93	9
- Central Depository Company of Pakistan Limited	-	-	5,209	521

FIRST HABIB INCOME FUND

	2010		2009	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<u>Units redeemed by:</u>				
<i>Management Company</i>				
Habib Asset Management Limited	393,311	40,050	243,666	24,197
<i>Associated Companies</i>				
- Habib Insurance Company Limited	6,992,447	713,791	2,039,894	205,000
- Trakker Direct Insurance Limited	-	-	54,105	5,523
Other related parties				
- Directors and executives of the Management Company	13,214	1,342	38,387	3,774
- Hyderi Hostel Trust	42,943	4,373	22,224	2,275
- Habib Sugar Mills Limited - Staff Provident Fund	155,961	15,928	-	-
- Habib Sugar Mills Limited - Employees Gratuity Fund	155,961	15,928	-	-
- Habib Asset Management Limited -Employees Provident Fund	1,473	150	1,737	175
- Central Depository Company of Pakistan Limited	-	-	113,804	11,491
Units held by:				
<i>Management Company</i>				
Habib Asset Management Limited	761,200	78,046	905,158	92,462
<i>Associated Companies</i>				
- Bank AL Habib Limited	7,224,291	740,707	7,224,291	737,961
- Habib Insurance Company Limited	-	-	970,082	99,094
- AL Habib Capital Market (Pvt) Limited	258,265	26,480	-	-
Other related parties				
- Directors and executives of the Management Company	24,308	2,491	26,301	2,509
- Habib Sugar Mills Limited - Staff Provident Fund	-	-	144,716	14,783
- Habib Sugar Mills Limited - Employees Gratuity Fund	-	-	144,716	14,783
- Hyderi Hostel Trust	-	-	41,321	4,221
- Habib Insurance Company Limited Employees Provident Fund	57,180	5,863	51,893	5,300
- Habib Asset Management Limited - Employees Provident Fund	3,911	409	3,410	348
- Mrs. Shama Sajjad Habib	127,648	13,088	115,846	11,834
- Mr. Salman Hussain D Habib	1,357	139	1,231	126
- Mr. Imran Ali Habib	8,971	920	5,485	560
- Mr. Murtaza Habib	9,613	986	6,068	620
- Mr. Asghar D Habib	9,612	986	6,067	620
- Mr. Qumail Habib	9,607	985	6,062	619
- Mr. Abas D Habib	9,607	985	6,062	519
- Mr. Ali Asad Habib	8,631	885	5,177	529
- Mrs. Razia Ali Habib	6,051	620	5,491	561
- Central Depository Company of Pakistan Limited	-	-	-	-

FIRST HABIB INCOME FUND

Other transactions and balances	2010	2009
	(Rupees in '000)	
<i>Habib Asset Management Limited - Management Company</i>		
<u>Management fee</u>		
Balance as at 1 July	71	2,443
Management fee for the year	28,152	26,242
Paid during the year	<u>(25,986)</u>	<u>(28,614)</u>
Balance as at 30 June	<u>2,237</u>	<u>71</u>
<i>Central Depository Company of Pakistan Limited - Trustee</i>		
Balance as at 1 July	232	268
Remuneration for the year	<u>2,877</u>	<u>2,749</u>
CDS charges for the year	<u>6</u>	<u>83</u>
	2,883	2,832
Paid during the year	<u>(2,883)</u>	<u>(2,868)</u>
Balance as at 30 June	<u>232</u>	<u>232</u>
Security deposit - Non interest bearing	<u>100</u>	<u>100</u>

21. RISK MANAGEMENT

The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund invests in a diversified portfolio of term finance certificates, government securities, corporate debt securities, certificates of investments, term deposit receipts, continuous funding system and other money market instruments (including the clean placements). Such investments are subject to varying degrees of risk. The Fund has exposure to following risks:

21.1 Credit risk

Credit risk is the risk that counter party to a financial instrument will fail to discharge its obligation or commitment that it has entered into with the Fund, resulting in financial loss to the Fund. The risk is generally limited to principal amounts and accrued interest thereon, if any. The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee, its Trust Deed and the requirements of NBFC rules and regulations.

Management of credit risk

Credit risk is managed and controlled by the management company of the Fund in the following manner:

- Where the investment committee makes an investment decision, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.
- Investment transactions are carried out with a large number of brokers, whose credit rating is taken into account so as to minimise the risk of default and transactions are settled or paid for only upon delivery.
- The risk of counterparty exposure due to failed trades causing a loss to the Fund is mitigated by a periodic review of trade reports, credit ratings and financial statements on a regular basis. In addition, the investment Committee approves the trading of securities of entities with credit ratings approved by external rating agencies.

Exposure to credit risk

In summary, compared to the maximum amount included in statement of assets and liabilities, the maximum exposure to credit risk as at 30 June 2010 is as follows:

	30 June 2010		30 June 2009	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
------(Rupees in '000)-----				
Bank balances	164,847	164,847	635,245	635,245
Investments	1,570,925	237,713	1,028,240	534,382
Certificate of investments and deposits	3,375	3,375	25,000	25,000
Income receivable	20,121	20,121	42,116	42,116
Advances, deposits, and other receivables	2,600	2,600	2,606	2,606
	1,761,868	428,656	1,733,207	1,239,349

Differences in the balances as per the statement of assets & liabilities and maximum exposures in investments were due to the fact that investments of Rs. 1,333.212 million (2009: Rs. 493.858 million) relates to investments in Government securities which are not considered to carry credit risk.

Credit ratings and Collaterals

Credit risk arising on debt securities is mitigated by investing primarily in investment-grade rated instruments published by MUFAP (and as determined by Pakistan Credit Rating Agency or (JCR-VIS). Details of the credit ratings of investment in debt securities (including profit receivable) as at 30 June 2010 are as follows:

Ratings	2010	2009
AA+	7.48%	12.48%
AA	37.94%	25.56%
AA-	37.41%	44.34%
A+	4.33%	8.84%
Non investment grade	12.84%	8.78%
	100%	100%

Details of securities against investments in debt securities are mentioned in note 5.2.3.

Details of the credit ratings of placements with the financial institutions as at 30 June 2010 are as follows:

Ratings	2010	2009
B	100%	-
BBB-	-	100%

Details of the credit ratings of balances with the banks (including profit receivable) as at 30 June 2010 are as follows:

Ratings	2010	2009
AA+	99.97%	37.48%
AA	0.01%	54.49%
AA-	0.01%	8.03%
A	0.01%	-
	100%	100.00%

Cash is held only with reputable banks with high quality external credit enhancements.

FIRST HABIB INCOME FUND

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Around 75.67% of the Funds financial assets are in Government Securities which are not exposed to credit risk while the remaining portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

As at the reporting date, the Fund's total credit risk was concentrated in the following industrial / economic sectors:

	2010	2009
	%	%
Banks	74.14%	75.56%
Financial services	14.23%	13.18%
Chemicals	10.73%	8.36%
Cement	0.93%	1.75%
Others	-	1.15%
	100%	100%

Past due and impaired assets

None of the financial assets of the Fund are past due / impaired except as disclosed in notes 5.2.3.5 and 6.2 to these financial statements. Movement in provision against impaired debts is given in the note 5.2.1 and note 6.

21.2 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligation will have to be settled in a manner disadvantageous to the Fund.

The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

Management of Liquidity Risk

The Fund's policy is to manage this risk by investing majority of its assets in investments that are traded in an active market and can be readily disposed. The Fund invests primarily in marketable securities and other financial instruments, which under normal market conditions are readily convertible to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of total assets at the time of borrowing with repayment within 90 days of such borrowings. No such borrowings have arisen during the year.

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 redemptions during the year.

Maturity analysis of financial liabilities

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.

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

	30 June 2010				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	One to three months	Three months to one year
Non-derivative financial liabilities	----- (Rupees in '000) -----				
Payable to Habib Asset Management Limited - Management Company	2,237	2,237	2,237	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	232	232	232	-	-
Payable to Securities and Exchange Commission of Pakistan	1,408	1,408	-	1,408	-
Payable against redemption of units	56,668	56,668	56,668	-	-
Accrued expenses and other liabilities	924	924	639	285	-
	<u>61,469</u>	<u>61,469</u>	<u>59,776</u>	<u>1,693</u>	<u>-</u>

	30 June 2009				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	One to three months	Three months to one year
Non-derivative financial liabilities	----- (Rupees in '000) -----				
Payable to Habib Asset Management Limited - Management Company	71	71	71	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	232	232	232	-	-
Payable to Securities and Exchange Commission of Pakistan	1,499	1,499	-	1,499	-
Accrued expenses and other liabilities	1,254	1,254	1,003	251	-
	<u>3,056</u>	<u>3,056</u>	<u>1,306</u>	<u>1,750</u>	<u>-</u>

21.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Management of market risks

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee of Management Company and regulations laid down by the Securities and Exchange Commission of Pakistan (SECP).

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk. Fund is exposed to interest rate risk only.

FIRST HABIB INCOME FUND

21.3.1 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. Majority of the interest rate exposure arises on investment in Government Securities, Term Finance Certificates, Term Deposit Receipts, Certificate of Investments and Deposits, clean placements and profit and loss sharing bank balances. The Fund carries a mix of fixed and floating rate financial instruments. Currently the exposure in fixed rate instruments is in Government securities, Term Deposit Receipts, Certificate of Investments and Deposits and profit and loss sharing bank balances. To enhance the earning potential of the Fund, the Fund invests in variable rate instruments as most of the instruments currently available are indexed to KIBOR. The Fund monitors the interest rate environment on a regular basis and alters the portfolio mix of fixed and floating rate securities. Other risk management procedures are the same as those mentioned in the credit risk management.

At 30 June 2010, details of the interest rate profile of the Fund's interest bearing financial instruments were as follows:

	2010	2009
	(Rupees in '000)	
Fixed rate instruments		
Financial assets	<u>1,436,587</u>	<u>1,068,858</u>
Variable rate instruments		
Financial assets	<u>302,560</u>	<u>619,627</u>

None of the financial liabilities carry any interest rate risk. As at 30 June 2010, the investment in term finance certificates exposed to interest rate risk is detailed in Note 5.2. Term deposit receipts and Certificate of investments and deposits are not subject to cash flow and fair value interest rate risk.

a) Sensitivity analysis for variable rate instruments

In case of 100 basis points increase / decrease in KIBOR on June 30, 2010, the net assets of the Fund would have been lower/ higher by Rs 1.867 million (2009: 0.42 million) with consequential effect on net income for the year. The analysis assumes that all other variables remain constant.

b) Sensitivity analysis for fixed rate instruments As at 30 June 2010, investment in Government Securities carries fixed interest rate that exposes the Fund to fair value interest rate risk. In case of 100 basis points increase / decrease in PKRV on 30 June 2010, the net assets of the Fund would have been lower/ higher by Rs.3.27 million (2009: 0.48) with consequential effect on net income for the year. The analysis assumes that all other variables remain constant.

The composition of the Fund's investment portfolio, KIBOR rates and yield matrix calculated by MUFAP is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2010 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates.

A summary of the Fund's interest rate gap position, categorised by the earlier of contractual re-pricing or maturity date, is as follows:

30 June 2010	Less than one month	One to three months	Three months to one year	More than one year	Total
	(Rupees in '000)				
Assets					
Bank balances	64,847	100,000	-	-	164,847
Investments	230,424	829,915	510,586	-	1,570,925
Certificate of investments and deposits	-	-	3,375	-	3,375
Total assets	<u>295,271</u>	<u>929,915</u>	<u>513,961</u>	<u>-</u>	<u>1,739,147</u>

FIRST HABIB INCOME FUND

30 June 2010	Less than one month	One to three months	Three months to one year	More than one year	Total
	----- (Rupees in '000) -----				
Liabilities					
<i>There are no interest bearing liabilities</i>					
Total interest sensitivity gap	295,271	929,915	513,961	-	1,739,147
30 June 2009	Less than one month	One to three months	Three months to one year	More than one year	Total
	----- (Rupees in '000) -----				
Assets					
Bank balances	385,245	250,000	-	-	635,245
Investments	310,059	559,535	158,646		1,028,240
Certificate of investments and deposits		25,000	-	-	25,000
Total assets	695,304	834,535	158,646	-	1,688,485
Liabilities					
<i>There are no Interest bearing liabilities</i>					
Total interest sensitivity gap	695,304	834,535	158,646	-	1,688,485

21.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Fund's activities.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the board of directors. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- contingency plans
- ethical and business standards
- risk mitigation, including insurance where this is effective.

FIRST HABIB INCOME FUND

21.5 Unit Holders' Fund risk management

Management's objective when managing unit holders' funds is to safe guard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Management Company manages Fund's investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The unit holders' funds structure depends on the issuance and redemption of units.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund's accounting policy on fair value measurements is discussed in note 3.1 .

Fair Value Hierarchy

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised as at 30 June 2010.

	Level 1	Level 2	Level 3	Total
	------(Rupees)-----			
Term finance certificates and sukuk certificates	-	27,923	209,790	237,713
Government securities	-	1,333,212	-	1,333,212
	<u>-</u>	<u>1,361,135</u>	<u>209,790</u>	<u>1,570,925</u>

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

	30 June 2010 (Rupees)
Balance as at 01 July 2009	475,043
Amortisation of discount / premium for the year - net	12,549
Revaluation gain / (loss) for the year	(5,218)
Purchase during the year (at cost)	20,177
Redemption during the period	(28,983)
Sale during the year	(258,312)
Provision made during the year	(5,466)
Balance as at 30 June 2010	<u><u>209,790</u></u>

23. PATTERN OF UNIT HOLDING

Unit holding pattern of the fund as at 30 June 2010 is as follows:

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		239	1,192,840	122,303	7.21
Associated companies	23.1	2	8,243,757	845,242	49.85
Chief executive	23.2	1	20,533	2,105	0.12
Executives		2	3,775	387	0.02
Bank / financial institutions		7	1,383,614	141,864	8.37
Insurance companies		4	1,132,855	116,153	6.85
Non banking finance companies		3	2,231,289	228,777	13.49
Retirement funds		11	506,946	51,978	3.07
Mutual Funds		2	3,200	328	0.02
Public limited companies		2	1,301,076	133,401	7.87
Others		9	516,191	52,926	3.12
		282	16,536,076	1,695,463	100

Unit holding pattern of the Fund as at 30 June 2009 was as follows:

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		244	1,084,509	110,784	6.40
Associated companies	23.1	2	8,199,958	837,633	48.37
Chief Executive	23.2	1	21,778	2,225	0.13
Executives		3	4,523	462	0.03
Bank / financial institutions		6	3,092,403	315,892	18.24
Insurance companies		3	587,909	60,055	3.47
Non banking finance companies		1	905,158	92,463	5.34
Retirement funds		13	662,386	67,663	3.91
Mutual Funds		1	253,750	25,921	1.50
Public limited companies		1	494,691	50,533	2.92
Others		11	1,645,103	168,049	9.70
		286	16,952,168	1,731,680	100

23.1 Associated companies

	30 June 2010			30 June 2009		
	Number of units	Investment amount (Rupees in '000)	Percentage of total investment	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Habib Asset Management Limited	258,266	26,480	1.56	7,224,291	737,968	42.61
Habib Insurance Company Limited	-	-	-	975,667	99,665	5.76
Bank AL Habib Limited	7,224,291	740,715	43.69	-	-	-
AL Habib Capital Market (Pvt) Ltd	761,200	78,047	4.60	-	-	-
	8,243,757	845,242	49.85	8,199,958	837,633	48.37

23.2 Chief executive

Imran Azim	20,533	2,105	0.12	21,778	2,225	0.13
------------	--------	-------	------	--------	-------	------

FIRST HABIB INCOME FUND

24. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker name	2010 (Percentage)	2009
Atlas Capital Markets	4.93%	5.38%
JS Global Securities	11.29%	19.98%
Al Falah Securities	2.94%	-
BMA Capital	32.14%	14.96%
Global Securities Pakistan Limited	20.75%	21.53%
IGI Finex Securities Limited	0.16%	13.72%
Atlas Capital Markets Lahore	-	18.93%
Escort Investment Bank	-	0.92%
Al Falah Securities	-	2.67%
Elixir Securities Pakistan (Private) Limited	3.33%	0.78%
Invisor Securities (Private) Limited	0.16%	0.64%
KASB Securities Limited	19.03%	-
Invest Capital and Securities (Private) Limited	5.27%	-
First Capital Securities Corporation Limited	-	0.49%
	100.00%	100.00%

25. INVESTMENT COMMITTEE

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

Name	Designation	Qualification	Experience in years
Ali Raza D. Habib	Chairman	Graduate	54 Years
Imran Azim	Chief Executive Officer	BA, MBA	33 Years
Mr. Mansoor Ali	Director	MBA	25 Years

25.1 Other Funds managed by the Fund Manager

First Habib Stock fund is being managed by the fund manager.

26. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 27th, 28th, 29th, 30th and 31st board meetings were held on 4 July 2009, 8 October 2009, 4 January 2010, 26 February 2010 and 5 April 2010 respectively.

Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave	
Ali Raza D. Habib	5	4	1	27th meeting
Imran Azim	5	5	-	-
Shariq Abdullah *	2	2	-	-
Mansoor Ali	5	5	-	-
Mohammad Ali Jameel	5	4	1	30th meeting

* Mr. Shariq Abdullah did not opt to contest at the election of directors held on October 30, 2009.

27. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors have approved final cash dividend for class 'C' unit holders @ Rs. 2.50 per unit and bonus units @ 2.4993 for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2010, amounting to Rs. 41.34 million, in their meeting held on 05 July 2010. These financial statements do not reflect this distribution.

28. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 27, 2010.

**For Habib Asset Management Limited
(Management Company)**

Chief Executive

Director

**ANNUAL FUND MANAGER REPORT
FINANCIAL YEAR (FY) 2010**

Fund Type/category	Open end–Income Fund
Launch Date	June 2, 2007
Benchmark	1 month KIBOR
Net Assets	Rs. 1.7 billion (June 30, 2010)
Net Assets Value	Rs. 102.53 per unit (June 30, 2010)
Pricing Mechanism	Forward Pricing
Management Fee	1.50% p.a.
Sales Load	Front end (NIL), Back End (0.50%) for redemption within 15 days.
Minimum Subscription	Rs. 5,000/- subsequently Rs. 1,000/- per transaction
Dealing days / time	Monday – Friday/9:00 am to 4:30 pm
AMC Rating	"AM3-" by PACRA
Fund Stability Rating	"AA- (f)" by PACRA

Fund Objective

FHIF is an open-ended income fund. The objective of First Habib Income Fund is to achieve the best possible rate of return in comparison to the other available investment avenues by maintaining diversified investment portfolio with easy entry and exit for investors

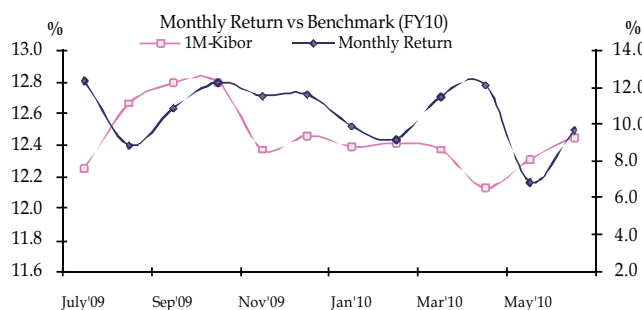
KEY MARKET STATISTICS					
Description	Close 09	Close 10	Change	High	Low
Discount Rate (%)	14.00	12.50	1.50	14.00	12.50
1M-KIBOR(%)	13.26	12.45	-0.81	12.80	12.13
6M-KIBOR(%)	12.76	12.37	-0.39	12.84	12.33
3M-TBill-Cut off yield	12.98	12.10	-0.88	12.51	11.41
6M-TBill-Cut off yield	12.44	12.30	-0.14	12.77	11.51
1Y-TBill-Cut off yield	12.24	12.42	0.18	12.60	11.53
3M-PKRV	12.45	12.13	-0.32	12.37	11.80
6M-PKRV	12.23	12.26	0.03	12.50	11.80
1Y-PKRV	12.15	12.38	0.23	12.55	11.83
PKRs/USD	80.95	85.61	4.66	85.50	80.40

Market Review

The decline in money market rates continued as SBP revised the discount rate to 13.0% on August 17, 2009 from 14.0% as on June 30, 2009 and further revised to 12.5% on November 25, 2009. On money market front, Treasury bill rates witnessed declining trend as well and the highest level of cut-off yield was 12.77% (in 6M-T-Bill) in FY 10, whereas, 14.28% (in 1Y-T-Bill) in FY 09. Cut off yields of 3, 6 and 12 months were 12.10%, 12.30% and 12.42% respectively in FY 10 as compare to 12.98%, 12.44% and 12.24% respectively in FY 09. KIBOR rates also declined with 1-month KIBOR touched peak level 12.80% (14.90% in FY 09) and lowest level of 12.13% in FY 10 (10.97% in FY 09), while 6-months KIBOR rates peaked at 12.84% (15.76% in FY 09) and lowest at 12.33% in FY 10 (12.43% in FY 09). Subsequent to year end, government budgetary borrowings from the Central Bank reported to have shot up to nearly Rs. 170 billion in August 2010, therefore, SBP tightened its policy again and revised the discount rate upward to 13% on August 2, 2010, owing to increased inflationary pressures and expansionary fiscal position. In its recently announced monetary policy for the next two months (Oct'10-Nov'10), discount rate witnessed another hike of 50bps to 13.5%.

First Habib Income Fund ended FY10 on healthy note by generating a return of 10.22% p.a. for the full year which was well above the industry's average return of the peer group in the market.

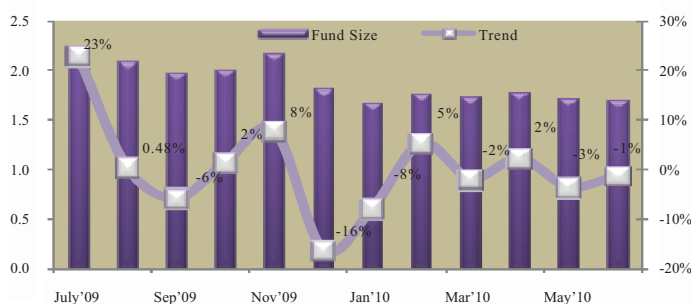
Fund Performance Review



Unlike FY 09, this year was much better for the mutual Fund Industry as far as returns of the funds were concerned, but still valuation of the Debt Instruments remained a cause of concern for Fund Managers as well as for investors.

The introduction of Bond Automated Terminal System in October 2009, through which the debt instruments are traded electronically, also failed to generate volume which is the essence in deriving the true valuation of TFCs. Considering all the factors, FHIF took a major step to change its portfolio mix by decreasing its exposure in TFCs and TDR from 31% and 32% respectively on June 30, 2009 to 13% and 5% respectively on June 30, 2010. The Fund opted to invest the major portion in Treasury Bills (T-Bills) during the year and increased its exposure from 29% on June 30, 2009 to 75% on June 30, 2010. T-Bills provide decent returns along with liquidity i.e. in case fund manager gets any other good opportunity to invest, he can easily exit.

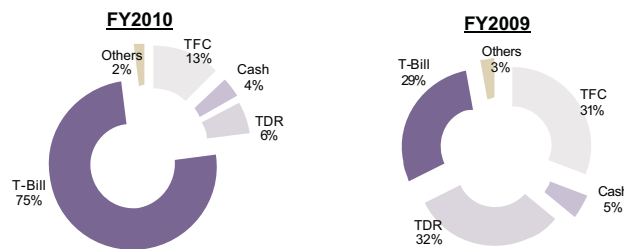
Fund Size



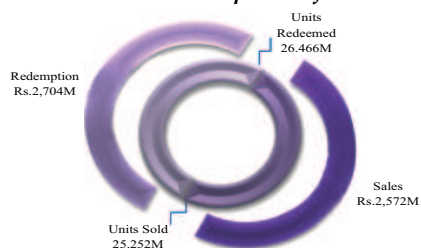
Net asset of the FHIF stood at Rs. 1.7bn at the end of FY 10 in comparison to net assets of Rs.1.73bn for FY 09. On MOM basis, the fund size reached its peak level of Rs.2.17bn in November 2009, while the fund size touched it's lowest of Rs.1.54bn in Jan 2010.

Note: Trend represents m-o-m growth in fund size

Asset Allocation



Sales and Redemption of units



During the period under review, FHIF sales value witnessed an increase of 82% over the last year while redemptions were 65% more than the corresponding period of last year.

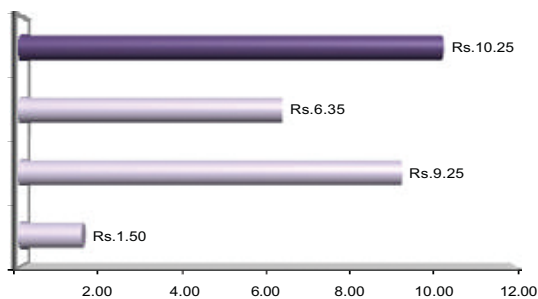
FIRST HABIB INCOME FUND

Unit Holders Pattern

Breakdown of Unit holding by size as on June 30, 2010 is as follows:

Category	No. of Unit Holders	No. of Units	% of total Units
Individuals	239	1,192,840	7.21
Associated companies/ Directors/ Executive	5	8,268,065	49.99
Bank/ Financial Institution	7	1,383,614	8.37
Insurance Companies	4	1,132,855	6.85
NBFCs	3	2,231,289	13.49
Retirement funds	11	506,946	3.07
Others	13	1,820,467	11.02
Total	282	16,536,076	100

Income Distribution



Fund earned net income of Rs.179.75mn during the FY 10. The detail of dividend distribution during the year 2010 is as follows;

First Interim	Second Interim	Third Interim	Final	Total Dividend
2.50	3.00	2.25	2.50	10.25

Non Compliant Investments

Non compliant investments as on June 30, 2010 are disclosed as per SECP circular no. 16, dated July 07, 2010.

Name	Type of Investment	Value of Inv. before provision	Provision held	Value of inv. after provision	% of net assets	% of gross assets
.....Figures in Rupees.....						
Gharibwal Cement	PPTFC	16,678,600	12,719,401	3,959,199	0.23	0.22
Saudi Pak Leasing Co. Ltd	COI	6,000,000	2,625,000	3,375,000	0.20	0.19
Saudi Pak Leasing Co. Ltd*	TFC	16,174,225	-	16,174,225	0.95	0.92
First Dawood Inv. Bank*	TFC	10,104,992	-	10,104,992	0.60	0.57

*Due to change in ratings

FHIF PERFORMANCE AT A GLANCE

	FY-10	FY-09	FY-08
Net Assets Value June 30, (Rs. in Millions)	1,695	1,732	1,907
NAV per unit June 30, (Rs)	102.53	102.15	102.33
Highest NAV	103.31	102.9	107.14
Lowest NAV	100.11	95.02	100.15

DIVIDEND DISTRIBUTION

	FY-10	FY-09	FY-08
First Interim	Rs. 2.5/2.49 Bonus Units	Rs. 2.5/2.49 Bonus Units	-
Ex.Dividend NAV(Rs)	100.27	100.3	-
second Interim	Rs. 3.0/2.98 Bonus Units	Rs. 1.75/1.73 Bonus Units	Rs. 7.0/6.99 Bonus Units
Ex.Dividend NAV(Rs)	100.31	101.15	100.14
Third Interim	Rs. 2.25/2.24 Bonus Units	-	-
Ex.Dividend NAV(Rs)	100.11	-	-
Final Dividend	Rs. 2.5/2.49 Bonus Units	Rs. 2.1/2.09 Bonus Units	Rs. 2.25/2.248 Bonus Units
Ex.Dividend NAV(Rs)	100.03	100.05	100.08
Total Distribution (Rs)	10.25	6.35	9.25
Annual Return	10.22%	6.31%	9.12%

FIRST HABIB STOCK FUND

Annual Report

For the period from 10 October 2009
to 30 June, 2010

FUND'S INFORMATION

Management Company

Habib Asset Management Limited

Board of Directors of the Management Company

Mr. Ali Raza D. Habib	Chairman
Mr. Imran Azim	Chief Executive
Mr. Mohammad Ali Jameel	Director
Mr. Mansoor Ali	Director

CFO and Company Secretary

Mr. Muhammad Shakeel Musani	Chief Financial Officer / Company Secretary
-----------------------------	--

Audit Committee

Mr. Mohammad Ali Jameel	Chairman
Mr. Ali Raza D. Habib	Member
Mr. Mansoor Ali	Member

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants
Shiekh Sultan Trust Building No.2,
Beaumont Road, Karachi.

Internal Auditors

A.F Ferguson & Co.
Chartered Accountants
State Life Building, 1-C,
I.I. Chundrigar Road, Karachi.

Trustee

Central Depository Company
of Pakistan Limited
CDC House, 99-B, Block 'B', S.M.C.H.S,
Main Shakra-e-Faisal, Karachi.

Registrar

Gangjees Registrar Services
(Pvt.) Limited
516, Clifton Centre, Block-5,
Khayaban-e-Roomi, Clifton, Karachi.

Bankers to the Fund

Bank AL Habib Limited

Legal Advisor

Mohsin Tayebaly & Co.
Barristers & Advocates,
2nd Floor, DIME Centre, BC-4, Block 9,
Kehkashan, Clifton, Karachi.

Registered Office: 1st Floor, Imperial Court, Dr. Ziauddin Ahmed Road, Karachi-75530

DIRECTORS' REPORT TO THE UNIT HOLDERS

The Board of Directors' of Habib Asset Management Limited have pleasure in presenting the First Annual Report of First Habib Stock Fund (FHSF) for the period from October 10, 2009 to June 30, 2010.

MARKET REVIEW

During the period under review, the KSE-100 Index was 9768 points on commencement, reaching a high of 10677 points in April 2010 and finally closing at 9722 points on June 30, 2010. Trading volumes fell reaching a low of 50.3 million shares at the close of the year, despite the increase of Foreign Investors Portfolio which rose to Rs. 47 billion for the year, an increase of Rs. 13 billion over the previous year. The market remained under pressure due to several factors and primarily because of the serious apprehension that Capital Gain Tax might be imposed (which later took place), and other uncertainties which included law and order condition.

FUND'S PERFORMANCE

FHSF was launched in October 2009 when the KSE-100 Index was 9768 points. The Fund started investing gradually into the stock market, reaching a maximum of 90% of its available resources by June 2010. The selection of equity was focused on certain sectors which were strong on historical payouts.

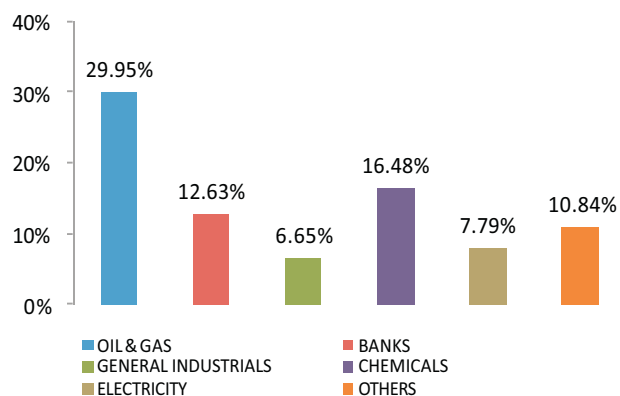
During the period, FHSF earned a gross income of Rs. 13.48 million as mentioned below:

	Rs. in million
Gain on sale of investments	5.973
Dividend income	4.029
Profit on bank deposits	2.247
Income from government securities	1.233

After adjusting unrealised loss on sale of investments of Rs. 14.14 million and expenses of Rs. 4.83 million, the net loss amounted to Rs. 6.25 million.

The Fund has a diversified portfolio comprising 33 scrips spread over all major sectors. The sector wise investments and top ten scrips as on June 30, 2010 is as follows:

SECTOR WISE INVESTMENT



FIRST HABIB STOCK FUND

TOP 10 SCRIPS

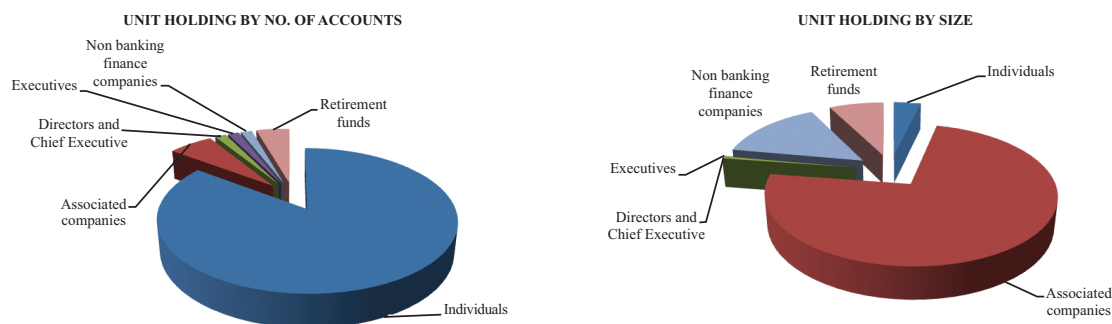
- * National Refinery Limited
- * Kot Addu Power Company Limited
- * Pakistan Petroleum Limited
- * Pak Oilfields Limited
- * Oil and Gas Development Company Limited
- * Pakistan State Oil Company Limited
- * Fauji Fertilizer Company Limited
- * Packages Limited
- * Habib Bank Limited
- * ICI Pakistan Limited

INCOME DISTRIBUTION

There was nil distribution for the period.

PATTERN OF UNIT HOLDING

Unit holders' classification by holding and number of accounts is as follows:



Details of Unit holders' classification by holding and number of accounts is given in note 20 to the Accounts.

MUTUAL FUND RATING

The rating for the Fund shall be obtained after completing one year's of operation.

FUTURE OUTLOOK

The Nation is gradually recovering from the unprecedented disaster of the recent flood. Tremendous efforts along with the highest generosity from within and outside the Country are taking place towards the relief and rehabilitation of the affected victims. Inevitably, with this devastation and also with the rapidly rising inflation, there will be a heavy toll on the National Economy which was already under strain. The positive factor is excellent Corporate Payouts which we hope will to some extent help in giving support to the general market conditions.

We pray to Allah for the progress and welfare of our Country.

AUDITORS

The present auditors of the Fund Messrs KPMG Taseer Hadi & Co., Chartered Accountants, retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors of the Management Company has approved the reappointment as the auditors for the year ending June 30, 2011 at a fee to be mutually agreed.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

1. The financial statements, prepared by the Management Company of FHSF, present fairly the state of affairs of the Fund, the result of its operations, cash flows and movement in Unit-holders' funds.
2. Proper books of account of FHSF have been maintained.
3. Appropriate accounting policies have been applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Financial Reporting 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 is no doubt upon FHSF'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. Outstanding statutory payments on account of taxes, duties, levies and charges if any, have fully disclosed in the accounts.
9. The details of Board Meetings held and attended by the Directors are disclosed in note 23 to the accounts.
10. Particulars of all investments and redemptions by the Directors, Chief Executive, Chief Financial Officer, Company Secretary and their spouses and minor children is provided in note 17 to the accounts.

ACKNOWLEDGEMENT

The Board takes this opportunity to thank its valued Unit holders for their confidence. We would also like to place on record our appreciation for the help and guidance provided by the Central Depository Company of Pakistan Limited as Trustee, the Securities and Exchange Commission of Pakistan and the management of Lahore Stock Exchange.

The Board also appreciates the employees of the Management Company for their dedication and hard work.

On behalf of the Board of
Habib Asset Management Limited

Ali Raza D. Habib
Chairman

September 27, 2010

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**

The First Habib Stock Fund (the Fund), an open-end fund was established under a trust deed dated August 21, 2008, executed between Habib 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 for the period from October 10, 2009 to June 30, 2010 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.

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

October 13, 2010
Karachi

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE PERIOD FROM 10 OCTOBER 2009 TO 30 JUNE 2010**

This statement is being presented by the Board of Directors of Habib Asset Management Limited, the management company of First Habib Stock Fund to comply with the Code of Corporate Governance in Chapter XIII 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.

Habib Asset Management Limited (HAML), the Management Company, is not listed and hence, the Code is not applicable to it. However, First Habib Stock Fund (FHSF) managed by HAML, is listed on the Lahore Stock Exchange, therefore it comes under the ambit of the Code. 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 and other necessary personnel to manage the affairs of the Fund.

The Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of non-executive directors. At present the Board consists of four directors including three non-executive directors.
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. There is a casual vacancy on the Board for independent director which shall be filled with the approval of SECP.
5. The Management Company has adopted a "Code of Business Ethics and Business Practices", which has been acknowledged by all the Directors and employees of the Management Company.
6. The Board has developed a vision / mission statement and significant policies for 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 the remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter during the period. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. All the members of the Board are professionally qualified persons with rich experience in financial sector and are well aware of their duties and responsibilities under Memorandum and Articles of HAML and NBFC Rules, 2003 and NBFC Regulations. Therefore, no orientation courses were arranged during the year.

FIRST HABIB STOCK FUND

10. The Board has approved the appointment of CFO and Company Secretary including their remuneration and terms and conditions of employment as determined by the CEO.
11. The Directors' Report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before the approval of the Board.
13. The Directors, CEO and Executives do not hold units other than those disclosed in note 17 to the financial statements "Transactions with Connected Persons".
14. As required under regulation 35 (xiii a) of the listing regulations of Lahore Stock Exchange, the management company of the fund is in the process of evaluating and introducing necessary procedures and systems for related party transactions vis-à-vis the pricing methods for related parties transactions, separate consideration and maintenance of records of transactions with related parties etc.
15. The Management Company has complied with the corporate and financial reporting requirements of the Code.
16. The Board has formed an Audit Committee. It comprises of 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 financial statements of the Fund as required by the Code.
18. The Management Company has outsourced the internal audit function of the Fund to M/s A. F. Ferguson & Co., Chartered Accountants, Karachi who are 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 the Code of Ethics as adopted by the Institute of Chartered Accountant of Pakistan.
20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

Karachi : 27 September 2010

Imran Azim
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of First Habib Stock Fund ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2010, and the income statement, statement of comprehensive income, distribution statement, statement of cash flows, statement of movement in unit holders' funds for the period from 10 October 2009 to 30 June 2010 and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 30 June 2010, and of its financial performance, cash flows and transactions for the period from 10 October 2009 to 30 June 2010 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 (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: September 27, 2010

Karachi

**KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem**

**REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE
WITH BEST PRACTICES OF 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 the Management Company of the First Habib Stock Fund ("the Fund") to comply with the listing regulation of the Lahore Stock Exchange, where the Fund is listed.

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

As part of our audit of 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such controls, the Fund's corporate governance procedures and risks.

Further sub-regulation (xiii-a) of Listing Regulation 35 notified by the Lahore Stock Exchange (Guarantee) Limited requires the Fund 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 requirement 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 price 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 Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the period from 10 October 2009 to 30 June 2010.

Date: September 27, 2010

Karachi

**KPMG Taseer Hadi & Co.
Chartered Accountants**

STATEMENT OF ASSETS AND LIABILITIES

AS AT 30 JUNE 2010

	<i>Note</i>	(Rupees in '000)
Assets		
Bank balances	4	10,103
Investments	5	117,683
Dividend and Income receivable	6	515
Deposits and prepayments	7	2,600
Receivable against sale of investments		244
Preliminary expenses and floatation costs	8	855
Total assets		<u>132,000</u>
 Liabilities		
Payable to Habib Asset Management Limited - Management Company	9	1,321
Payable to Central Depository Company of Pakistan Limited - Trustee	10	59
Payable to Securities and Exchange Commission of Pakistan	11	100
Accrued expenses and other liabilities	12	293
Total liabilities		<u>1,773</u>
Net assets		<u><u>130,227</u></u>
Unit holders' funds (as per statement attached)		<u><u>130,227</u></u>
		(Number of units)
Number of units in issue	13	<u><u>1,364,706</u></u>
		(Rupees)
Net asset value per unit		<u><u>95.43</u></u>

The annexed notes 1 to 24 form an integral part of these financial statements.

**For Habib Asset Management Limited
(Management Company)**

Chief Executive

Director

INCOME STATEMENT
FOR THE PERIOD FROM 10 OCTOBER 2009 TO 30 JUNE 2010

	<i>Note</i>	(Rupees in '000)
Income		
Profit on bank deposits	14	2,247
Income from Government Securities		1,233
Gain on sale of investments at fair value through profit or loss -net		5,973
Unrealised diminution on investments at fair value through profit or loss		(14,145)
Return on margin deposit		7
Dividend Income		4,029
		<u>(656)</u>
Expenses		
Remuneration of Habib Asset Management Limited - Management Company	9.1	3,172
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	506
Annual fee - Securities and Exchange Commission of Pakistan	11	100
Brokerage		240
Settlement and bank charges		198
Annual listing fee		95
Auditors' remuneration	15	280
Amortisation of preliminary expenses and floatation costs	8	145
Printing charges		97
		4,833
Net loss from operating activities		<u>(5,489)</u>
Element of income / (loss) and capital gains / (loss) included in prices of units issued less those in units redeemed - net		(754)
Net loss for the period		<u><u>(6,243)</u></u>
Loss per unit	16	

The annexed notes 1 to 24 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 10 OCTOBER 2009 TO 30 JUNE 2010

	(Rupees in '000)
Net loss for the period	(6,243)
Other comprehensive income for the period	-
Total comprehensive income / (loss) for the period	<u><u>(6,243)</u></u>

The annexed notes 1 to 24 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

DISTRIBUTION STATEMENT
FOR THE PERIOD FROM 10 OCTOBER 2009 TO 30 JUNE 2010

	(Rupees in '000)
Net loss for the period	(6,243)
Undistributed loss carried forward	<u>(6,243)</u>
Undistributed income as at 30 June 2010 (Realized)	7,902
Undistributed loss as at 30 June 2010 (Un-realized)	(14,145)
Undistributed loss carried forward	<u>(6,243)</u>

The annexed notes 1 to 24 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS
FOR THE PERIOD FROM 10 OCTOBER 2009 TO 30 JUNE 2010

	Number of Units	(Rupees in '000)
Number of units / net assets at the beginning of the period	-	-
Number of units issued / amount received on issue of units	1,548,894	154,880
Number of units redeemed / amount paid on redemption of units	(184,188)	(19,164)
	1,364,706	135,716
Net Element of income / (loss) and capital gains / (loss) included in prices of units issued less those in units redeemed		754
Net loss for the period		(6,243)
Number of units / net assets at the end of the period	1,364,706	130,227

The annexed notes 1 to 24 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB STOCK FUND

CASH FLOW STATEMENT FOR THE PERIOD FROM 10 OCTOBER 2009 TO 30 JUNE 2010

	(Rupees in '000)
CASH FLOW FROM OPERATING ACTIVITIES	
Net loss for the period	(6,243)
Adjustments for non-cash items	
Unrealised diminution on investments at fair value through profit or loss	14,145
Element of (income) / loss and capital (gains) / loss included in prices of units issued less those in units redeemed-net	754
Amortisation of preliminary expenses and floatation costs	145
	<u>8,801</u>
(Increase) / decrease in assets	
Investments	(131,828)
Dividend and Income receivable	(515)
Deposits and prepayments	(2,600)
Receivable against sale of investments	(244)
Preliminary expenses and floatation costs	(1,000)
	<u>(136,187)</u>
Increase / (decrease) in liabilities	
Payable to Habib Asset Management Limited - Management Company	1,321
Payable to Central Depository Company of Pakistan Limited - Trustee	59
Payable to Securities and Exchange Commission of Pakistan	100
Accrued expenses and other liabilities	293
	<u>1,773</u>
Net cash flow from operating activities	<u>(125,613)</u>
CASH FLOW FROM FINANCING ACTIVITIES	
Net receipts from sale and redemption of units	135,716
Net increase in cash and cash equivalents during the period	<u>10,103</u>
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents as at 30 June 2010	<u><u>10,103</u></u>

The annexed notes 1 to 24 form an integral part of these financial statements.

**For Habib Asset Management Limited
(Management Company)**

Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 10 OCTOBER 2009 TO 30 JUNE 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

First Habib Stock Fund (the "Fund") was established under a Trust Deed executed between Habib Asset Management Limited (HAML) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 21 August 2008 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 11 August 2008 under Rule 67 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The Management Company of the Fund has been licensed to undertake Asset Management Services as Non Banking Finance Company under the NBFC Rules by the SECP. The registered office of the management company is situated at Imperial Court Building, Dr. Ziauddin Ahmed Road Karachi, Pakistan.

The Fund is an open-end mutual fund and is listed on the Lahore Stock Exchange. Units are offered for public subscription on a continuous basis. Units are transferable and can be redeemed by surrendering them to the Fund at the option of the unit holder.

Pakistan Credit Rating Agency (PACRA) has assigned asset management rating of 'AM3 -' to the Management Company.

The Fund has been formed to provide reasonable rate of return consistent with reasonable concern for safety of principal amount to the unit holders, along with facility to join or leave the fund at their convenience. The management team would seek to enhance returns through active portfolio management using efficiency tools.

The policy of the fund is to invest in equity securities of listed companies, cash and near cash instrument. The Fund has been categorized as equity scheme.

Title of the assets of the Fund are held in the name of CDC as a trustee of the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, requirements of Trust Deed, requirements of Non Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008. In case, requirements differ, the provisions and directive of Companies Ordinance 1984, the requirements of Trust deed, Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, and Non - Banking Finance Companies and Notified Entities Regulations, 2008 shall prevail.

This financial information comprise of the statement of assets and liabilities as at 30 June 2010 and the related income statement, statement of comprehensive income, distribution statement, statement of movement in unit holders' fund, cash flow statement and notes thereto from 10 October 2009 to 30 June 2010.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that investments classified as 'at fair value through profit or loss' are measured at fair value.

2.3 Functional and presentation currency

These financial statements are presented in Pakistani Rupees which is the functional and presentation currency of the Fund and rounded to the nearest thousand rupees.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the financial statements are given below:

Fair Value of Financial Instruments

The Management Company has determined fair value of investments classified as 'at fair value through profit or loss' based on the closing market prices prevailing at the day end. The Management Company is of the view that fair market value of most of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short-term in nature.

Impairment of investment

The Fund determines that investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In addition the impairment may be appropriate when there is and evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational financial cash flows. In making this judgement, the Fund evaluates among other factors, the normal volatility in prices.

Other assets

Judgment is involved in assessing the realisability of other assets balances.

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

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after 1 January 2010. However these are not relevant to the Fund except in few cases these may require additional disclosures:

Improvements to IFRSs 2009

- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in IFRS 5. The amendment is not relevant to the Fund's operations.
- Amendments to IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker. The amendment is not relevant to the Fund's operations.
- Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments. These amendments are unlikely to have an impact on the Fund's financial statements.

- Amendments to IAS 7 Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. These amendments are unlikely to have a significant impact on the Fund's financial statements.
- Amendments to IAS 17 Leases (effective for annual periods beginning on or after 1 January 2010). The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of IAS 17, taking account of the fact that land normally has an indefinite economic life. The amendment is not relevant to the Fund's operations.
- Amendments to IAS 36 Impairment of Assets (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendments apply prospectively. The amendment is not relevant to the Fund's operations. These amendments are unlikely to have a significant impact on the Fund's financial statements.
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010). The IASB provided additional optional exemptions for first-time adopters of IFRSs that will permit entities to not reassess the determination of whether an arrangement contains a lease if the same assessment as that required by IFRIC 4 was made under previous GAAP; and allow entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed cost at the date of transition for oil and gas assets. The amendment is not relevant to the Fund's operations.
- Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). The IASB amended IFRS 2 to require an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. This principle even applies if another group entity or shareholder settles the transaction (settling entity) and the receiving entity has no obligation to settle the payment. Retrospective application is subject to the transitional requirements in IFRS 2. The amendment is not relevant to the Fund's operations.
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights (effective for annual periods beginning on or after 1 January 2010). Issues The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. These amendments are unlikely to have an impact on the Fund's financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. The amendment is not relevant to the Fund's operations.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010). The amendment provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the Amendments to IFRS 7. The amendment also clarifies the transitional provisions of the Amendments to IFRS 7. The amendment is not relevant to the Fund's operations.

Improvements to IFRSs 2010

- Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2010). The amendments clarify that contingent consideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004); limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post-combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. The amendment is not relevant to the Fund's operations.

FIRST HABIB STOCK FUND

- Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2010). The amendments clarify that the consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. The amendment is not relevant to the Fund's operations.
- IAS 24 Related Party Disclosures (revised 2009) These amendments will result in increase in disclosures in the Fund's financial statements. The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. These amendments are unlikely to have an impact on the Fund's financial statements other than increase in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum Funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. These amendments are unlikely to have an impact on the Fund's financial statements.
- Amendments to IFRS 1 First-time Adoption of IFRSs (effective for annual periods beginning on or after 1 January 2011). The amendments clarify that IAS 8 is not applicable to changes in accounting policies occurring during the period covered by an entity's first IFRS financial statements; introduce guidance for entities that publish interim financial information under IAS 34 Interim Financial Reporting and change either their accounting policies or use of the IFRS 1 exemptions during the period covered by their first IFRS financial statements; extend the scope of paragraph D8 of IFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first IFRS financial statements; and introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to IFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendment is not relevant to the Fund's operations.
- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011). The amendments add an explicit statement that qualitative disclosure should be made in the contact of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. These amendments would result in increase in disclosures in the financial statements of the Fund.
- Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2011). The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. These amendments are unlikely to have an impact on the Fund's financial statements other than increase in disclosures.
- Amendments to IAS 34 Interim Financial Reporting (effective for annual periods beginning on or after 1 January 2011). The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures. These amendments are unlikely to have an impact on the Fund's financial statements other than increase in disclosures.
- Amendments to IFRIC 13 Customer Loyalty Programmes These amendments are unlikely. The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendment is not relevant to the Fund's operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted and applied by the Fund in the preparation of these financial information are set out below:

3.1 Financial instruments

3.1.1 The Fund classifies its financial instruments in the following categories:

a) Financial instruments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy.

Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in Income Statement.

b) Available-for-sale

Available for sale financial assets are non-derivative that are either designated in this category or not classified in any other category.

c) Loans and receivables originated by the enterprise

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Fund as fair value through profit or loss or available for sale.

d) Financial liabilities

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

3.1.2 Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets.

Financial liabilities are not recognised unless one of the parties has performed its part of the contract or the contract is a derivative contract.

3.1.3 Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial instrument not at 'fair value through profit or loss', transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Transaction costs on financial instrument at fair value through profit or loss are expensed out immediately.

Subsequent to initial recognition, financial instruments classified as at 'fair value through profit or loss' and 'available for sale' are measured at fair value. Gains or losses arising, from changes in the fair value of the financial assets 'at fair value through profit or loss' are recognised in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognised in Statement of Comprehensive Income until derecognised or impaired, when the accumulated adjustments recognised in Unit Holders' Fund are included in the Income Statement.

FIRST HABIB STOCK FUND

3.1.4 Fair value measurement principles

The fair value of a security listed on a stock exchange is valued at its last sale price on such exchange on the date on which it is valued or if such exchange is not open on such date, then at its last sale price on the next preceding date on which such exchange was open and if no sale is reported for such date the security is valued at an amount neither higher than the closing asked price nor lower than the closing bid price.

3.1.5 Basis of valuation of Government Securities

The investment of the Fund in government securities are valued at their fair values (determined by reference to the quotations obtained from the PKRV rate sheet on the Reuters page), based on the remaining tenor of the security.

3.1.6 Impairment

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial assets is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit and loss account.

3.1.7 Derecognition

The Fund derecognises a financial asset when the contractual right to the cash flows from the financial asset expires or it transfers the financial asset and the transfer qualifies for derecognition in accordance with International Accounting Standard 39: Financial Instruments; Recognition and Measurement.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

3.1.8 Offsetting of financial instruments

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

3.2 Unit holders' fund

Unit holders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

3.3 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Fund, applicable for the day on which fund(s) have been realised in the bank account. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load (if any).

Units redeemed are recorded at the redemption price, applicable on the units for which the Fund receives 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 the allowable purchase load (if any). Redemption of units is recorded on acceptance of application for redemption.

3.4 Element of income/(loss) and capital gain/(loss) included in prices of units issued less those in units redeemed

An equalization account called the " Element of Income/(Loss) and capital gain/(loss) included in price of units issued less those in units redeemed is created, in order to prevent dilution of per unit income/(loss) and distribution of income/(loss) already paid out on redemption. This is recognised in the income statement currently.

3.5 Net asset value - per unit

The net asset value per unit disclosed in the Statement of Assets and Liabilities is calculated by dividing the net assets of the Fund by the number of units in issue at the period end.

3.6 Taxation

The fund is exempt from taxation on income under clause 99 of Part - I to the Second Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90 percent of its income excluding realized and unrealized capital gains for the year is distributed amongst the unit holders.

3.7 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- 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.
- Income on government securities is recognised on an accrual basis using the effective interest rate method.
- Profit on bank deposit is recognised on time proportion basis taking in to account effective yield.
- Dividend income is recognised when the right to receive the dividend is established.
- Net Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

3.8 Expenses

All expenses including management fee, trustee fee and annual fee of SECP are recognised in the Income Statement on an accrual basis.

3.9 Provisions

Provisions are recognized in the statement of assets and liabilities when the Fund has a present, legal or constructive obligation as a result of past events and 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 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from 10 October 2009 as per the Trust Deed of the Fund.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than for investments and other purposes.

3.12 Other assets

Other assets are stated at cost less impairment losses, if any.

3.13 Dividend (including bonus units)

Dividends declared (including distribution in the form of bonus units) subsequent to the balance sheet date are considered as a non-adjusting event and are recognised in the period in which they are authorised or approved.

4. BANK BALANCES

This represents balance with Bank Al Habib Limited. The balance is held in saving account and carries profit rate of 11% per annum.

FIRST HABIB STOCK FUND

5. INVESTMENTS - at fair value through profit or loss - held for trading

30 June 2010
(Rupees in '000)

Equity securities	5.1	117,683
Government securities	5.2	-
		<u>117,683</u>

5.1 Equity securities

Name of the Investee	Number of Shares					Market Value as at 30 June 2010	Market Value as a Percentage of:	
	As at 10 October 2009	Acquired during the period	Bonus / Right issue	Sold during the period	As at 30 June 2010		Net Assets	Total Investment
(Rupees in '000)								
AUTOMOBILE PARTS & ACCESSORIES								
Indus Motor Company Limited	-	17,255	-	17,255	-	-	-	-
Pak Suzuki Motor Company Limited	-	32,760	-	4,000	28,760	2,280	1.75%	1.94%
BANKS								
Bank Al-Falah Limited	-	73,000	-	-	73,000	691	0.53%	0.59%
Bank AL-Habib Limited	-	31,500	3,900	35,400	-	-	-	-
Habib Bank Limited	-	87,145	6,300	22,500	70,945	6,899	5.30%	5.86%
Habib Metropolitan Bank Limited	-	79,625	4,375	2,000	82,000	1,960	1.51%	1.67%
MCB Bank Limited	-	25,000	-	3,500	21,500	4,175	3.21%	3.55%
National Bank Of Pakistan	-	74,500	7,875	36,500	45,875	2,941	2.26%	2.50%
CHEMICALS								
Dawood Hercules Chemicals Limited	-	44,584	1,503	21,550	24,537	4,305	3.31%	3.66%
Engro Chemical (Pakistan) Limited	-	43,000	1,800	26,000	18,800	3,263	2.51%	2.77%
Fauji Fertilizer Bin Qasim Limited	-	52,500	-	-	52,500	1,367	1.05%	1.16%
Fauji Fertilizer Company Limited	-	88,100	-	23,000	65,100	6,710	5.15%	5.70%
I.C.I Pakistan Limited	-	51,676	-	4,000	47,676	5,653	4.34%	4.80%
lotte Pakistan Limited	-	57,000	-	-	57,000	460	0.35%	0.39%
CONSTRUCTION AND MATERIALS								
Attock Cement Pakistan Limited	-	20,400	-	8,000	12,400	812	0.62%	0.69%
D. G. Khan Cement Company Limited	-	52,500	9,700	12,700	49,500	1,169	0.90%	0.99%
Lucky Cement Limited	-	6,000	-	6,000	-	-	-	-
ELECTRICITY								
Hub Power Company Limited	-	140,000	-	24,000	116,000	3,707	2.85%	3.15%
Kot Addu Power Company	-	157,500	-	-	157,500	6,574	5.05%	5.59%
FINANCIAL SERVICES								
Arif Habib Securities Limited	-	18,000	-	18,000	-	-	-	-
Jahangir Siddiqui Company Limited	-	58,000	-	5,000	53,000	670	0.51%	0.57%
FIXED LINE TELECOMMUNICATION								
Pakistan Telecommunication Corporation Limited	-	195,100	-	12,500	182,600	3,250	2.50%	2.76%
GENERAL INDUSTRY								
Packages Limited	-	54,700	-	-	54,700	6,482	4.98%	5.51%
Tri-Pack Films Limited	-	29,515	-	6,000	23,515	2,293	1.76%	1.95%
INDUSTRIAL ENGINEERING								
Millat Tractors Limited	-	15,574	1,193	15,206	1,561	750	0.58%	0.64%
Al Ghazi Tractors Limited	-	7,713	-	-	7,713	1,560	1.20%	1.33%
INDUSTRIAL METALS AND MINING								
International Industries Limited.	-	27,987	-	1,000	26,987	1,511	1.16%	1.28%
NON LIFE INSURANCE								
Adamjee Insurance Company Limited	-	52,000	1,400	27,000	26,400	2,109	1.62%	1.79%
Eastern Federal Union Insurance Company Limited	-	66,166	4,840	7,500	63,506	3,121	2.40%	2.65%
Habib Insurance Company Limited	-	19,006	-	-	19,006	239	0.18%	0.20%
New Jubilee Insurance Company Limited	-	1,000	-	1,000	-	-	-	-
OIL & GAS								
National Refinery Limited	-	46,220	-	-	46,220	8,451	6.49%	7.18%
Oil & Gas Development Company Limited	-	104,000	-	63,000	41,000	5,809	4.46%	4.94%
Pakistan Oilfields Limited	-	45,000	-	18,000	27,000	5,829	4.48%	4.95%
Pakistan Petroleum Limited	-	54,000	-	12,500	41,500	7,641	5.87%	6.49%
Pakistan State Oil Company Limited	-	45,176	-	18,176	27,000	7,025	5.39%	5.97%
Shell Pakistan Limited	-	32,795	-	12,000	20,795	4,775	3.67%	4.06%
PHARMA AND BIO TECHNOLOGY								
Abbot Laboratories (Pakistan) Limited	-	38,556	-	4,000	34,556	3,202	2.46%	2.72%
TEXTILE COMPOSITE								
Nishat (Chunian) Limited	-	10,000	-	10,000	-	-	-	-
Total as at 30 June 2010					1,620,152	117,683	90%	100%

5.1.1 Cost of the investment at "fair value through profit or loss" as at 30 June 2010 amounted to Rs: 131.828 million.

5.2 Investment in government securities - 'At fair value through profit or loss'

Issue date	Tenor	Face value			As at 30 June 2010		Market value as a percentage of net assets
		As at 10 October 2009	Purchased during the period	Disposed / Matured during the period	Carrying value	Market Value	
----- (Rupees in '000) -----							
22 October 2009	3 Months	-	25,000	25,000	-	-	-
22 October 2009	6 Months	-	25,000	25,000	-	-	-
					-	-	-
					-	-	-

6. DIVIDEND AND INCOME RECEIVABLE

**30 June
2010
(Rupees in '000)**

Dividend receivable	431
Profit receivable on saving account	84
	515

7. DEPOSITS AND PREPAYMENTS

Deposit with National Clearing Company of Pakistan Limited	7.1	2,500
Deposit with Central Depository Company of Pakistan Limited	7.1	100
		2,600

7.1 These deposits are non-remunerative

8. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary Expenses and Floatation Costs	8.1	1,000
Less: Amortization for the period From 10 October to 30 June 2010		(145)
Balance as at 30 June 2010		855

8.1 This represents expenses incurred on the formation of the Fund. Regulation 60 (2) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 requires that all expenses incurred in connection with the incorporation, establishment and registration of collective investment scheme (formation cost) shall be reimbursable by a collective investment scheme to an AMC subject to the audit of expenses. The said formation cost shall be amortised by the collective investment scheme over a period of not less than five years or with in the maturity date of collective investment scheme. Accordingly the said expenses are being amortised over a period of five years effective from 10 October 2009, i.e. after the close of initial period of the Fund.

9. PAYABLE TO HABIB ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY

Management fee	9.1	321
Preliminary expenses and floatation costs	9.2	1,000
		1,321

9.1 Under the provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non Banking Finance Company and Notified Entities Regulation 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 net assets of the Fund. The Management Company has charged its remuneration at the rate of three percent per annum for the period from 10 October to 30 June 2010 in accordance with the Trust Deed.

9.2 This represents expenses incurred by the Management Company for the establishment of the funds under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. These expenses are to be paid to the management company over a period of five years.

FIRST HABIB STOCK FUND

10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	<i>Note</i>	30 June 2010 (Rupees in '000)
Trustee fee	<i>10.1</i>	58
CDS charges		<u>1</u>
		<u><u>59</u></u>
10.1	The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed based on the daily Net Asset Value of the Fund. The remuneration of the Trustee has been calculated as per following applicable tariff;	
	Average net assets	Tariff
	(Rs. in million)	
	Up to Rs. 1,000	Rs. 0.7 million or 0.2% per annum of net asset value, whichever is higher.
	Rs. 1,000 and above	Rs. 2 million plus 0.10% per annum of net asset value exceeding Rs. 1,000 million.
11. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN		
	This represents annual fee payable to Securities and Exchange Commission of Pakistan (SECP) in accordance with rule 62 of the NBFC Regulations 2008, whereby the Fund is required to pay SECP an amount at the rate of 0.095% of the average daily net assets of the Fund.	
12. ACCRUED EXPENSES AND OTHER LIABILITIES		
Auditors' remuneration		224
Brokerage		5
Printing Charges		47
Others		17
		<u><u>293</u></u>
13. CLASS OF UNITS IN ISSUE		
	The Fund has three classes of units as per the Trust Deed. Class 'A' units pertain to core investors. Such units are redeemable after two years of issue. Class 'B' and 'C' units are issued and redeemed in the usual course of business on a daily basis. Class 'C' units only rank for cash dividend.	
	Units in issue as at 30 June in each class are:	
		(Number of Units)
Type 'A' Units		200,000
Type 'B' Units		664,706
Type 'C' Units		500,000
		<u><u>1,364,706</u></u>
14. PROFIT ON BANK DEPOSITS		(Rupees in '000)
Income on saving accounts		<u><u>2,247</u></u>

15. AUDITORS' REMUNERATION	30 June 2010 (Rupees in '000)
Annual audit fee	160
Half yearly review fee	50
Fee for review of statement of compliance with the best practices of Code of Corporate Governance	25
Fee for Audit of the Statement of Net Incomes and Gains	20
Out of pocket expenses	25
	280

16. LOSS PER UNIT

Loss per unit (LPU) for the period from 10 October 2009 to 30 June has not been disclosed as in the opinion of the management, determination of weighted average units for calculating LPU is not practicable.

17. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Habib Asset Management Limited being the Management Company, associated companies of the Management Company, First Habib Income Fund being the Fund managed by common Management Company, Central Depository Company Limited being the Trustee of the Fund and key management personnel.

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

Remuneration to management company and trustee is determined in accordance with the provisions of Non Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non- Banking Finance Companies and Notified Entities Regulation 2008 and the Trust Deed respectively.

Details of the transactions with connected persons and balances with them at are as follows:

17.1 Sale / Redemption of units for the period from 10 October 2009 to 30 June 2010

	(Units)	(Rupees in '000)
<u>Units sold to:</u>		
<i>Management Company</i>		
Habib Asset Management Limited	150,100	15,010
<i>Associated Companies</i>		
- Bank AL Habib Limited	500,000	50,000
- Habib Insurance Company Limited	350,000	35,000
- Trakker Direct Insurance Limited	5,000	500
<i>Other related parties</i>		
- Directors of the Management Company	7,357	725
- Executives of the Management Company	253	25
- Habib Asset Management Limited-Employees Provident Fund	2,076	200
<u>Units redeemed by:</u>		
<i>Other related parties</i>		
- Executives of the Management Company	100	10
- Habib Asset Management Limited-Employees Provident Fund	393	40

FIRST HABIB STOCK FUND

<u>Units held by:</u>	<u>30 June 2010</u>	
	(Units)	(Rupees in '000)
Management Company		
Habib Asset Management Limited	150,100	14,323
Associated Companies		
- Bank AL Habib Limited	500,000	47,713
- Habib Insurance Company Limited	350,000	33,399
- Trakker Direct Insurance Limited	5,000	477
Other related parties		
- Directors of the Management Company	7,357	702
- Executives of the Management Company	153	15
- Habib Asset Management Limited-Employees Provident Fund	1,683	161
Other transactions and balances		
Habib Asset Management Limited - Management Company		
Balance as at 1 July		-
Management fee for the year		3,172
Preliminary expenses and floatation costs		1,000
Paid during the year		<u>(2,851)</u>
Balance as at 30 June		<u><u>1,321</u></u>
AL Habib Capital Markets (Private) Limited- Brokerage house		
Balance as at 1 July		-
Brokerage expense for the year		66
Paid during the year		<u>(64)</u>
Balance as at 30 June		<u><u>2</u></u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration		
Balance as at 1 July		-
Remuneration for the year		506
CDS charges for the year		12
		518
Paid during the year		<u>(459)</u>
Balance as at 30 June		<u><u>59</u></u>
Security deposit - Non interest bearing		<u><u>100</u></u>

18. RISK MANAGEMENT

The Board of Directors of Management Company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is also responsible for developing and monitoring the Fund's risk management policies.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund primarily invests in shares of listed companies and near cash instruments.

The Fund is exposed to market risk, credit risk and liquidity risk arising from the financial instruments it holds.

18.1 Credit risk

Credit risk arises from the inability of the issuers of the instruments or counter parties to fulfill their obligations. The risk is generally limited to principal amounts and accrued interest thereon, if any. The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee, its Trust Deed and the requirements of NBFC rules and regulations.

Management of credit risk

The management is of view that credit risk arising on investments including the related sales is accounted for as follows:

- Where the investment committee makes an investment decision, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.
- Investment transactions are carried out with a large number of brokers, whose credit rating is taken into account so as to minimise the risk of default and transactions are settled or paid for only upon delivery.
- The risk of counterparty exposure due to failed trades causing a loss to the Fund is mitigated by a periodic review of trade reports, credit ratings and financial statements on a regular basis. In addition, the investment Committee approves the trading of securities of entities with credit ratings approved by external rating agencies.

Exposure to credit risk

In summary, compared to the maximum amount included in statement of assets and liabilities, the maximum exposure to credit risk as at 30 June 2010 is as follows:

	30 June 2010	
	Statement of assets and liabilities	Maximum exposure
	(Rupees in '000)	
Bank balances	10,103	10,103
Investments	117,683	-
Income receivable	515	515
Receivable against sale of investments	244	244
Advances, deposits, and other receivables	2,600	2,600
	131,145	13,462

Differences in the balances as per the statement of assets & liabilities and maximum exposures is due to the fact that investments of Rs. 117.683 million relates to investments in equity securities which is not considered to carry credit risk.

Credit ratings and Collaterals

Details of the credit ratings of balances with the banks as at 30 June 2010 are as follows:

Ratings	Percentage
AA+	100%

Concentration of credit risk

Concentration is the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentration of risks arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Fund's portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk.

Past due and impaired assets

None of the financial assets of the Fund are past due / impaired.

FIRST HABIB STOCK FUND

18.2 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligation will have to be settled in a manner disadvantageous to the Fund.

The Fund is exposed to cash redemptions of its units on a regular basis. Units are redeemable at the holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

Management of Liquidity Risk

The Fund's policy is to manage this risk by investing majority of its assets in investments that are traded in an active market and can be readily disposed. The Fund invests primarily in marketable securities and other financial instruments, which under normal market conditions are readily convertible to cash. As a result, the Fund may be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirement. The present settlement system is a T+2 system, which means that proceeds from sales (to pay off redemptions) of holdings will be received on the second day after the sale, while redemptions have to be paid within a period of six days from the date of the redemption request.

The Fund has the ability to borrow, with prior approval of trustee, for meeting redemption requests. The maximum amount available to the Fund from borrowings is limited to the extent of 15% of total assets at the time of borrowing with repayment within 90 days of such borrowings. No such borrowings were made during the period.

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 redemptions during the period.

Maturity analysis of financial liabilities

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.

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

	30 June 2010				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	More than one month and up to three months	More than three months and up to one year
----- (Rupees in '000) -----					
<i>Non- derivative financial liabilities</i>					
Payable to Habib Asset Management Limited - Management Company	1,321	1,321	1,321	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	59	59	59	-	-
Payable to Securities and Exchange Commission of Pakistan	100	100	-	100	-
Accrued expenses and other liabilities	293	293	69	224	-
	<u>1,773</u>	<u>1,773</u>	<u>1,449</u>	<u>324</u>	<u>-</u>

18.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Management of Market Risk

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan (SECP).

Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk. The Fund is exposed to interest rate risk and other price risk only.

18.3.1 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.

At 30 June 2010, details of the interest rate profile of the Fund's interest bearing financial instruments were as follows:

	30 June 2010 (Rupees in '000)
<i>Variable rate instruments</i>	
Financial assets	<u><u>10,103</u></u>

a) Sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the year end would not have material impact on the loss for the year and unit holders' fund. The analysis assumes that all other variables remain constant.

b) Sensitivity analysis for fixed rate instruments

Presently, Fund does not have investment in any fixed interest rate bearing securities.

The composition of the Fund's financial instruments, interest rates are expected to change overtime. Accordingly, the actual trading results may differ from the below sensitivity analysis and the difference could be material.

A summary of the Fund's interest rate gap position, categorised by the earlier of contractual re-pricing or maturity date, is as follows:

	30 June 2010				Total
	Less than one month	One to three months	Three months to one year	More than one year	
	(Rupees in '000)				
<i>Assets</i>					
Bank balances	10,103	-	-	-	10,103
Total assets	10,103	-	-	-	10,103
<i>Liabilities</i>					
<i>There are no interest bearing liabilities</i>					
Total interest sensitivity gap	10,103	-	-	-	10,103

FIRST HABIB STOCK FUND

18.3.2 Other price risk

Other price risk is the risk of unfavorable changes in the fair value of equity securities and units of mutual funds as a result of changes in the levels of respective indices and the value of individual securities. This arises from the investment held by the Fund for which prices in the future are uncertain. The Fund's policy is to manage price risk through diversification and selection of securities within specified limits set by internal risk management guidelines.

The Fund manages this risk by limiting exposure to a single entity to the lower of 10 % of NAV at the time of investment and issued capital of the investee company and to a single sector as per classification of Stock Exchange to 25% of NAV. A summary analysis of investment by industry sector, the percentage in relation to Fund's asset and the issued capital of the investee company is presented in notes 5.1 to the financial statements. Furthermore, the Fund's policy requires that the overall Fund position is monitored on a daily basis by the Fund Manager. Non compliance with the Fund's investment policies are immediately reported to the CEO.

The Fund's investments in equity securities are publicly traded and are valued at the rates quoted on the relevant stock exchanges.

As at 30 June, the fair value of equity securities exposed to price risk are disclosed in note 5.1.

Sensitivity analysis

The following table illustrates the sensitivity of the Fund's net asset value attributable to unit holders and net loss for the year to increase / decrease of 10% in the fair values of the Fund's investment in equity securities as at 30 June 2010. This level of change is considered to be reasonably possible and represents management's best estimate of a reasonable possible shift in respective market indices and resulting increase/decrease in fair value of the Fund's investment in equity securities.

	30 June 2010 (Rupees in '000)
Effect on income statement, net assets attributable to unit holders of an increase / decrease in the index	
Equity investments	<u><u>11,768</u></u>

A decrease of 10 % would have equal but opposite effect to the amounts shown above, on the basis that all other variable remains same.

18.4 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Fund's activities.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. The responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- ethical and business standards
- risk mitigation, including insurance where this is effective.

18.5 Unit Holders' Fund risk management

Management's objective when managing unit holders' funds is to safe guard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders' and to ensure reasonable safety of unit holders' funds.

The Management Company manages Fund's investment portfolio and other assets by monitoring return on net assets and makes adjustments to it in the light of changes in markets' conditions. The unit holders' funds structure depends on the issuance and redemption of units.

19. Fair value of financial instruments

The Fund's accounting policy on fair value measurements is discussed in note 3.1.3.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 1: Fair value measurements using quoted price (unadjusted) in an active market for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurement using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

As at 30 June 2010, all the investments were categorised in level 1.

20. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30 June 2010 is as follows:

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		58	50,413	4,811	3.69
Associated companies	20.1	4	1,005,100	95,912	73.65
Chief Executive	20.2	1	7,357	702	0.54
Executives		1	153	15	0.01
Non banking finance companies		1	200,000	19,085	14.66
Retirement funds		3	101,683	9,703	7.45
		68	1,364,706	130,227	100.00

20.1 Associated companies

	30 June 2010		
	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Habib Asset Management Limited	150,100	14,323	11.00
Bank AL Habib Limited	500,000	47,713	36.64
Habib Insurance Company Limited	350,000	33,399	25.65
Trakker Direct Insurance Limited	5,000	477	0.37
	1,005,100	95,912	73.65

20.2 Chief executive

Imran Azim	7,357	702	0.54
------------	-------	-----	------

FIRST HABIB STOCK FUND

21. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker name	2010 (Percentage)
Al Habib Capital Market (Private) Limited	27.49%
BMA Capital	14.66%
JS Global Capital Limited	13.95%
Ali Husain Rajab Ali Limited	11.52%
Pearl Securities Limited	7.18%
AKD Securities Limited	6.20%
IGI Finex Securities Limited	5.77%
KASB Securities Limited	3.08%
Habib Metro Financial Services	2.65%
Invest Capital and Securities (Private) Limited	2.36%
	<u>94.86%</u>

22. INVESTMENT COMMITTEE

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

Name	Designation	Qualification	Experience in years
Ali Raza D. Habib	Chairman	Graduate	54 Years
Imran Azim	Chief Executive Officer	BA, MBA	33 Years
Mr. Mansoor Ali	Director	MBA	25 Years

22.1 Other Funds managed by the Fund Manager

First Habib Income fund is being managed by the fund manager.

23. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 27th, 28th, 29th, 30th and 31st board meetings were held on 4 July 2009, 8 October 2009, 4 January 2010, 26 February 2010 and 5 April 2010 respectively.

Information in respect of attendance by Directors in the meetings is given below:

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave Granted	
Ali Raza D. Habib	5	4	1	27th meeting
Imran Azim	5	5	-	-
Shariq Abdullah *	2	2	-	-
Mansoor Ali	5	5	-	-
Mohammad Ali Jameel	5	4	1	30th meeting

* Mr. Shariq Abdullah did not opt to contest at the election of directors held on 30 October 2009.

24. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on September 27, 2010

**For Habib Asset Management Limited
(Management Company)**

Chief Executive

Director

**ANNUAL FUND MANAGER REPORT
FINANCIAL YEAR (FY) 2010**

Fund Type/category	Open end–Equity Scheme
Launch Date	October 10, 2009
Benchmark	KSE 100 index
Net Assets	Rs. 1 3 0 . 2 3 million (June 30, 2010)
Net Assets Value	Rs. 9 5 . 4 3 per unit (June 30, 2010)
Pricing Mechanism	Forward Pricing
Management Fee	3% p.a.
Sales Load	Front end (2%), Back End (NIL)
Minimum Subscription	Rs. 5,000/- subsequently Rs. 1,000/- per transaction
Dealing days / time	Monday – Friday/9:00 am to 4:30 pm
AMC Rating	"AM3-" by PACRA

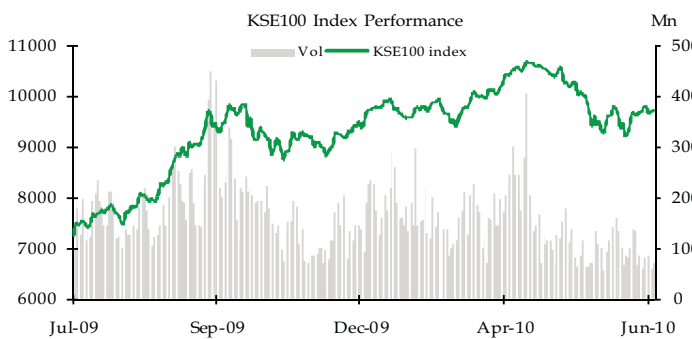
FIRST HABIB STOCK FUND(FHSF)

Fund Objective

FHSF is an Open-ended equity fund. The objective of First Habib Stock Fund is to provide investors with long term capital growth from an actively managed portfolio invested primarily in diversified pool of listed equities and other approved instruments.

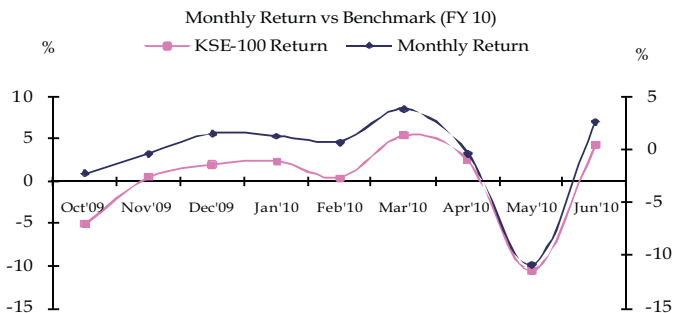
Market Review

After a difficult two years period, the KSE 100 Index rebounded sharply in FY 10, posting a return of 36%, marking its finest performance since FY 07. KSE100 index touched its highest level of 10,677.47 points in FY10 while its low level was 7,270.72 points, which also shows the volatility in the market during the period under review. FY 10 was happened to be a dull year in terms of trading activity. During the year, highest volume of KSE-100 index on any single day was 451mn shares on September 25, 2009 (Highest ever volume in last five years was 1.5bn on Mar 09, 2005) and its lowest volume was 50.30mn shares on December 29, 2009 (Lowest ever volume in last five years was 90 thousand shares on Nov 27, 2008).



Foreign investors’ portfolio investments (FIPI) increased by 38% during the year as foreign investors bought shares in our market worth Rs.47bn over Rs.34bn in FY 09 on net basis. The sluggish activity on stock market is attributable to number of reasons including law and order situation, political unrest and absence of any suitable financing system for market participants. Oil and Gas sector which has an index weightage of around 38% in KSE-100 are badly affected due to circular debts situation in the country, which has reached Rs.235bn.

Fund Performance Review

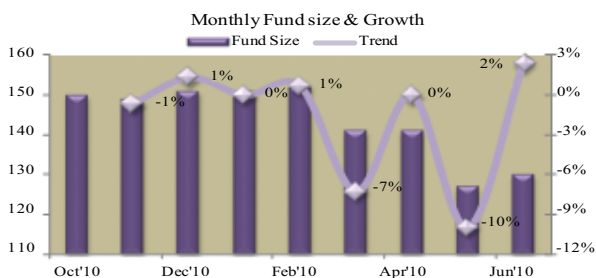


FHSF was launched in the month of October 2009 and it took some time to settle by investing gradually into the market and reached the minimum investment requirement of 70% of the total assets in Jan 2010. At the time of launching of FHSF, the KSE 100 Index which is also the benchmark of the fund was at the level of 9,768.63. The

Fund started to invest more freely in December 2009 and the major focus of the fund was on the Oil & Gas Marketing and Exploration companies which have a decent payout history and sound financials.

FHSF underperformed the KSE 100 Index as the fund was not fully invested during the first nine months of 2010 i.e. Oct 2009 – June 2010. FHSF remained invested up to 89% of the total assets on June 30, 2010. The Karachi Stock Exchange (KSE) announced to revise the sector allocation in Jan 2010 and merged some of the major sectors into one sector. The revised allocation of sectors put more constraints on the funds by way of not investing substantially in those sectors which have more weightage on the index and which were performing better than the other sectors in the market. For instance, three major sectors i.e. Oil & Gas Marketing, Oil and gas Exploration and Refinery were merged into one sector i.e. Oil and Gas. The levy of Capital Gain Tax (CGT) in federal Budget remained in the limelight during the later part of the financial year and did hampered the performance of stock market. The implementation of CGT disturbed the investor’s mind and they were not inclined to take fresh positions in the market. The announcement of CGT in the Budget 2010-11 was expected by the market participants but mechanism was unclear to the investors’ till June 30, 2010.

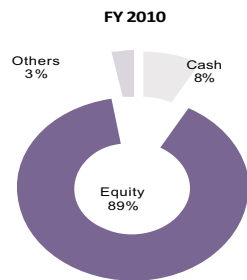
Fund Size



Net Assets of FHSF stood at the level of Rs.130.23mn at the end of June'10. The NAV of FHSF at the end of June'10 was 95.43 per unit.

Note: Trend represents m-o-m growth in fund size

Asset Allocation

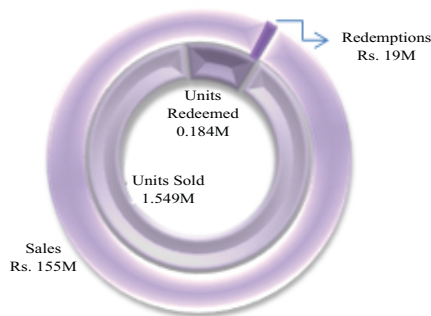


FHSF Performance at a glance

FHSF PERFORMANCE AT A GLANCE

(Rs. in Millions)	FY-10
Net Assets Value June 30, 2010	130.23
NAV per unit June 30 (Rs.)	95.43
Highest NAV (Rs.)	108.19
Lowest NAV (Rs.)	92.17
Dividend Distribution	NIL
Annual Return	-4.57%

Sales and Redumptions of Units



During the period under review, FHSF sold 1,548,894 units worth Rs.154.88mn and redeemed 184,188 units worth Rs.19.16mn. Thus net sale of 1,364,706 units was made for the year.

Unit Holders Pattern

Breakdown of Unit holding by size as on June 30, 2010 is as follows:

Category	No. of Unit Holders	No. of Units	% of total Units
Individuals	58	50,413	3.69
Associated companies/ Directors/ Executives	6	1,012,610	74.2
NBFCs	1	200,000	14.66
Retirement funds	3	101,683	7.45
Total	68	1,364,706	100



Habib Asset Management Limited

(An Associate Company of Bank AL Habib Ltd.)

1st Floor, Imperial Court, Ziauddin Ahmed Road, Karachi-75530, Pakistan

UAN: (92-21) 111-342-242 (111-D-Habib) Fax: (92-21) 35223710 Website: www.habibfunds.com