

First Habib Income Fund
First Habib Stock Fund
First Habib Cash Fund



Annual Report
June 2011



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.**

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FIRST HABIB INCOME FUND

Annual Report

For the year ended June 30, 2011

FIRST HABIB INCOME FUND

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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
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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
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

FIRST HABIB INCOME FUND

DIRECTORS' REPORT TO THE UNIT HOLDERS

The Board of Directors' of Habib Asset Management Limited is pleased to present the fifth Annual Report of First Habib Income Fund (FHIF) for the year ended June 30, 2011.

FUND'S PERFORMANCE

During the year under review, the management maintained a cautious stance and remained invested in Treasury Bills (T-Bills) up to 96.80% instead of Term Finance Certificates (TFCs) & Term Deposit Receipts (TDRs). The return of FHIF remained consistent with no major fluctuations in NAV during the year. FHIF closed the financial year with a return of 10.93% p.a. as compared to corresponding year's return of 10.22% p.a.

During the year under review, the State Bank of Pakistan (SBP) adopted a tight monetary policy and raised the policy discount rate by 150 bps in phases. As a result of increase in discount rate, T-Bill Cut Offs of 3 and 6 months also climbed by 138 bps and 12 months T-Bill cut offs climbed by 145 bps providing yield of 13.48%, 13.73% and 13.90% for 3, 6 and 12 months respectively.

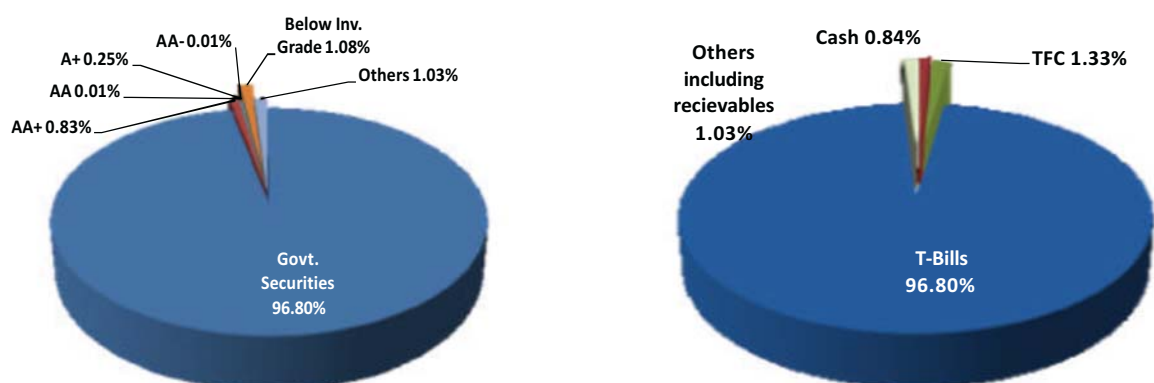
The total income and net income of First Habib Income Fund was Rs.217.23 million and Rs. 161.95 million respectively for the year ended June 30, 2011. The net assets of the Fund stood at Rs. 1,251.46 million as of June 30, 2011.

The NAV and distribution for each quarter is given as under

Quarter Ended	NAV at beginning of Quarter (Rs.)	NAV at close of Quarter (Rs.)	Distribution (Rs.)
September 30, 2010	100.03	102.37	2.25
December 31, 2010	100.12	102.66	2.60
March 31, 2011	100.06	102.84	2.65
June 30, 2011	100.19	103.07	3.00

ASSET ALLOCATION & CREDIT QUALITY

The credit quality and asset allocation as on June 30, 2011, can be viewed as under:

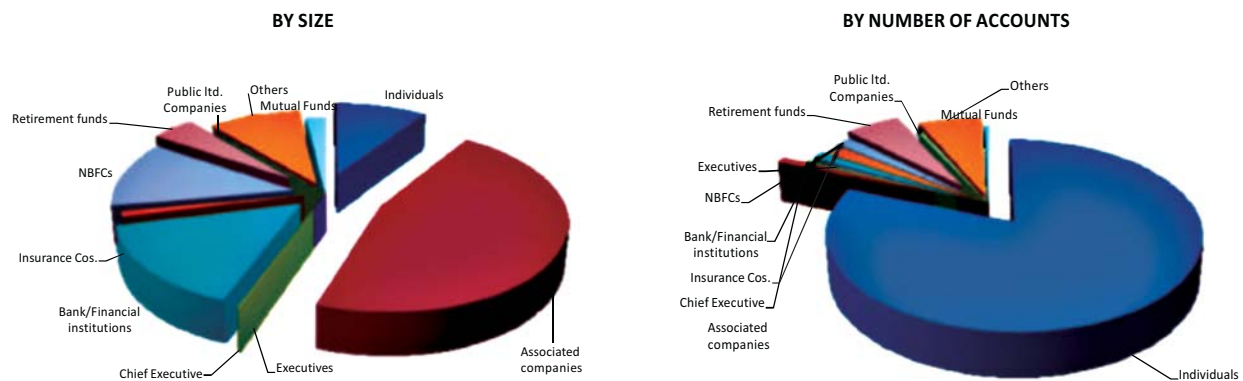


INCOME DISTRIBUTION

The Fund has made a total distribution of Rs. 10.50 per Unit for the year ended June 30, 2011. Of this amount, Rs. 7.50 was paid as interim dividend and Rs. 3.00 was paid as final dividend.

PATTERN OF UNIT HOLDING

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



The details of pattern of Unit holders as on June 30, 2011 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. The rating denotes a very strong capacity to maintain relative stability in returns at low exposures to risk. 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

The country is currently passing through difficult times. We are confident that InshAllah the Nation will come through and stability and progress will return to our country. On the positive side, inflation figures are showing improvement and discount rate is expected to be reduced drastically which will have a positive impact on the corporate sector performance.

AUDITORS

The Board of Directors on the recommendation of the Audit Committee has appointed Messrs Ford Rhodes Sidat Hyder & Co. Chartered Accountants in place of Messrs KPMG Taseer Hadi & Co. - Chartered Accountants, as auditors of FHIF for the Financial Year 2011-2012. Messrs KPMG Taseer Hadi & Co. - Chartered Accountants resigned as auditors of FHIF under the Non-Banking Finance Companies and Notified Entities Regulations, 2008, after the completion of five succeeding years as auditors.

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, 2011 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.

FIRST HABIB INCOME FUND

- 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, 2011 is provided in note 20 to the accounts.

ACKNOWLEDGEMENT

The Board is thankful to its valued Unit-holders, Central Depository Company of Pakistan Limited as Trustee, the Securities and Exchange Commission of Pakistan and the management of Lahore Stock Exchange for their support and cooperation.

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

October 06, 2011

Ali Raza D. Habib
Chairman

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, 2011 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 10, 2011
Karachi

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30 JUNE 2011**

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 XI 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 was a casual vacancy on the Board for independent director which has been filled with the approval of SECP subsequent to year end.
5. The Management Company has adopted a "Code of Business Ethics and Best 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.
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. The Management Company has established adequate procedures and systems for related party transactions vis-à-vis the pricing method for related party transactions. All the related party transactions are placed before the Audit Committee and the Board of Directors for their review and approval.
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 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 Accountants of Pakistan.
20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirmed that all other material principles contained in the Code have been complied with.

October 06, 2011
Karachi.

Imran Azim
Chief executive officer

**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' 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 2011.

06 October, 2011
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of **First Habib Income Fund** ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2011, and the income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in unit holders' fund for the year ended 30 June 2011 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, and for such internal control as the Management Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2011, and of its financial performance, cash flows and transactions for the year ended 30 June 2011 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.

06 October, 2011
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

FIRST HABIB INCOME FUND

STATEMENT OF ASSETS AND LIABILITIES

AS AT 30 JUNE 2011

	<i>Note</i>	2011	2010
		(Rupees in '000)	
Assets			
Bank balances	4	10,598	164,847
Investments	5	1,250,752	1,570,925
Certificate of investments	6	-	3,375
Income receivable	7	334	20,121
Deposits	8	2,600	2,600
Preliminary expenses and floatation costs	9	481	1,005
Total assets		<u>1,264,765</u>	<u>1,762,873</u>
Liabilities			
Payable to Habib Asset Management Limited - Management Company	10	1,713	2,237
Payable to Central Depository Company of Pakistan Limited - Trustee	11	168	232
Payable to Securities and Exchange Commission of Pakistan	12	1,303	1,408
Payable against redemption of units		-	56,668
Workers' Welfare Fund	13	9,246	5,941
Accrued expenses and other liabilities	14	872	924
Total liabilities		<u>13,302</u>	<u>67,410</u>
Net assets		<u>1,251,463</u>	<u>1,695,463</u>
Unit holders' funds (as per statement attached)		<u>1,251,463</u>	<u>1,695,463</u>
		(Number of Units)	
Number of units in issue	15	<u>12,141,891</u>	<u>16,536,076</u>
		(Rupees)	
Net asset value per unit		<u>103.07</u>	<u>102.53</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

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	<i>Note</i>	2011	2010
		(Rupees in '000)	
Income			
Profit on bank deposits	16	14,972	45,905
Income from Term Finance Certificates		21,206	61,542
Income from Certificate of Investments and Deposits		-	3,434
Income from Government Securities		188,013	121,748
Income from Clean Placements		1,177	9,517
Income from reverse repurchase transactions		-	2,097
(Loss) /gain on sale of investments at fair value through profit or loss		(984)	66
Unrealised diminution on investments at fair value through profit or loss	5.1.1	(7,157)	(5,730)
Total income		217,227	238,579
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	10	26,064	28,152
Remuneration of Central Depository Company of Pakistan Limited - Trustee	11.1	2,548	2,877
Annual fee - Securities and Exchange Commission of Pakistan	12	1,303	1,408
Brokerage		431	599
Settlement and bank charges		335	273
Annual listing fee		40	30
Auditors' remuneration	17	364	347
Amortisation of preliminary expenses and floatation costs	9	524	524
Workers' Welfare Fund	13	3,305	5,941
Mutual fund rating fee		175	75
Legal expenses		63	69
Printing charges		107	286
Provision against debt securities		2,291	8,091
Total expenses		37,550	48,672
Net income from operating activities		179,677	189,907
Element of income and capital gains included in prices of units issued less those in units redeemed - net		(17,730)	(10,153)
Net income for the year		161,947	179,754
Earnings per unit	18		

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	(Rupees in '000)	
Net income for the year	161,947	179,754
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u><u>161,947</u></u>	<u><u>179,754</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

**DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011**

	2011	2010
	(Rupees in '000)	
Undistributed income as at 1 July (Realised)	67,712	94,829
Accumulated losses as at 1 July (Un-realized)	<u>(25,856)</u>	<u>(58,363)</u>
	41,856	36,466
 Net income for the year	 161,947	 179,754
 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)
 Final cash dividend for class 'C' unit holders @ Rs. 2.5/- per unit and bonus units @ 2.4993/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2010	 (41,340)	 -
 Interim cash dividend for class 'C' unit holders @ Rs. 2.25/- per unit and bonus units @ 2.2457/- for class 'A' and 'B' unit holders for every 100 units held as at 06 October 2010	 (40,366)	 -
 Interim cash dividend for class 'C' unit holders @ Rs. 2.6/- per unit and bonus units @ 2.5969/- for class 'A' and 'B' unit holders for every 100 units held as at 03 January 2011	 (42,114)	 -
 Interim cash dividend for class 'C' unit holders @ Rs. 2.65/- per unit and bonus units @ 2.6344/- for class 'A' and 'B' unit holders for every 100 units held as at 12 April 2011	 (42,716)	 -
 Undistributed income carried forward	 <u>37,267</u>	 <u>41,856</u>
 Undistributed income as at 30 June (Realized)	 44,043	 67,712
Accumulated losses as at 30 June (Un-realized)	<u>(6,776)</u>	<u>(25,856)</u>
Undistributed income carried forward	<u>37,267</u>	<u>41,856</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 2011

	2011		2010	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Net assets at the beginning of the year	16,536,076	1,695,463	16,952,168	1,731,680
Amount received on issue of units	12,750,846	1,291,691	25,251,524	2,572,311
Amount paid on redemption of units	(17,976,686)	(1,832,198)	(26,466,048)	(2,704,159)
	(5,225,840)	(540,507)	(1,214,524)	(131,848)
Element of income and capital gains included in prices of units issued less those in units redeemed	-	17,730	-	10,153
Final bonus units distribution @ 2.0989% for Class 'A' and 'B' unit holders	-	-	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 bonus units distribution @ 2.4993% for Class 'A' and 'B' unit holders	198,196	-	-	-
Issue of bonus units on 06 October 2010 @ 2.2457% for Class 'A' and 'B'	213,325	-	-	-
Issue of bonus units on 03 January 2011 @ 2.5969% for Class 'A' and 'B'	214,140	-	-	-
Issue of bonus units on 12 April 2011 @ 2.6345% for Class 'A' and 'B'	205,994	-	-	-
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)
Final cash dividend for class C unit holders @ 2.5 per unit for Class 'C'	-	(21,515)	-	-
Interim dividend distribution on 06 October 2010 @ 2.25 for Class 'C'	-	(18,992)	-	-
Interim dividend distribution on 3 January 2010 @ 2.6 for Class 'C'	-	(20,674)	-	-
Interim dividend distribution on 12 April 2011 @ 2.65 for Class 'C'	-	(21,989)	-	-
Net income for the year	-	161,947	-	179,754
Net assets at the end of the year	12,141,891	1,251,463	16,536,076	1,695,463

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

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	161,947	179,754
Adjustments		
Unrealised diminution on investments at fair value through profit or loss	7,157	5,730
Provision against debt securities and Certificate of Investment	2,291	8,091
Workers' Welfare Fund	3,305	5,941
Element of income and capital gains included in prices of units issued less those in units redeemed	17,730	10,153
Amortisation of preliminary expenses and floatation costs	524	524
	192,954	210,193
(Increase) / decrease in assets		
Short term investment in term deposit receipt	100,000	150,000
Investments	310,725	(553,881)
Certificate of investments and deposits	3,375	19,000
Income receivable	19,787	21,995
Security deposits and other receivables	-	6
	433,887	(362,880)
Increase / (decrease) in liabilities		
Payable to Habib Asset Management Limited - Management Company	(524)	2,166
Payable to Central Depository Company of Pakistan Limited - Trustee	(64)	-
Payable to Securities and Exchange Commission of Pakistan	(105)	(91)
Payable against redemption of units	(56,668)	56,668
Accrued expenses and other liabilities	(52)	(330)
	(57,413)	58,413
Net cash inflow / (outflow) from operating activities	569,428	(94,274)
CASH FLOW FROM FINANCING ACTIVITIES		
Net (payments) / receipts from sale and redemption of units	(540,507)	(131,848)
Dividend paid	(83,170)	(94,276)
Net (decrease) / increase in cash and cash equivalents during the year	(54,249)	(320,398)
Cash and cash equivalents at beginning of the year	64,847	385,245
Cash and cash equivalents at the end of the year	10,598	64,847
Cash and cash equivalents at the end of the year comprise of :		
Cash at bank - saving accounts	10,598	64,847

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 2011

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 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:

Classification and fair value of investments

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 13 to these financial statements.

2.5 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards and new interpretations became effective however they did not have any material effect on the financial statements of the Fund.

New / revised accounting standards, amendments to published accounting standards, and interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2011:

- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after 1 January 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Fund.
- 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. This amendment has no impact on Fund's financial statements.

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- Improvements to IFRSs 2010 – In May 2010 the IASB issued improvements to IFRSs 2010 which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after 1 January 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements, 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 and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customer. Certain of these amendments will result in increased disclosures in the financial statements.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Fund.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Fund.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statements of the Fund.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Fund.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Fund.

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.

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. In case of investment in term finance certificates and other debt securities, the 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.

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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 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.

FIRST HABIB INCOME 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 distributions (including bonus units) declared subsequent to the balance sheet date are recorded in the period in which the distributions are approved. As per Regulation 63 of the Non Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute 90% of the net accounting income, excluding unrealised capital gains, to the unit holders.

4. BANK BALANCES

2011
(Rupees in '000)

2010

Saving accounts	4.1	10,598	64,847
Term deposit receipts (TDRs)		-	100,000
		<u>10,598</u>	<u>164,847</u>

4.1 Savings accounts carry profit rates ranging from 5% to 11% (2010: 5% to 12.5%) per annum.

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

2011
(Rupees in '000)

2010

Term Finance Certificates	5.2	33,540	250,432
Provision	5.2.1	(16,535)	(12,719)
		<u>17,005</u>	<u>237,713</u>
Government securities	5.3	<u>1,233,747</u>	<u>1,333,212</u>
		<u>1,250,752</u>	<u>1,570,925</u>

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 Investments	Type of Investments	Value of investments before provision	Provision held	Value of investments after provisioning	% of Gross Assets	% of Net Assets
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----- (Rupees in '000) -----

Non-investment grade debt securities

Saudi Pak Leasing Company Limited-III issue	Term Finance Certificate	13,645	-	13,645	1.08%	1.09%
Gharibwal Cement Limited	Term Finance Certificate	16,535	(16,535)	-	-	-

5.1.1 Unrealised diminution on investments at fair value through profit or loss

2011
(Rupees in '000)

2010

Term Finance Certificates	(6,497)	(4,664)
Government Securities	(660)	(1,066)
	<u>(7,157)</u>	<u>(5,730)</u>

5.2 Term Finance Certificates

Name of the investee company	Number of certificates				As at 30 June 2011		Market value as a percentage of net assets	Market value as a percentage of total investments
	As at 1 July 2010	Acquired during the year	Sold during the year	As at 30 June 2011	Carrying value	Market Value		
Held for trading								
(Rupees in '000)								
Allied Bank Limited	2,000	-	2,000	-	-	-	-	-
Askari Bank Limited - I issue	2,990	-	2,990	-	-	-	-	-
Askari Bank Limited - II issue	4,190	-	4,190	-	-	-	-	-
Bank Alfalah Limited - II issue	3,140	-	3,140	-	-	-	-	-
Engro Corporation Limited	-	2,000	-	-	-	-	-	-
Engro Corporation Limited PPTFC - I issue	2,000	-	2,000	-	-	-	-	-
Engro Corporation Limited PPTFC - II issue	3,800	-	3,800	-	-	-	-	-
First Dawood Investment Bank Limited	2,900	-	2,900	-	-	-	-	-
IGI Investment Bank Limited	5,379	-	-	5,379	3,360	3,360	0.27	0.27
Gharibwal Cement Limited	4,450	-	-	4,450	19,090	16,535	1.32	1.32
Orix Leasing Pakistan Limited	5,500	-	5,500	-	-	-	-	-
The Royal Bank of Scotland	3,090	-	3,090	-	-	-	-	-
Saudi Pak Leasing Company Limited - III issue	5,999	-	-	5,999	17,587	13,645	1.09	1.09
Sitara Chemicals Limited	4,000	-	4,000	-	-	-	-	-
Soneri bank Limited	-	2,000	2,000	-	-	-	-	-
Standard Chartered Bank (Pakistan) Limited	4,548	-	4,548	-	-	-	-	-
United Bank Limited - III issue	4,400	-	4,400	-	-	-	-	-
United Bank Limited - IV issue	4,000	-	4,000	-	-	-	-	-
Total as at 30 June 2011					40,037	33,540		
Total as at 30 June 2010					255,096	250,432		

5.2.1 Provision

	2011	2010
	(Rupees in '000)	
Opening balance	12,719	7,253
Provision during the year	3,816	12,719
Reversal of provision	-	(7,253)
Closing balance	<u>16,535</u>	<u>12,719</u>

5.2.1.1 Provision has been made against Gharibwal Cement Limited in accordance with the provisioning policy of the Fund approved by the Board of Directors of the Management Company and circular 1 of 2009 dated 6 January 2009 as mentioned in note 5.2.2.2.

5.2.2 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 2011	Start date	Maturity	Instalment payments	Credit rating	Mark-up Rate (Per annum)	Secured / Unsecured
Term Finance Certificates - Held for trading								
IGI Investment Bank Limited	5.2.2.1	624.75	11-Jul-06	11-Jul-11	Semi annually	A+	6 Month KIBOR + 2.25 %	Secured
Gharibwal Cement Limited PP TFC	5.2.2.2	4,621.00	18-Jan-08	30-Sep-16	Quarterly	non performing	3 Month KIBOR	Secured
Saudi Pak Leasing Company Limited - III issue	5.2.2.4	3,530.91	13-Mar-08	13-Mar-17	Monthly	non investment grade	Note 5.2.2.3	Secured

5.2.2.1 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.

5.2.2.2 These term finance certificates (TFCs) 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.

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. The TFCs were restructured on 28 December 2010 on the following terms:

- Tenor for repayment extended to 30 September 2016 from 18 January 2013 i.e. by four years.

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- The principal will be repaid as follows:

Rs. 0.556 million per quarter will be paid during the first year including the quarter ended on 30 September 2010.

Rs 0.278 million per quarter will be repaid from 31 December 2011 to 30 September 2012.

Rs 1.11 million per quarter will be paid from 31 December 2012 to 30 September 2014.

Rs 1.389 million per quarter will be repaid from 31 December 2014 to 30 September 2015.

Residual principal amount will be repaid in 4 quarterly installments of Rs. 1.11 million each from 31 December 2015 to 30 September 2016.

- Mark-up will be paid at 3 months Kibor from 30 June 2011 to 30 September 2016.
- However, despite of the restructuring, the company was unable to pay quarterly installments due on 31 March and 30 June 2011 amounting to Rs 1.222 million. Full provision amounting to Rs. 16.535 million has been made against these TFCs in accordance with provisioning policy of the Fund and circular 1 of 2009 dated 6 January 2009.

5.2.2.3 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.

The Term Finance Certificate of Saudi Pak Leasing company Limited ("SPLC") were restructured on 13 September 2010. The details of which are as follows:

- Tenor for repayment extended to March 2017 from March 2013 i.e. by four years.
- Principal Repayment of Rs. 0.131 million per month for the first 12 months including the month of September 2010. Thereafter, residual principal amount will be repaid in 67 monthly installments of Rs. 0.312 million each.
- Mark-up will be paid on following rates:
 - First 24 months @ 6% p.a (3% cash & 3% accrual).
 - 25th month-48th month @ 8% (4% cash & 4% accrual).
 - 49th month-78th month @ 1 month KIBOR (offer side) on cash basis.
- Accrued mark-up as of 13 September 2010 will be paid in forty eight equal monthly installments starting from 13 October 2010 and the mark-up for the said forty eight months will be paid in four equal annual installments starting from September 2014.

FIRST HABIB INCOME FUND

5.3 Government Securities

Issue date	Tenor	Face value				As at 30 June 2011		Market value as percentage of	
		As at 01 July 2010	Purchases during the year	Sold / Matured during the year	As at 30 June 2011	Carrying value	Market value	net assets	total investments
------(Rupees in '000)-----									
11-Mar-2010	1 Year	75,000	-	75,000	-	-	-	-	-
13-Aug-2009	1 Year	150,000	-	150,000	-	-	-	-	-
25-Feb-2010	1 Year	50,000	-	50,000	-	-	-	-	-
27-Aug-2009	1 Year	100,000	-	100,000	-	-	-	-	-
10-Sep-2010	1 Year	25,000	-	25,000	-	-	-	-	-
20-May-2010	1 Year	50,000	-	50,000	-	-	-	-	-
2-Jun-2011	1 Year	-	35,000	-	35,000	31,083	31,053	2.48	2.48
17-Jun-2010	1 Year	-	50,000	50,000	-	-	-	-	-
25-May-2010	1 Year	-	50,000	50,000	-	-	-	-	-
25-Mar-2010	1 Year	-	135,000	135,000	-	-	-	-	-
26-Sep-2009	1 Year	-	15,000	15,000	-	-	-	-	-
11-Mar-2010	6 Months	75,000	-	75,000	-	-	-	-	-
25-Feb-2010	6 Months	200,000	-	200,000	-	-	-	-	-
3-Jun-2010	6 Months	50,000	-	50,000	-	-	-	-	-
11-Feb-2010	6 Months	100,000	-	100,000	-	-	-	-	-
17-Jun-2010	6 Months	75,000	-	75,000	-	-	-	-	-
6-May-2010	6 Months	175,000	-	175,000	-	-	-	-	-
2-Jun-2011	6 Months	-	50,000	-	50,000	47,314	47,288	3.78	3.78
2-Dec-2010	6 Months	-	171,400	171,400	-	-	-	-	-
7-Apr-2011	6 Months	-	80,000	-	80,000	77,281	77,219	6.17	6.17
10-Feb-2011	6 Months	-	218,000	-	218,000	214,886	214,763	17.16	17.17
10-Mar-2011	6 Months	-	50,000	50,000	-	-	-	-	-
13-Jan-2011	6 Months	-	50,000	50,000	-	-	-	-	-
15-Jul-2010	6 Months	-	100,000	100,000	-	-	-	-	-
16-Jun-2011	6 Months	-	140,000	-	140,000	131,791	131,753	10.53	10.53
19-May-2011	6 Months	-	50,000	-	50,000	47,583	47,524	3.80	3.80
21-Apr-2011	6 Months	-	100,000	-	100,000	96,127	96,042	7.67	7.68
24-Feb-2011	6 Months	-	30,000	-	30,000	29,421	29,405	2.35	2.35
24-Mar-2011	6 Months	-	150,000	100,000	50,000	48,542	48,515	3.88	3.88
27-Jan-2011	6 Months	-	50,000	20,000	30,000	29,717	29,707	2.37	2.38
29-Jul-2010	6 Months	-	67,000	67,000	-	-	-	-	-
30-Jun-2011	6 Months	-	60,000	-	60,000	56,175	56,170	4.49	4.49
5-May-2011	6 Months	-	70,000	-	70,000	66,977	66,867	5.34	5.35
3-Jun-2010	3 Months	50,000	-	50,000	-	-	-	-	-
22-Apr-2010	3 Months	50,000	-	50,000	-	-	-	-	-
6-May-2010	3 Months	150,000	-	150,000	-	-	-	-	-
2-Jun-2011	3 Months	-	200,000	-	200,000	196,071	196,036	15.66	15.67
2-Dec-2010	3 Months	-	150,000	150,000	-	-	-	-	-
4-Nov-2010	3 Months	-	310,000	310,000	-	-	-	-	-
7-Apr-2011	3 Months	-	100,000	100,000	-	-	-	-	-
7-Oct-2010	3 Months	-	275,000	275,000	-	-	-	-	-
9-Sep-2010	3 Months	-	325,000	325,000	-	-	-	-	-
10-Feb-2011	3 Months	-	275,000	275,000	-	-	-	-	-
10-Mar-2011	3 Months	-	300,000	300,000	-	-	-	-	-
13-Jan-2011	3 Months	-	390,000	390,000	-	-	-	-	-
13-Aug-2010	3 Months	-	133,000	133,000	-	-	-	-	-
15-Jul-2010	3 Months	-	50,000	50,000	-	-	-	-	-
16-Jun-2011	3 Months	-	115,000	-	115,000	112,157	112,146	8.96	8.97
18-Dec-2010	3 Months	-	65,000	65,000	-	-	-	-	-
19-May-2011	3 Months	-	50,000	-	50,000	49,282	49,259	3.94	3.94
21-Apr-2011	3 Months	-	125,000	125,000	-	-	-	-	-
21-Oct-2010	3 Months	-	150,000	150,000	-	-	-	-	-
23-Sep-2010	3 Months	-	25,000	25,000	-	-	-	-	-
24-Feb-2011	3 Months	-	100,000	100,000	-	-	-	-	-
24-Mar-2011	3 Months	-	125,000	125,000	-	-	-	-	-
26-Aug-2010	3 Months	-	315,000	315,000	-	-	-	-	-
27-Jan-2011	3 Months	-	450,000	450,000	-	-	-	-	-
29-Jul-2010	3 Months	-	85,000	85,000	-	-	-	-	-
30-Dec-2010	3 Months	-	25,000	25,000	-	-	-	-	-
5-May-2011	3 Months	-	100,000	100,000	-	-	-	-	-
16-Nov-2010	3 Months	-	165,000	165,000	-	-	-	-	-
Total as at 30 June 2011						1,234,407	1,233,747		
Total as at 30 June 2010						1,334,278	1,333,212		

5.3.1 Rate of return on above Government securities ranges from 13.16% to 13.88%.

FIRST HABIB INCOME FUND

6. CERTIFICATE OF INVESTMENTS

The Fund had investment in Certificate of Investments amounting to Rs. 6 million in Saudi Pak Leasing Company Limited ("SPLC") as at 30 June 2010. Considering the financial difficulties faced by SPLC the management made provision of Rs. 2.625 million during the financial year ended 30 June 2010 as per the provisioning policy of the fund approved by the Board of Directors of the Management Company. During the year SPLC paid Rs. 4.9 million as full and final settlement and the remaining amount of Rs. 1.1 million has written off.

7. INCOME RECEIVABLE

	2011	2010
	(Rupees in '000)	
Profit accrued on Term Finance Certificates	253	9,853
Profit receivable on Bank Deposits	81	10,268
	<u>334</u>	<u>20,121</u>

8. DEPOSITS

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
		<u>2,600</u>	<u>2,600</u>

8.1 These deposits are non remunerative.

9. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs		1,005	1,529
Less: Amortisation during the year	9.1	(524)	(524)
		<u>481</u>	<u>1,005</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. 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.

11. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

	2011	2010	
	(Rupees in '000)		
Trustee fee	11.1	167	231
CDS charges		1	1
		<u>168</u>	<u>232</u>

11.1 The trustee is entitled to a monthly remuneration for services rendered to the Fund at the rates as follows:

Upto 31 December 2010:

at higher of Rs. 0.7 million or 0.20% per annum of daily net assets where the Net Asset Value does not exceed Rs. 1 billion and at Rs. 2 million plus 0.1% per annum on amount exceeding Rs. 1 billion of average daily net assets of the Fund

From 1 January 2011 onwards:

at higher of Rs. 0.6 million or 0.17% per annum of daily net assets where the Net Asset Value does not exceed Rs. 1 billion and at Rs. 1.7 million plus 0.085% per annum on amount exceeding Rs. 1 billion of average daily net assets of the Fund

12. 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.

13. WORKERS' WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. Consequently, a petition was filed with the Honourable High Court of Sindh by some of Collective Investment Schemes (CISs) through their Trustees on the ground that the CIS (mutual funds) are not establishments and as a result not liable to pay contribution to WWF.

Subsequently, the Ministry of Labour and Manpower (the Ministry) vide its letter dated 8 July 2010 issued advice and clarifications which stated that WWF Ordinance 1971 does not have any provisions for the applicability of WWF on those entities whose incomes are exempt from income tax under any provisions of any law, and West Pakistan Shops and Establishment Ordinance, 1969 is not applicable to any public listed company and any organized financial institutions including Mutual Funds because they are ruled and governed by separate laws. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income on Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

Further, the Secretary (Income Tax Policy) Federal Board of Revenue issued a letter dated 6 October 2010 to the Members (Domestic Operation) North and South FBR. In the letter reference was made to the clarification issued by the Ministry of Labour and Manpower stating that mutual funds are a product and their income are exempted under the law *ibid*. The Secretary (Income Tax Policy) Federal Board of Revenue directed that the Ministry's letter may be circulated amongst field formation for necessary action. Following the issuance of FBR Letter, show cause notice which had been issued by taxation office for two mutual funds for payment of levy under WWF has been withdrawn. However, there have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds including First Habib Income Fund. The Management Company has filed the reply to said show cause notice informing the taxation officer that levy of WWF to mutual funds is subjudice before the court and that the court has directed not to enforce recovery of WWF. Further, MUFAP has requested Member Policy Direct Taxes for withdrawal of such show cause notices issued to such mutual funds. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter 4 January 2011 has cancelled ab-initio clarificatory letter dated 6 October 2010 on applicability of WWF on mutual funds. On 14 December, 2010, the Ministry filed its response to the constitutional petition pending in the Court. As per the legal counsel who is handling the case, there is contradiction between the above earlier letter and clarification of the Ministry and the response filed by the Ministry in the Court.

In view of above stated facts and considering the uncertainty on the applicability of WWF to mutual funds due to show cause notices issued to a number of mutual funds, the management company as a matter of abundant caution has decided to continue to maintain the provision for WWF amounting to Rs. 9.246 million (30 June 2010: Rs. 5.941 million) upto 30 June 2011.

Recently, the Lahore High Court in a petition filed by an industrial establishment has declared the amendments introduced in the WWF Ordinance through Finance Act, 2006 and 2008 as unconstitutional and has therefore struck them down. The Management Company is evaluating the implications of the above developments.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

	2011	2010
	(Rupees in '000)	
Auditors' remuneration	294	285
Brokerage	18	34
Others	560	605
	872	924

FIRST HABIB INCOME FUND

15. 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.

	2011	2010
Units in issue as at 30 June in each class are:		
	(Number of Units)	
Type 'A' Units	634,998	788,892
Type 'B' Units	4,996,607	7,141,324
Type 'C' Units	6,510,286	8,605,860
	<u>12,141,891</u>	<u>16,536,076</u>

16. PROFIT ON BANK DEPOSITS

	(Rupees in '000)	
Income on saving accounts	2,227	8,659
Income on term deposit receipts	12,745	37,246
	<u>14,972</u>	<u>45,905</u>

17. AUDITORS' REMUNERATION

Annual audit fee	220	210
Half yearly review fee	60	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	20
Out of pocket expenses	39	42
	<u>364</u>	<u>347</u>

18. EARNINGS PER UNIT

Earnings per unit (EPU) for the year ended 30 June 2011 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

19. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. The Fund is also exempt from the provisions of section 113 (minimum tax) under clause II of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

No provision for taxation has been made in these financial statements as the Fund subsequent to the year-end, together with the interim distribution, distributed more than 90% of the accounting income for the year to avail exemption from tax as mentioned above. Details of distribution made are given in note 27 to these financial statements.

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 and First Habib Cash Fund being the Funds 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

	2011		2010	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Units sold to:				
<i>Management Company</i>				
Habib Asset Management Limited	103,673	10,500	173,794	17,640
<i>Associated Companies</i>				
- Habib Insurance Company Limited	4,015,420	406,500	5,945,772	607,500
- AL Habib Capital Market (Pvt) Limited	-	-	245,266	25,000
Other related parties:				
- Directors and executives of the Management Company	5,017	510	8,602	875
- Habib Asset Management Limited - Employees Provident Fund	5,372	543	1,663	169
- Mr. Imran Ali Habib	-	-	2,927	300
- Mr. Murtaza Habib	-	-	2,927	300
- Mr. Asghar D. Habib	-	-	2,927	300
- Mr. Qumail Habib	-	-	2,927	300
- Mr. Abbas D Habib	-	-	2,927	300
- Mr. Ali Asad Habib	-	-	2,927	300
Bonus Units Issued:				
<i>Management Company</i>				
Habib Asset Management Limited	55,377	5,547	75,560	7,578
<i>Associated Companies</i>				
- Habib Insurance Company Limited	32,613	3,266	76,594	7,680
- AL Habib Capital Market (Pvt) Limited	13,059	1,308	12,999	1,304
Other related parties				
- Directors and executives of the Management Company	2,429	243	2,618	262
- Habib Sugar Mills Limited - Staff Provident Fund	-	-	11,244	1,128
- Habib Sugar Mills Limited - Employees Gratuity Fund	-	-	11,244	1,128
- Hyderi Hostel Trust	-	-	1,622	163
- Habib Insurance Company Limited- Employees Provident Fund	5,921	594	5,286	516
- Habib Asset Management Limited - Employees Provident Fund	632	64	391	40
- Mrs. Shama Sajjad Habib	13,218	1,325	11,801	1,314
- Mr. Salman Hussain D Habib	140	14	125	13
- Mr. Imran Ali Habib	929	93	559	56
- Mr. Murtaza Habib	995	99	618	62
- Mr. Asghar D. Habib	995	99	618	63
- Mr. Qumail Habib	995	99	618	62
- Mr. Abas D. Habib	995	99	618	62
- Mr. Ali Asad Habib	894	91	527	53
- Mrs. Razia Ali Habib	627	62	559	56
Units redeemed by:				
<i>Management Company</i>				
Habib Asset Management Limited	728,604	74,216	393,311	40,050
<i>Associated Companies</i>				
- Bank AL Habib Limited	1,958,109	200,127	-	-
- Habib Insurance Company Limited	3,820,099	386,650	6,992,447	713,791
- AL Habib Capital Market (Pvt) Limited	258,266	26,227	-	-

FIRST HABIB INCOME FUND

	2011		2010	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Other related parties				
- Directors and executives of the Management Company	13,365	1,350	13,214	1,342
- Hyderi Hostel Trust	-	-	42,943	4,373
- 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	3,288	331	1,473	150
- Mr. Imran Ali Habib	6,044	615	-	-
- Mr. Asghar D. Habib	6,685	680	-	-
Units held by:				
Management Company				
Habib Asset Management Limited	191,646	19,753	761,200	78,046
Associated Companies				
- Bank AL Habib Limited	5,266,182	542,785	7,224,291	740,707
- Habib Insurance Company Limited	227,935	23,493	-	-
- AL Habib Capital Market (Pvt) Limited	13,059	1,346	258,266	26,480
Other related parties				
- Directors and executives of the Management Company	16,964	1,748	24,308	2,491
- Habib Insurance Company Limited- Employees Provident Fund	63,101	6,504	57,180	5,863
- Habib Asset Management Limited - Employees Provident Fund	6,706	691	3,911	409
- Mrs. Shama Sajjad Habib	140,866	14,519	127,648	13,088
- Mr. Salman Hussain D Habib	1,497	154	1,357	139
- Mr. Imran Ali Habib	3,856	397	8,971	920
- Mr. Murtaza Habib	10,609	1,093	9,613	986
- Mr. Asghar D Habib	3,922	404	9,612	986
- Mr. Qumail Habib	10,602	1,093	9,607	985
- Mr. Abas D Habib	10,602	1,093	9,607	985
- Mr. Ali Asad Habib	9,525	982	8,631	885
- Mrs. Razia Ali Habib	6,677	688	6,051	620

Details of transactions with connected persons are as follows:

	2011	2010
	(Rupees in '000')	
Habib Asset Management Limited - Management Company		
Management fee	26,064	28,152
Term Finance Certificate sold	24,154	-
Bank AL Habib Limited		
Profit on bank balance	2,206	5,290
Central Depository Company of Pakistan Limited - Trustee		
Remuneration to the Trustee	2,548	2,883
First Habib Stock Fund-Associated undertaking		
Government securities sold	19,960	-

	2011	2010
	(Rupees in '000')	
First Habib Cash Fund-Associated undertaking		
Government securities sold	59,542	-
Details of balances with connected persons at year end are as follows:		
Bank AL Habib Limited		
Bank balance	10,525	64,801
Habib Asset Management Limited - Management Company		
Management Company fee payable	1,713	2,237
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	168	232
Security deposit - non-interest bearing	100	100

21. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Fund has exposure to following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

Risk management framework

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up based on limits established by the management company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the management company supervises the overall risk management approach within the Fund.

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 management of these risks is carried out by the Investment Committee (IC) under the policies and procedures approved by the Board. IC is constituted by the Board of Directors of the Management Company. IC is responsible to devise the investment strategy and manage the investment portfolio of the Fund in accordance with the limits prescribed and restrictions imposed in the Non-Banking Finance Companies and Notified Entities Regulations, 2008, Rules, and Constitutive Documents of the Fund in addition to the Fund's internal risk management policies.

21.1 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. At the year-end it arises principally from bank balances, investment in debt securities, income receivables and deposits.

Management of credit risk

The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee, its Trust Deed, the requirements of NBFC rules and regulations and guidelines given by SECP from time to time.

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.

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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 2011 is as follows:

	30 June 2011		30 June 2010	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
------(Rupees in '000)-----				
Bank balances	10,598	10,598	164,847	164,847
Investments	1,250,752	17,005	1,570,925	237,713
Certificate of investments	-	-	3,375	3,375
Income receivable	334	334	20,121	20,121
Deposits	2,600	2,600	2,600	2,600
	<u>1,264,284</u>	<u>30,537</u>	<u>1,761,868</u>	<u>428,656</u>

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. 1,233.747 million (2010: Rs. 1,333.212 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 are as follows:

Ratings	2011	2010
AA+	0.00%	7.48%
AA	0.00%	37.94%
AA-	0.00%	37.41%
A+	20.64%	4.33%
Non investment grade	79.36%	12.84%
	<u>100%</u>	<u>100%</u>

Details of securities against investments in debt securities are mentioned in note 5.2.2.

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

Ratings	2011	2010
B	-	100%

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

Ratings	2011	2010
AA+	99.63%	99.97%
AA	0.11%	0.01%
AA-	0.14%	0.01%
A	0.12%	0.01%
	<u>100%</u>	<u>100%</u>

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

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 97.56% 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 30 June, the Fund's total credit risk was concentrated in the following industrial / economic sectors:

	2011 %	2010 %
Banks	38.23%	74.14%
Financial services	61.77%	14.23%
Chemicals	0.00%	10.73%
Cement	0.00%	0.93%
	100%	100%

Past due and impaired assets

None of the financial assets of the Fund are past due / impaired except as disclosed in notes 5.2.2.2. Movement in provision against impaired debts is given in the note 5.2.1.

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

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 2011				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	One to three months	Three months to one year
	(Rupees in '000)				
<i>Non-derivative financial liabilities</i>					
Payable to Habib Asset Management Limited - Management Company	1,713	1,713	1,713	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	168	168	168	-	-
Payable to Securities and Exchange Commission of Pakistan	1,303	1,303	-	1,303	-
Accrued expenses and other liabilities	872	872	578	294	-
	4,056	4,056	2,459	1,597	-

FIRST HABIB INCOME FUND

	30 June 2010				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	One to three months	Three months to one year
----- (Rupees in '000) -----					
<i>Non-derivative financial liabilities</i>					
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>

21.3 Market risk

Market risk is the risk that the Fund's income or 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). The maximum risk resulting from financial instruments equals their fair value.

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.

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, certain Term Finance Certificates, Term Deposit Receipts, Certificate of Investments, 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 and Term finance certificates. 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, details of the interest rate profile of the Fund's interest bearing financial instruments are as follows:

	2011	2010
	(Rupees in '000)	
Fixed rate instruments		
Government securities	1,233,747	1,436,587
Term Finance Certificate	13,645	-
	<u>1,247,392</u>	<u>1,436,587</u>
Variable rate instruments		
Term Finance Certificates	3,360	237,713
Bank balance	10,598	64,847
	<u>13,958</u>	<u>302,560</u>

None of the financial liabilities carry any interest rate risk.

a) Cash flow Sensitivity analysis for variable rate instruments

In case of change of 100 basis points in KIBOR on 30 June 2011, the net assets of the Fund would have been lower/ higher by Rs 0.032 million (2010: Rs. 1.867 million) with consequential effect on net income for the year. The analysis assumes that all other variables remain constant.

b) Fair value Sensitivity analysis for fixed rate instruments

As at 30 June 2011, investment in Government Securities and one term finance certificate carry 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 2011, the net assets

of the Fund would have been lower/ higher by Rs.3.463 million (2010: Rs. 3.27 million) 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 2011 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 2011	Mark-up / profit rate	Less than one month	One to three months	Three months to one year	More than one year	Total
		----- (Rupees in '000) -----				
Assets						
Bank balances	5%-11%	10,598	-	-	-	10,598
Investments	6%-13.88%	46,711	650,123	553,918	-	1,250,752
		<u>57,309</u>	<u>650,123</u>	<u>553,918</u>	<u>-</u>	<u>1,261,350</u>
30 June 2010						
Assets						
Bank balances	5%-12.50%	64,847	100,000	-	-	164,847
Investments	6%-13.90%	230,424	829,915	510,586	-	1,570,925
Certificate of investments and deposits	9.50%	-	-	3,375	-	3,375
		<u>295,271</u>	<u>929,915</u>	<u>513,961</u>	<u>-</u>	<u>1,739,147</u>

None of the Fund's liabilities are subject to interest rate risk.

21.4 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.

FIRST HABIB INCOME FUND

	30 June 2011			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
Term finance certificates	-		17,005	17,005
Government securities	-	1,233,747	-	1,233,747
	<u>-</u>	<u>1,233,747</u>	<u>17,005</u>	<u>1,250,752</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 2011 (Rupees in '000)
Balance as at 01 July 2010	209,790
Amortisation of discount / premium for the year - net	6,949
Revaluation loss for the year	(6,497)
Purchase during the year (at cost)	19,645
Redemption during the year	(20,032)
Sale during the year	(189,034)
Provision made during the year	(3,816)
Balance as at 30 June 2011	<u>17,005</u>

	30 June 2010			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
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 in '000)
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 year	(28,983)
Sale during the year	(258,312)
Provision made during the year	(5,466)
Balance as at 30 June 2010	<u>209,790</u>

23. PATTERN OF UNIT HOLDING

Unit holding pattern of the fund as at 30 June 2011 is as follows:

Category	Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals	192	1,175,650	121,174	9.68%
Associated companies	23.1 4	5,698,822	587,377	46.94%
Chief executive	23.2 1	14,371	1,481	0.12%
Executives	1	2,593	267	0.02%
Bank / financial institutions	3	1,931,349	199,064	15.91%
Insurance companies	3	110,139	11,352	0.91%
Non banking finance companies	4	1,515,754	156,229	12.48%
Retirement funds	13	543,956	56,065	4.48%
Public limited companies	1	3,280	338	0.03%
Others	15	1,145,977	118,116	9.44%
	<u>237</u>	<u>12,141,891</u>	<u>1,251,463</u>	<u>100%</u>

FIRST HABIB INCOME FUND

Unit holding pattern of the Fund as at 30 June 2010 was 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	3	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
		<u>283</u>	<u>16,536,076</u>	<u>1,695,463</u>	<u>100</u>

23.1 Associated companies

	30 June 2011			30 June 2010		
	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	191,646	19,753	1.58	761,200	78,046	4.60
Habib Insurance Company Limited	227,935	23,493	1.88	-	-	-
Bank AL Habib Limited	5,266,182	542,785	43.37	7,224,291	740,715	43.69
AL Habib Capital Market (Private) Limited	13,059	1,346	0.11	258,266	26,480	1.56
	<u>5,698,822</u>	<u>587,377</u>	<u>46.94</u>	<u>8,243,757</u>	<u>845,242</u>	<u>49.85</u>

23.2 Chief executive

Imran Azim	14,371	1,481	0.12	20,533	2,105	0.12
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24. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker name	2011 (Percentage)	2010
Atlas Capital Markets	2.32%	4.93%
JS Global Securities	18.40%	11.29%
Al Falah Securities	-	2.94%
BMA Capital	38.74%	32.14%
Global Securities Pakistan Limited	12.67%	20.75%
IGI Finex Securities Limited	6.20%	0.16%
Summit Capital (Private) Limited	1.19%	-
Elixir Securities Pakistan (Private) Limited	-	3.33%
Invisor Securities (Private) Limited	0.15%	0.16%
KASB Securities Limited	19.53%	19.03%
Invest Capital Markets Limited	0.79%	5.27%
	<u>100.00%</u>	<u>100.00%</u>

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	55 Years
Imran Azim	Chief Executive Officer	BA, MBA	34 Years
Mr. Mansoor Ali	Director	MBA	26 Years

FIRST HABIB INCOME FUND

25.1 Other Funds managed by the Fund Manager

Mr. Junaid Kasbati - Fund Manager

Mr. Junaid Kasbati is an MBA and possesses over six years of rich and valuable experience and in-depth understandings of money market/fixed income investments. He is also an associate member of Financial Market Association of Pakistan (FMAP). He started his career from Jahangir Siddiqui & Company Limited as a Dealer in Fixed Income Sales. Subsequently he joined Global Securities Pakistan Limited as a Senior Dealer money market and gained expertise in dealing with Financial Institutions. Before joining Habib Asset Management he was Head of Treasury in Crescent Leasing Corporation Limited where he was supervising the money market and equity operations. He is currently serving in capacity of Fund Manager for First Habib Stock Fund and First Habib Cash Fund.

26. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 32nd, 33rd, 34th, 35th and 36th and 37th board meetings were held on 5 July 2010, 27 September 2010, 7 October 2010, 3 January 2011, 18 February 2011 and 13 April 2011 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	6	5	1	32nd meeting
Imran Azim	6	6	-	-
Mansoor Ali	6	6	-	-
Mohammad Ali Jameel	6	3	3	32nd meeting, 36th meeting & 37th meeting

27. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors have approved final cash dividend for class 'C' unit holders @ Rs. 3.00 per unit and bonus units @ 2.9979 for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2011, amounting to Rs. 36.425 million, in their meeting held on 04 July 2011. These financial statement do not reflect this distribution.

28. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the Management Company on **06 October 2011**.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

ANNUAL FUND MANAGER REPORT FINANCIAL YEAR 2011

FUND OBJECTIVE

First Habib Income Fund is an open ended income fund. The objective of the 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 the investors.

FUND DESCRIPTION

Fund Type/Category	Open end-Income Scheme	Auditors External	KPMG Taseer Hadi & Co
Launch Date	2-Jun-07	Auditors Internal	A. F. Ferguson & Co.
Benchmark	1 month KIBOR (13.62%)	Management Fee	1.50% p.a.
FHIF Return	10.93%	Sales Load	Front end (NIL), Back end (0.50%) if redeemed within 15 days from the date of investment.
Net Assets	Rs. 1.25 billion (June 30, 2011)	Minimum Subscription	Initial investment of Rs. 5,000/- Subsequently Rs. 1,000 per transaction.
NAV per Unit	Rs. 103.07 per unit (June 30, 2011)	Dealing Days/Timings	Monday to Friday/ 9.00 am to 4:30 pm
Pricing Mechanism	Forward Pricing	Fund Stability Rating	"AA- (f) " by PACRA
Trustee	Central Depository Company of Pakistan Ltd.	AMC Rating	"AM3-" by PACRA

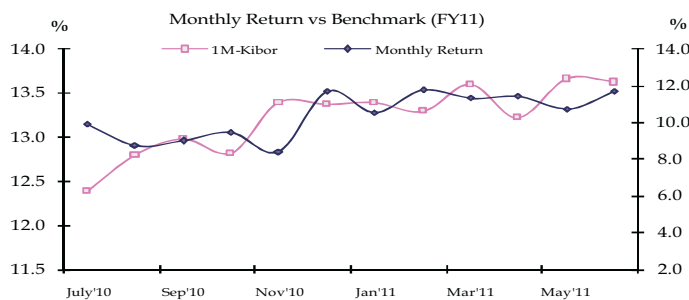
MARKET REVIEW

KEY MARKET STATISTICS					
Description	2011	2010	Change	High	Low
Discount Rate (%)	14.00	12.50	1.50	14.00	12.50
1M- KIBOR(%)	13.62	12.45	1.17	13.66	12.35
6M-KIBOR(%)	13.78	12.37	1.41	13.94	12.41
3M-TBILL-Cut off yield(%)	13.49	12.10	1.39	13.67	12.10
6M-TBILL-Cut off yield(%)	13.74	12.30	1.44	13.76	12.35
12M-TBILL-Cut off yield(%)	13.91	12.42	1.49	13.91	12.46
3M-PKRV	13.46	12.13	1.33	13.62	12.07
6M-PKRV	13.68	12.26	1.42	13.71	12.31
1Y-PKRV	13.85	12.38	1.47	13.85	12.42
PKRs/\$	85.95	85.61	0.34	86.21	83.28

Financial Year 2011 started with a devastated flood in the country which disturbed the momentum of economic recovery. The fiscal deficit caused the government to borrow from SBP in large numbers which has now reached the highest level of Rs. 2.90 trillion, up by 33% from the last year. The inflation remained in double digit during the year at around 13.00% with core at 10.40% and food at 15.70%.

On money market front, a rising pattern was witnessed in T-Bills cut off yield due to increase in discount rate by 150 bps by State Bank of Pakistan (SBP). The T-Bill Cut Offs of 3 and 6 months jumped by 138 bps each while 12 months' increased by 145 bps providing an yield of 13.48%, 13.73% and 13.90% for 3, 6 and 12 months respectively. As a result of increase in discount rate, KIBOR also showed an increasing trend with 1 month and 6 month KIBOR touching its highest level of 13.66% and 13.94% and finally settled at 13.62% and 13.78% respectively.

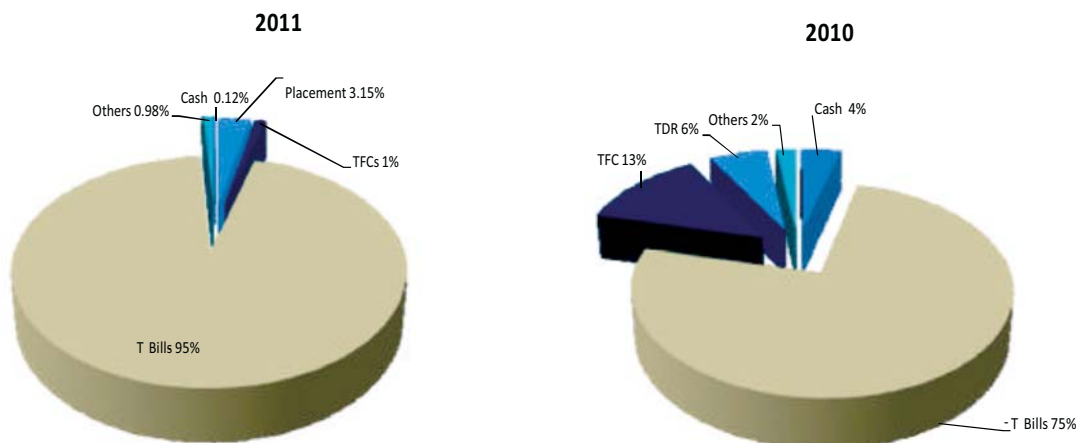
FUND PERFORMANCE REVIEW



During the year under review, the management maintained the stance to invest in safe avenues and therefore disinvested almost all the TFCs. As at June 30, 2011 FHIF was invested up to 96.80% in T-Bills. The return of FHIF after reallocation improved in comparison with other income funds with no major

fluctuations in NAVs during the year. FHIF closed the financial year with handsome return of 10.93% p.a. as compared to corresponding year's return of 10.22% p.a.

ASSET ALLOCATION



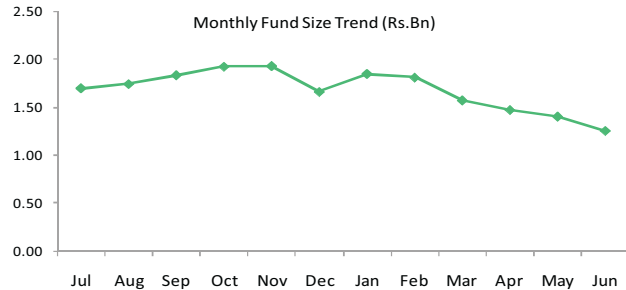
INCOME DISTRIBUTION

FHIF distributed an amount of Rs.10.50 per Unit as dividend for the year ended June 30, 2011. The details of quarterly dividend distribution during the year 2010 and 2011 are given as under;

Year	2011	2010	2011	2010	2011	2010	2011	2010
Quarters	Jul-Sep		Oct-Dec		Jan-Mar		Apr-June	
Opening NAV	100.03	100.05	100.12	100.27	100.06	100.31	100.19	100.11
Closing NAV	102.37	102.77	102.66	103.31	102.84	102.33	103.07	102.53
Dividend	2.25	2.50	2.60	3.00	2.65	2.25	3.00	2.50

FUND SIZE

The net assets of FHIF stood at Rs. 1.25 billion as at June 30, 2011 in comparison to the last year's net assets of Rs. 1.70 billion. The fund size attained its highest level of Rs. 1.93 billion in November 2010.



SALES AND REDEMPTIONS OF UNITS

During the period under review, 12,750,846 units of the value of Rs. 1,291 million were sold while 17,976,686 units of the value of Rs. 1,832 million were redeemed resulting in to a net redemption of 5,225,840 units during the year.

NON COMPLIANT INVESTMENT

The non compliant investments as on June 30, 2011 are disclosed below 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
		Rs.	Rs.	Rs.		
Gharibwal Cement Ltd.	PPTFC	16,535,199	16,535,199	-	0.00%	0.00%
Saudi Pak Leasing Co. Ltd.	TFC	13,644,809	-	13,644,809	1.09%	1.07%

UNIT HOLDER PATTERN

The breakdown of Unit Holding by size as on June 30, 2011 is as follows:

Category	No. of units holder	No. of Units	% of Total Units
Individuals	192	1,175,650	9.68%
Associated Companies /Directors/ Executives	5	5,713,193	47.05%
Banks/DFIs	3	1,931,349	15.91%
Insurance Companies	3	110,139	0.91%
Retirement Funds	13	543,956	4.48%
Corporate	21	2,667,604	21.97%
Total	237	12,141,891	100.00%

FHIF PERFORMANCE AT A GLANCE

	2011	2010	2009	2008
Net Assets as at June 30, (Rs. in Millions)	1,251	1,695	1,732	1,907
NAV per unit June 30, (Rs)	103.07	102.53	102.15	102.33
Highest NAV	103.24	103.31	102.9	107.14
Lowest NAV	100.06	100.11	95.02	100.15
Total Distribution (Rs)	10.50	10.25	6.35	9.25
Annual Return	10.93%	10.22%	6.31%	9.12%

FIRST HABIB STOCK FUND

Annual Report

For the year ended June 30, 2011

FIRST HABIB STOCK FUND

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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 Shahra-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 is pleased to present the second Annual Report of First Habib Stock Fund (FHSF) for the year ended June 30, 2011.

MARKET REVIEW

The stock market performed well during the financial year ended June 30, 2011. The surge in exports by 29% and growth of 9% in country's foreign exchange reserves contributed towards bringing some stability in the economy. The KSE-100 index after constantly maintaining a level of 12000 for some time closed at 12496 on June 30, 2011 compared to 9722 on June 30, 2010.

FUND'S PERFORMANCE

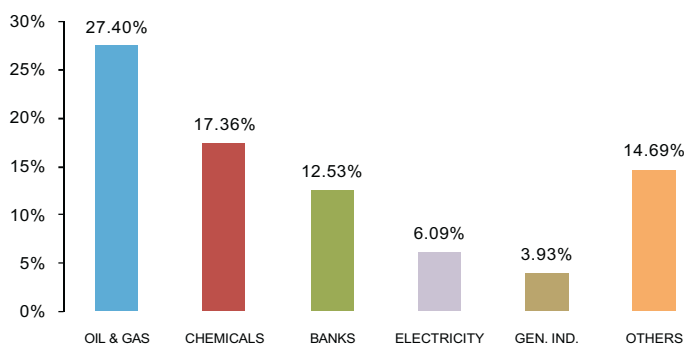
During the period under review, FHSF earned a gross income of Rs. 28.90 million as mentioned below:

	(Rs. in millions)
Gain on sale of investments	10.701
Dividend income	6.680
Profit on bank deposits	0.661
Income from government securities	1.781
Unrealized appreciation in value of Investments	9.083
Total Gross Income	28.900

After deducting the total expenses of Rs. 6.139 million from gross income, the net profit amounted to Rs. 21.06 million.

SECTORWISE INVESTMENT

The Fund has a diversified portfolio comprising 31 scrips spread over all major sectors. The sector wise investments as of June 30, 2011 are as follows:

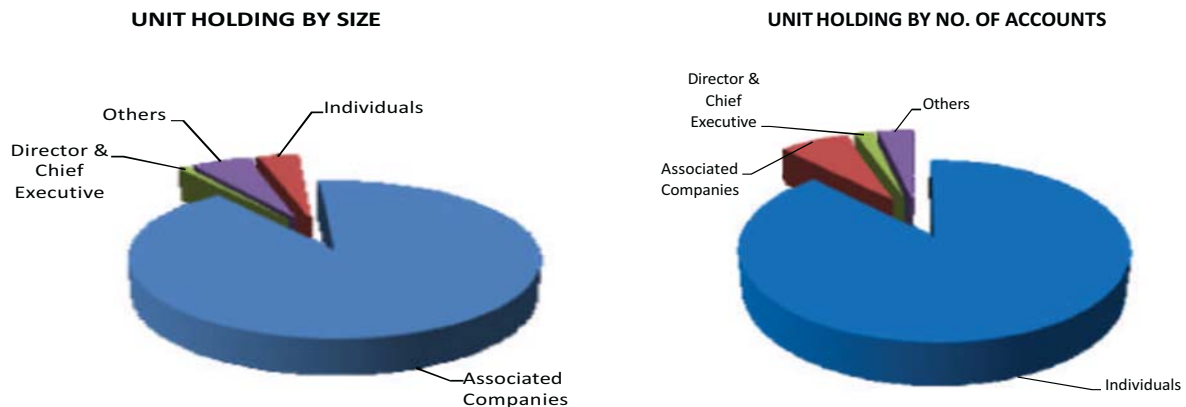


INCOME DISTRIBUTION

For the year 2011, FHSF has declared a total distribution of Rs. 12.80 per Unit. Of this amount, Rs. 2.80 was paid as interim dividend and Rs. 10.00 was paid as 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 22 to the Accounts.

FUND PERFORMANCE RANKING

JCR-VIS has assigned 2-Star fund performance ranking to First Habib Stock Fund.

FUTURE OUTLOOK

The expected reduction in discount rate along with high corporate payouts will have a positive impact on the confidence level for foreign and local investors.

AUDITORS

The Board of Directors of the Management Company, on the recommendation of the Audit Committee has appointed Messrs Ford Rhodes Sidat Hyder & Co., Chartered Accountants as the Fund's auditors for the year ending June 30, 2012.

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, 2011 forms part of this annual report.
2. Statements under clause xix of the Code:
 - 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.
 - Proper books of account of FHSF have been maintained.
 - Appropriate accounting policies have been 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.

FIRST HABIB STOCK FUND

- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no doubt upon FHSF'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, duties, levies and charges if any, have fully disclosed in the accounts.
- The details of Board Meetings held and attended by the Directors are disclosed in note 25 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 is provided in note 19 to the accounts.

ACKNOWLEDGMENT

The Board is thankful to its valued Unit-holders, Central Depository Company of Pakistan Limited as Trustee, the Securities and Exchange Commission of Pakistan and the management of Lahore Stock Exchange for their support and cooperation.

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

October 06, 2011

Ali Raza D. Habib
Chairman

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 during the year ended June 30, 2011 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 10, 2011
Karachi

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30 JUNE 2011**

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 XI 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 practices 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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. There was a casual vacancy on the Board as at 30 June 2011 for independent director which has been filled with the approval of SECP subsequent to year end.
5. The Management Company has adopted a "Code of Business Ethics and Best 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 year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the 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.
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 19 to the financial statements "Transactions with Connected Persons".
14. The Management Company has established adequate procedures and systems for related party transactions vis-à-vis the pricing method for related party transactions. All the related party transactions are placed before the Audit Committee and the Board of Directors for their review and approval.
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. The term of reference of the committee have been formed and advised to the committee for compliance.
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 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 Accountants of Pakistan.
20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirmed that all other material principles contained in the Code have been complied with.

October 06, 2011
Karachi.

Imran Azim
Chief executive officer

**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' 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 2011.

October 06, 2011
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

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 2011, and the income statement, statement of comprehensive income, distribution statement, statement of cash flows, statement of movement in unit holders' funds for the year 30 June 2011 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, and for such internal control as the Management Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2011, and of its financial performance, cash flows and transactions for the year ended 30 June 2011 are 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.

06 October, 2011
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

FIRST HABIB STOCK FUND

STATEMENT OF ASSETS AND LIABILITIES

AS AT 30 JUNE 2011

	Note	2011 (Rupees in '000)	2010
Assets			
Bank balances	4	2,351	10,103
Investments	5	117,988	117,683
Dividend and Income receivable	6	538	515
Deposits	7	2,600	2,600
Receivable against sale of investments		374	244
Preliminary expenses and floatation costs	8	655	855
Total assets		124,506	132,000
Liabilities			
Payable to Habib Asset Management Limited - Management Company	9	306	1,321
Payable to Central Depository Company of Pakistan Limited - Trustee	10	58	59
Payable to Securities and Exchange Commission of Pakistan	11	120	100
Workers' Welfare Fund	12	430	-
Accrued expenses and other liabilities	13	288	293
Total liabilities		1,202	1,773
Net assets		123,304	130,227
Unit holders' funds (as per statement attached)		123,304	130,227
		(Number of units)	
Number of units in issue	14	1,119,795	1,364,706
		(Rupees)	
Net asset value per unit		110.11	95.43

The annexed notes 1 to 27 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	<i>Note</i>	For the year ended 30 June 2011	For the period from 10 October 2009 to 30 June 2010
(Rupees in '000)			
Income			
Profit on bank deposits	15	661	2,247
Income from Government Securities		1,781	1,233
Return on margin deposit		-	7
Dividend income		6,680	4,029
Gain on sale of investments at fair value through profit or loss		10,701	5,973
Unrealised appreciation / (diminution) on investments at fair value through profit or loss		<u>9,083</u>	<u>(14,145)</u>
Total income / (loss)		28,906	(656)
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	9.1	3,797	3,172
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	700	506
Annual fee - Securities and Exchange Commission of Pakistan	11	120	100
Brokerage		153	240
Settlement and bank charges		214	198
Annual listing fee		20	95
Auditors' remuneration	16	259	280
Amortisation of preliminary expenses and floatation costs	8	200	145
Workers welfare fund	12	430	-
Mutual fund rating fee		125	-
Legal and professional charges		31	-
Federal excise duty		24	-
Printing and stationery		66	97
Total expenses		6,139	4,833
Net income / (loss) from operating activities		<u>22,767</u>	<u>(5,489)</u>
Net element of income / (loss) and capital gains / (loss) included in prices of units issued less those in units redeemed		(1,702)	(754)
Net income / (loss) for the year / period		<u>21,065</u>	<u>(6,243)</u>

The annexed notes 1 to 27 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 2011

	For the year ended 30 June 2011	For the period from 10 October 2009 to 30 June 2010
	(Rupees in '000)	
Net income / (loss) for the year / period	21,065	(6,243)
Other comprehensive income / (loss) for the year / period	-	-
Total comprehensive income/ (loss) for the year / period	<u>21,065</u>	<u>(6,243)</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

DISTRIBUTION STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	For the year ended 30 June 2011	For the period from 10 October 2009 to 30 June 2010
	(Rupees in '000)	
Undistributed income as at 1 July (Realized)	7,902	-
Undistributed loss as at 1 July (Un-realised)	(14,145)	-
Undistributed loss brought forward	(6,243)	-
Net income / (loss) for the year/ Period	21,065	(6,243)
Interim cash dividend distribution for Class 'C' unit holders @ Rs.2.8 per unit and bonus units @ 2.6025 units for Class 'A' and 'B' unit holders for every 100 units held as at 3 January 2011	(3,497)	-
Undistributed income carried forward	11,325	(6,243)
Undistributed income as at 30 June (Realised)	5,654	7,902
Undistributed income / (loss) as at 30 June (Un-Realised)	5,671	(14,145)
Undistributed income / (loss) carried forward	11,325	(6,243)

The annexed notes 1 to 27 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 2011

	For the year ended 30 June 2011		For the period from 10 October 2009 to 30 June 2010	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Net assets at the beginning of the year / period	1,364,706	130,227	-	-
Amount received on issue of units	67,433	7,441	1,548,894	154,880
Amount paid on redemption of units	(331,837)	(35,731)	(184,188)	(19,164)
	(264,404)	(28,290)	1,364,706	135,716
Net element of (income) / loss and capital (gain) / loss included in prices of units issued less those in units redeemed	-	1,702	-	754
Issue of bonus units on 3 January 2011 @ 2.6025% for Class 'A' and 'B'	19,493	-	-	-
Interim dividend distribution on 3 January 2011 @ 2.80% for Class 'C'	-	(1,400)	-	-
Net income / loss for the year / period	-	21,065	-	(6,243)
Net assets at the end of the year/ period	1,119,795	123,304	1,364,706	130,227

The annexed notes 1 to 27 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	For the year ended 30 June 2011	For the period from 10 October 2009 to 30 June 2010
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income / (loss) for the year / period	21,065	(6,243)
Adjustments for non-cash items		
Unrealised appreciation / (diminution) on investments at fair value through profit or loss	(9,083)	14,145
Net element of income / (loss) and capital gains / (loss) included in prices of units issued less those in units redeemed	1,702	754
Amortisation of preliminary expenses and floatation costs	200	145
Provision for worker's welfare fund	430	-
	<u>14,314</u>	<u>8,801</u>
(Increase) / decrease in assets		
Investments	8,778	(131,828)
Dividend and Income receivable	(23)	(515)
Deposits	-	(2,600)
Receivable against sale of investments	(130)	(244)
Preliminary expenses and floatation costs	-	(1,000)
	<u>8,625</u>	<u>(136,187)</u>
Increase / (decrease) in liabilities		
Payable to Habib Asset Management Limited - Management Company	(1,015)	1,321
Payable to Central Depository Company of Pakistan Limited - Trustee	(1)	59
Payable to Securities and Exchange Commission of Pakistan	20	100
Accrued expenses and other liabilities	(5)	293
	<u>(1,001)</u>	<u>1,773</u>
Net cash flow from operating activities	<u>21,938</u>	<u>(125,613)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Net (payment) / receipts from sale and redemption of units	(28,290)	135,716
Dividend paid during the year	(1,400)	-
	<u>(29,690)</u>	<u>135,716</u>
Net (decrease) / increase in cash and cash equivalents during the year / period	<u>(7,752)</u>	<u>10,103</u>
Cash and cash equivalents at the beginning of the year / period	<u>10,103</u>	<u>-</u>
Cash and cash equivalents as at 30 June	<u>2,351</u>	<u>10,103</u>
Cash and cash equivalents at the end of the year comprise of :		
Cash at bank - saving accounts	<u>2,351</u>	<u>10,103</u>

The annexed notes 1 to 27 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 2011

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 and a performance ranking of 'MFR 2-Star' to the Fund.

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.

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' which 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:

Classification and fair value of investments

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 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.

Workers' welfare fund

For details refer note 12 to these financial statements.

Other assets

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

2.5 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards and new interpretations became effective however they did not have any material effect on the financial statements of the Fund.

New / revised accounting standards, amendments to published accounting standards, and interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2011:

- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after 1 January 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on Financial Statements of the Fund.
- 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. This amendment has no impact on Fund's Financial Statements.
- Improvements to IFRSs 2010 – In May 2010 the IASB issued improvements to IFRSs 2010 which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after 1 January 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements, 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 and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customer. Certain of these amendments will result in increased disclosures in the financial statements.

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on Financial Statements of the Fund.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on Financial Statements of the Fund.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on Financial Statements of the Fund.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on Financial Statements of the Fund.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on Financial Statements of the Fund.

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.

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.

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 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.

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.

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 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.

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 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 gains / (losses) included in prices of units issued less those in units redeemed

An equalization account called the element of income / (loss) and capital gains / (losses) 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 year end.

3.6 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 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.

3.7 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)

Dividend distributions (including the bonus units) declared subsequent to the balance sheet date are recorded in the period in which the distributions are approved. As per regulation 63 of Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute ninety percent of the net accounting income, excluding unrealised capital gain, to the unit holders.

4. BANK BALANCES

This represents balance with Bank Al Habib Limited. The balance is held in saving account and carries profit rate of 10.5 to 11% (2010:11%) per annum.

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

		2011	2010
		(Rupees in 000)	
Equity securities	5.1	102,214	117,683
Government securities	5.2	15,774	-
		<u>117,988</u>	<u>117,683</u>

FIRST HABIB STOCK FUND

5.1 Equity securities

Name of the Investee	Number of Shares					As at 30 June 2011		Market Value as a Percentage of:	
	As at 30 June 2010	Acquired during the year	Bonus / Right issue	Sold during the year	As at 30 June 2011	Carrying value	Market value	Net assets	Total investment
(Rupees in '000)									
AUTOMOBILE PARTS & ACCESSORIES									
Pak Suzuki Motor Company Limited	28,760	2,500	-	5,988	25,272	2,008	1,581	1.28%	1.34%
BANKS									
Bank Al-Falah Limited	73,000	-	-	73,000	-	-	-	-	-
United Bank Limited	-	59,500	-	27,000	32,500	2,073	2,012	1.63%	1.71%
Habib Bank Limited	70,945	500	2,444	49,537	24,352	2,155	2,826	2.29%	2.40%
Habib Metropolitan Bank Limited	82,000	33,877	11,400	40,000	87,277	1,708	1,900	1.54%	1.61%
MCB Bank Limited	21,500	18,500	1,870	16,300	25,570	4,641	5,096	4.13%	4.32%
National Bank Of Pakistan	45,875	32,100	9,743	13,000	74,718	3,918	3,767	3.06%	3.19%
Allied Bank Limited	-	5,415	-	5,415	-	-	-	-	-
Askari Bank Limited	-	21,000	-	21,000	-	-	-	-	-
CHEMICALS									
Dawood Hercules Chemicals Limited	24,537	4,498	45,474	21,877	52,632	2,349	3,422	2.78%	2.90%
Engro Chemical (Pakistan) Limited	18,800	32,000	2,260	17,000	36,060	6,460	5,887	4.77%	4.99%
Fauji Fertilizer Bin Qasim Limited	52,500	27,514	-	19,500	60,514	1,938	2,551	2.07%	2.16%
Fauji Fertilizer Company Limited	65,100	23,800	9,800	40,700	58,000	5,805	8,720	7.07%	7.39%
I.C.I Pakistan Limited	47,676	11,000	-	58,676	-	-	-	-	-
Lotte Pakistan Limited	57,000	60,000	-	42,000	75,000	1,012	1,037	0.84%	0.88%
CONSTRUCTION AND MATERIALS									
Attock Cement Pakistan Limited	12,400	22,145	-	3,000	31,545	1,852	1,531	1.24%	1.30%
D. G. Khan Cement Company Limited	49,500	2,000	-	16,500	35,000	833	805	0.65%	0.68%
D. G. Khan Cement Company Limited (Right)	-	7,000	-	7,000	-	-	-	-	-
Lucky Cement Limited	-	8,500	-	5,500	3,000	208	213	0.17%	0.18%
Fauji Cement Co. Limited	-	68,500	-	68,500	-	-	-	-	-
ELECTRICITY									
Hub Power Company Limited	116,000	2,000	-	29,500	88,500	2,833	3,319	2.69%	2.81%
Kot Addu Power Company	157,500	3,500	-	61,000	100,000	4,169	4,261	3.46%	3.61%
Nishat Power Limited	-	10,000	-	10,000	-	-	-	-	-
FINANCIAL SERVICES									
Jahangir Siddiqui Company Limited	53,000	-	-	53,000	-	-	-	-	-
FIXED LINE TELECOMMUNICATION									
Pakistan Telecommunication Corporation Limited	182,600	25,500	-	5,000	203,100	3,555	2,888	2.34%	2.45%
GENERAL INDUSTRY									
Packages Limited	54,700	-	-	22,635	32,065	3,800	3,527	2.86%	2.99%
Tri-Pack Films Limited	23,515	1,000	-	16,544	7,971	778	1,365	1.11%	1.16%
INDUSTRIAL ENGINEERING									
Millat Tractors Limited	1,561	500	225	2,286	-	-	-	-	-
Al Ghazi Tractors Limited	7,713	11,472	-	5,213	13,972	2,941	3,219	2.61%	2.73%
INDUSTRIAL METALS AND MINING									
International Industries Limited	26,987	7,945	4,997	39,929	-	-	-	-	-
International Steel Limited	-	359,500	-	10,000	349,500	4,916	4,757	3.86%	4.03%
NON LIFE INSURANCE									
Adamjee Insurance Company Limited	26,400	5,050	-	31,450	-	-	-	-	-
EFU Insurance Company Limited	63,506	-	-	63,506	-	-	-	-	-
Habib Insurance Company Limited	19,006	-	2,375	-	21,381	239	236	0.19%	0.20%
OIL & GAS									
National Refinery Limited	46,220	8,420	-	48,235	6,405	1,599	2,256	1.83%	1.91%
Oil & Gas Development Company Limited	41,000	17,000	-	34,800	23,200	3,321	3,549	2.88%	3.01%
Pakistan Oilfields Limited	27,000	15,600	-	19,000	23,600	6,229	8,473	6.87%	7.18%
Pakistan Petroleum Limited	41,500	4,806	6,400	23,000	29,706	4,716	6,151	4.99%	5.21%
Pakistan State Oil Company Limited	27,000	20,600	-	26,000	21,600	5,799	5,715	4.63%	4.84%
Shell Pakistan Limited	20,795	1,957	-	22,752	-	-	-	-	-
Attock Petroleum Limited	-	10,676	-	500	10,176	3,692	3,808	3.09%	3.23%
Attock Refinery Limited	-	21,500	-	-	21,500	2,703	2,638	2.14%	2.24%
Byco Petroleum Limited	-	168,424	-	-	168,424	1,765	1,528	1.24%	1.30%
PHARMA AND BIO TECHNOLOGY									
Abbot Laboratories (Pakistan) Limited	34,556	3,523	-	4,108	33,971	3,113	3,176	2.58%	2.69%
Total as at 30 June 2011					1,776,511	93,128	102,214	83%	
Total as at 30 June 2010						131,828	117,683		

5.1.1 Cost of investments at "fair value through profit or loss" as at 30 June 2011 amounted to Rs. 96.540 million (2010: 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 2011		Market value as a percentage of net assets	Market value as a percentage of total investments
		As at 01 July 2010	Purchased during the period	Disposed / Matured during the year	As at 30 June 2011	Carrying value	Market Value		
------(Rupees in '000)-----									
10 February 2011	3 Months	-	5,000	5,000	-	-	-	-	-
21 April 2011	3 Months	-	6,000	-	6,000	5,973	5,972	5%	5%
02 June 2011	3 Months	-	10,000	-	10,000	9,804	9,802	8%	8%
04 November 2010	3 Months	-	20,000	20,000	-	-	-	-	-
10 March 2011	3 Months	-	10,000	10,000	-	-	-	-	-
13 August 2010	3 Months	-	20,000	20,000	-	-	-	-	-
21 October 2010	3 Months	-	8,000	8,000	-	-	-	-	-
13 August 2009	1 Year	-	20,000	20,000	-	-	-	-	-
Total as at 30 June 2011						15,777	15,774	13%	
Total as at 30 June 2010						-	-		

5.2.1 Rate of return on the above government securities ranges from 13.25% to 13.44%.

6. DIVIDEND AND INCOME RECEIVABLE

2011 2010
(Rupees in '000)

Dividend receivable	508	431
Profit receivable on saving account	30	84
	<u>538</u>	<u>515</u>

7. DEPOSITS

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

7.1 These deposits are non-remunerative

8. PRELIMINARY EXPENSES AND FLOATATION COSTS

Opening balance	8.1	855	1,000
Less: Amortization for the year/ period		(200)	(145)
Balance as at 30 June		<u>655</u>	<u>855</u>

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	306	321
Preliminary expenses and floatation costs		-	1,000
		<u>306</u>	<u>1,321</u>

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 current year in accordance with the Trust Deed.

10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

Trustee fee	10.1	58	58
CDS charges		-	1
		<u>58</u>	<u>59</u>

FIRST HABIB STOCK FUND

- 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 (Rs. in million)	Tariff
Upto 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 the 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. WORKER'S WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. Consequently, a constitutional petition was filed with the Honourable High Court of Sindh by some of Collective Investment Schemes (CISs) through their Trustees on the ground that the CIS (mutual funds) are not establishments and as a result not liable to pay contribution to WWF.

Subsequently, the Ministry of Labour and Manpower (the Ministry) vide its letter dated 8 July 2010 issued advice and clarifications which stated that WWF Ordinance 1971 does not have any provisions for the applicability of WWF on those entities whose incomes are exempt from income tax under any provisions of any law, and West Pakistan and West Pakistan Shops and Establishment Ordinance, 1969 is not applicable to any public listed company and any organized financial institutions including Mutual Funds because they are ruled and governed by separate laws. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income on Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

Further, the Secretary (Income Tax Policy) Federal Board of Revenue issued a letter dated 6 October 2010 to the Members (Domestic Operation) North and South FBR. In the letter reference was made to the clarification issued by the Ministry of Labour and Manpower stating that mutual funds are a product and their income are exempted under the law *ibid*. The Secretary (Income Tax Policy) Federal Board of Revenue directed that the Ministry's letter may be circulated amongst field formation for necessary action. Following the issuance of FBR Letter, show cause notice which had been issued by taxation office for two mutual funds for payment of levy under WWF has been withdrawn. However, there have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds and MUFAP has requested Member Policy Direct Taxes for withdrawal of such show cause notices issued to such mutual funds. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter 4 January 2011 has cancelled ab-initio clarificatory letter dated 6 October 2010 on applicability of WWF on mutual funds. On 14 December 2010, the Ministry filed its response to the constitutional petition pending in the Court. As per the legal counsel who is handling the case, there is contradiction between the above earlier letter and clarification of the Ministry and the response filed by the Ministry in the Court.

In view of above stated facts and considering the uncertainty on the applicability of WWF to mutual funds, the management company as a matter of abundant caution has decided to maintain provision for WWF amounting to Rs. 0.430 million upto 30 June 2011.

Recently, the Lahore High Court in a petition filed by an industrial establishment has declared the amendments introduced in the WWF Ordinance through Finance Act, 2006 and 2008 as unconstitutional and has therefore struck them down. The Management Company is evaluating the implications of the above developments.

13. ACCRUED EXPENSES AND OTHER LIABILITIES	2011	2010
	(Rupees in '000)	
Auditors' remuneration	228	224
Brokerage	-	5
Printing charges	42	47
Others	18	17
	<u>288</u>	<u>293</u>

14. 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:	2011	2010
	(Number of Units)	
Type 'A' Units	61,222	200,000
Type 'B' Units	199,464	664,706
Type 'C' Units	<u>859,109</u>	<u>500,000</u>
	<u>1,119,795</u>	<u>1,364,706</u>

(Rupees in '000)

15. PROFIT ON BANK DEPOSITS

Mark-up income on saving account	<u>661</u>	<u>2,247</u>
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16. AUDITORS' REMUNERATION

Annual audit fee	165	160
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	20
Out of pocket expenses	<u>19</u>	<u>25</u>
	279	280
	<u>(20)</u>	<u>-</u>
Reversal of provision of Income Certification fee for the period ended 30 June 2010	<u>259</u>	<u>280</u>

17. EARNINGS PER UNIT

Earnings per unit (EPU) for the year ended 30 June 2011 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

18. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. The Fund is also exempt from the provisions of section 113 (minimum tax) under clause II of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

No provision for taxation has been made in these financial statements as the Fund subsequent to the year-end, together with the interim distribution, distributed more than 90% of the accounting income for the year to avail exemption from tax as mentioned above. Details of distribution made are given in note 26 to these financial statements.

19. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Habib Asset Management Limited being the Management Company, AL Habib Capital Markets (Private) Limited and Bank AL Habib Limited being companies under common management, First Habib Income Fund and First Habib Cash Fund being the Fund managed by common Management Company, Central Depository Company Limited being the Trustee of the Fund.

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.

FIRST HABIB STOCK FUND

19.1 Sale / Redemption of units

	For the year ended 30 June 2011		For the period from 10 October 2009 to 30 June 2010	
	(Units)	(Rupees in '000)	(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	162	18	7,357	725
- Executives of the Management Company	-	-	253	25
- Habib Asset Management Limited-Employees Provident Fund	-	-	2,076	200
<u>Bonus Units Issued:</u>				
<i>Management Company</i>				
Habib Asset Management Limited	3,906	420	-	-
<i>Associated Companies</i>				
- Habib Insurance Company Limited	9,109	980	-	-
- Trakker Direct Insurance Limited	130	14	-	-
<i>Other related parties</i>				
- Directors of the Management Company	191	21	-	-
<u>Units redeemed by:</u>				
<i>Management Company</i>				
Habib Asset Management Limited	4,911	530	-	-
<i>Other related parties</i>				
- Executives of the Management Company	-	-	100	10
- Habib Asset Management Limited-Employees Provident Fund	1,683	171	393	40
<u>Units held by:</u>				
	2011		2010	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<i>Management Company</i>				
Habib Asset Management Limited	149,095	16,417	150,100	14,323
<i>Associated Companies</i>				
- Bank AL Habib Limited	500,000	55,055	500,000	47,713
- Habib Insurance Company Limited	359,109	39,541	350,000	33,399
- Trakker Direct Insurance Limited	5,130	565	5,000	477
<i>Other related parties</i>				
- Directors of the Management Company	7,711	849	7,357	702
- Executives of the Management Company	-	-	153	15
- Habib Asset Management Limited-Employees Provident Fund	-	-	1,683	161

Details of the transactions with connected persons are as follows:

	For the year ended 30 June 2011	For the period from 10 October 2009 to 30 June 2010
	(Rupees in 000)	
Habib Asset Management Limited - Management Company		
Management fee	<u>3,797</u>	<u>3,172</u>
First Habib Income Fund - Associated Undertaking		
Government security purchased	<u>19,960</u>	<u>-</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	<u>700</u>	<u>506</u>
AL Habib Capital Markets (Private) Limited- Brokerage house		
Brokerage	<u>36</u>	<u>66</u>
Bank AL Habib Limited		
Profit on bank account	<u>661</u>	<u>2,247</u>

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

Bank AL Habib Limited		
Bank Balances	<u>2,351</u>	<u>10,103</u>
Habib Asset Management Limited - Management Company		
Management fee payable	<u>306</u>	<u>1,321</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	<u>58</u>	<u>59</u>
Security deposit - Non interest bearing	<u>100</u>	<u>100</u>

20. RISK MANAGEMENT

Introduction and overview

The Fund has exposure to following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

Risk management framework

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up based on limits established by the management company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the management company supervises the overall risk management approach within the Fund.

The Fund primarily invests in shares of listed companies and near cash instruments. Such investments are subject to varying degrees of risk.

The management of these risks is carried out by the Investment Committee (IC) under the policies and procedures approved by the Board. IC is constituted by the Board of Directors of the Management Company. IC is responsible to devise the investment strategy and manage the investment portfolio of the Fund in accordance with the limits prescribed and restrictions imposed in the Non-Banking Finance Companies and Notified Entities Regulations, 2008, Rules, and Constitutive Documents of the Fund in addition to the Fund's internal risk management policies.

FIRST HABIB STOCK FUND

20.1 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. At the year-end it arises principally from bank balances, dividend and income receivables, receivable against sale of investments and deposits etc.

Management of credit risk

The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee, its Trust Deed, the requirements of NBFC rules and regulations and guidelines given by SECP from time to time.

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 is as follows:

	30 June 2011		30 June 2010	
	Statement of assets and liabilities (Rupees in '000)	Maximum exposure (Rupees in '000)	Statement of assets and liabilities (Rupees in '000)	Maximum exposure (Rupees in '000)
Bank balances	2,351	2,351	10,103	10,103
Investments	117,988	-	117,683	-
Dividend and income receivable	538	538	515	515
Receivable against sale of investments	374	374	244	244
Deposits	2,600	2,600	2,600	2,600
	123,851	5,863	131,145	13,462

Differences in the balances as per the statement of assets & liabilities and maximum exposures were due to the fact that investments of Rs. 117.988 million (2010: Rs.117.683 million) relates to investments in Equity and government securities which are not considered to carry credit risk.

Credit ratings and Collaterals

Details of the credit ratings of balances with the banks are as follows:

Ratings	2011 (Percentage)	2010 (Percentage)
AA+	100%	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.

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

20.2 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 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.

FIRST HABIB STOCK FUND

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

	30 June 2011				
	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
<i>Non-derivative financial liabilities</i>					
Payable to Habib Asset Management Limited - Management Company	306	306	306	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	58	58	58	-	-
Payable to Securities and Exchange Commission of Pakistan	120	120	-	120	-
Accrued expenses and other liabilities	288	288	288	-	-
	<u>772</u>	<u>772</u>	<u>652</u>	<u>120</u>	<u>-</u>

	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
<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>

Above financial liabilities do not carry any mark-up.

20.3 Market risk

Market risk is the risk that the Fund's income or 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). The maximum risk resulting from financial instruments equals their fair value.

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

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.

FIRST HABIB STOCK FUND

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

	2011	2010
	(Rupees in '000)	
Fixed rate instruments		
Investment in government securities	<u>15,774</u>	<u>-</u>
Variable rate instruments		
Bank balances	<u>2,351</u>	<u>10,103</u>

- a) Cash flow sensitivity analysis for variable rate instruments.

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

- b) Fair value sensitivity analysis for fixed rate instruments

Investment in government securities carries fixed interest rate that exposes the Fund to fair value interest rate risk. Change of 100 basis points in PKRV at year end would not have material impact on the profit for the year and unit holders' fund. The analysis assumes that all other variables remain constant.

The composition of the Fund's financial instruments, interest rates are expected to change overtime. Accordingly, the sensitivity analysis prepared as of 30 June 2011 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 2011						
	Mark-up / profit rate	Less than one month	One to three months	Three months to one year	More than one year		Total
	----- (Rupees in '000) -----						
Assets							
Bank balances	10.5-11%	2,351	-	-	-	2,351	
Government securities	13.25% - 13.44%	5,972	9,802	-	-	15,774	
		<u>8,323</u>	<u>9,802</u>	<u>-</u>	<u>-</u>	<u>18,125</u>	
	30 June 2010						
Mark-up / profit rate	Less than one month	One to three months	Three months to one year	More than one year	Total		
----- (Rupees in '000) -----							
Assets							
Bank balances	11 %	10,103	-	-	-	10,103	

None of the fund's financial liabilities are subject to interest rate risk.

Other price risk

Other price risk is the risk of unfavourable 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 its investment exposure in the following ways:

- 10% of Net Assets or index weight of a single security, subject to a maximum limit of 15%, whichever is higher.

- 30% of Net Assets or index weight of a single stock exchange sector, subject to a maximum limit of 35%, whichever is higher.

A summary analysis of local investments by industry sector, the percentage in relation to Fund's assets and the issued capital of the investee company is presented in note 5.1 to these financial statements. Further, the Fund's policy requires that the overall Fund position is monitored on a daily basis by the Fund Manager and is reviewed on bi-monthly basis by the Investment Committee

FIRST HABIB STOCK FUND

and by the Board of Directors in every meeting of the Board. Non - compliance with the Fund's investment policies is reported to the Board of Directors.

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 notes 5.1.

Sensitivity analysis

The following table illustrates the sensitivity of the Fund's net asset value attributable to unit holders and net profit for the year to change of 10% in the fair values of the Fund's investment in equity securities as at 30 June 2011. 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.

	2011	2010
	(Rupees in '000)	
Effect on income statement, net assets attributable to unit holders of an increase / decrease in index		
Equity investments	<u>9,860</u>	<u>11,768</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.

20.4 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.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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 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 2011, the categorisation of investments is shown below:

	Level 1	Level 2	Total
	(Rupees)		
Equity securities	102,214	-	102,214
Government securities	-	15,774	15,774
	<u>102,214</u>	<u>15,774</u>	<u>117,988</u>

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

22. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30 June 2011 is as follows:

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		51	40,118	4,419	3.58
Associated companies	22.1	4	1,013,333	111,579	90.49
Directors and Chief Executive	22.2	1	7,711	849	0.69
Others		2	58,633	6,456	5.24
		58	1,119,795	123,304	100.00

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	22.1	4	1,005,100	95,912	73.65
Directors and Chief Executive	22.2	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

22.1 Associated companies

	30 June 2011			30 June 2010		
	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	149,095	16,417	13.31	150,100	14,323	11.00
Bank AL Habib Limited	500,000	55,055	44.65	500,000	47,713	36.64
Habib Insurance Company Limited	359,109	39,541	32.07	350,000	33,399	25.65
Trakker Direct Insurance Limited	5,130	565	0.46	5,000	477	0.37
	1,013,333	111,579	90.49	1,005,100	95,912	73.65

22.2 Chief executive

Imran Azim (CEO)	7,711	849	0.69	7,357	702	0.54
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23. BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Name of Broker	2011 (Percentage)	2010 (Percentage)
Al Habib Capital Market (Private) Limited	23.40%	27.49%
BMA Capital	13.35%	14.66%
JS Global Capital Limited	-	13.95%
Ali Husain Rajab Ali Limited	7.76%	11.52%
Pearl Securities Limited	15.01%	7.18%
AKD Securities Limited	0.81%	6.20%
IGI Finex Securities Limited	-	5.77%
KASB Securities Limited	3.36%	3.08%
Habib Metro Financial Services	1.03%	2.65%
Invest Capital and Securities (Private) Limited	-	2.36%
Atlas Capital Markets (Private) Limited	0.96%	2.12%
MRA Securities (Private) Limited	12.93%	1.94%
Topline Securities (Private) Limited	9.51%	1.08%
MM Securities (Private) Limited	10.35%	-
Summit Capital (Private) Limited	1.53%	-
	100.00%	100.00%

FIRST HABIB STOCK FUND

24. INVESTMENT COMMITTEE

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

Name	Designation	Qualification	Experience in years
Mr. Ali Raza D. Habib	Chairman	Graduate	55 Years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	34 Years
Mr. Mansoor Ali	Director	MBA	26 Years

24.1 Other Funds managed by the Fund Manager

Mr. Junaid Kasbati - Fund Manager

Mr. Junaid Kasbati is an MBA and possesses over six years of rich and valuable experience and in-depth understandings of money market/fixed income investments. He is also an associate member of Financial Market Association of Pakistan (FMAP). He started his career from Jahangir Siddiqui & Company Limited as a Dealer in Fixed Income Sales. Subsequently he joined Global Securities Pakistan Limited as a Senior Dealer money market and gained expertise in dealing with Financial Institutions. Before joining Habib Asset Management he was Head of Treasury in Crescent Leasing Corporation Limited where he was supervising the money market and equity operations. He is currently serving in capacity of Fund Manager for First Habib Cash Fund and First Habib Income Fund.

25. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 32nd, 33rd, 34th, 35th and 36th and 37th board meetings were held on 5 July 2010, 27 September 2010, 7 October 2010, 3 January 2011, 18 February 2011 and 13 April 2011 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	6	5	1	32nd meeting
Imran Azim	6	6	-	-
Mansoor Ali	6	6	-	-
Mohammad Ali Jameel	6	3	3	32nd meeting, 36th meeting & 37th meeting

26. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors have approved final Cash Dividend for class 'C' unit holders @ Rs.10.00 per unit and for other unit holders 9.9890 units, for every 100 units held as on 30 June 2011, amounting to Rs. 11.198 million, in their meeting held on 4 July 2011. The financial statements do not reflect this distribution.

27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on **06 October 2011**.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

**ANNUAL FUND MANAGER REPORT
FINANCIAL YEAR 2011**

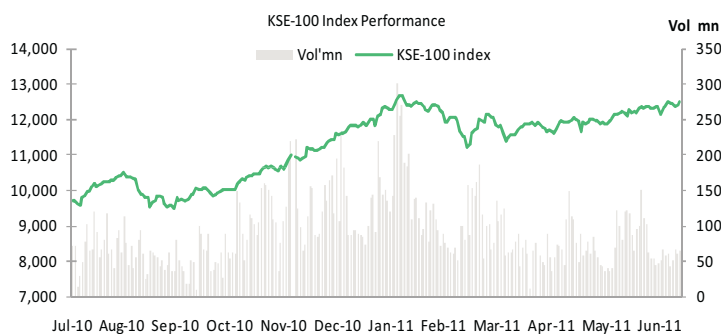
FUND OBJECTIVE:

First Habib Stock Fund is an Open ended equity fund. The objective of the 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.

FUND DESCRIPTION

Fund Type/Category	Open end-Equity Scheme	Auditors External	KPMG Taseer Hadi & Co
Launch Date	10-Oct-09	Auditors Internal	A. F. Ferguson & Co.
Benchmark	KSE-100 Index	Management Fee	3.00% p.a.
FHSF Return	18.39%	Sales Load	Front end (2%), Back End (Nil)
Net Assets	Rs. 123.30 million (June 30, 2011)	Minimum Subscription	Initial investment of Rs. 5,000/-Subsequently Rs. 1,000 per transaction.
NAV per Unit	Rs. 110.11 per unit (June 30, 2011)	Dealing Days/Timings	Monday to Friday/ 9.00 am to 4:30 pm
Pricing Mechanism	Forward Pricing	Fund Performance Ranking	MFR 2 Star by JCR-VIS
Trustee	Central Depository Company of Pakistan Ltd.	AMC Rating	"AM3-" by PACRA

MARKET REVIEW



During the year under review KSE-100 Index performed well and after consistently maintaining a level of 12,000 for some time closed at 12,496.03 on June 30, 2011, compared to the closing of 9,721.91 as on June 30, 2010.

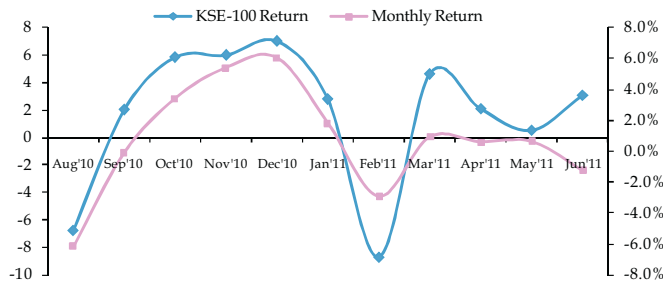
The local investors' confidence remained positive despite a decline in Foreign Portfolio Investment (FPI) by 49% to \$276 million during the year against \$545 million last year. The much awaited leverage product was launched in the second half of the year but it could not bring any significant activity in the market and daily trading volume remained on the lower side with average daily volume of 92 million shares against 162 million shares last year.

FIRST HABIB STOCK FUND

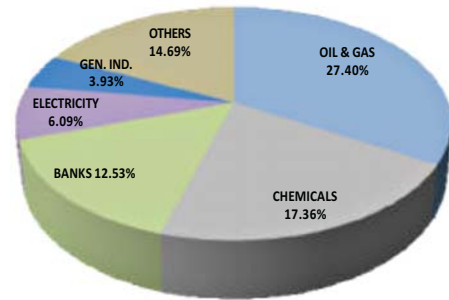
FUND PERFORMANCE REVIEW

During the second year of First Habib Stock Fund after launching in October 2009, the performance of the fund has improved considerably because of its well diversified portfolio. The financial year 2011 was a good year for stock market as well as for FHSF which provided a return of 18.39% p.a. to its investors. FHSF was invested up to 82% of the total assets as of June 30, 2011 in stocks and 13% in T-Bills.

FUND PERFORMANCE VS KSE-100



SECTOR ALLOCATION



INCOME DISTRIBUTION

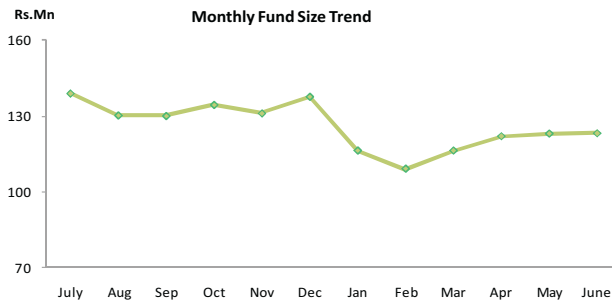
The FHSF distributed Rs. 12.80 per Unit as dividend for the year 2011. Of this amount, Rs. 2.80 was paid as interim dividend and Rs. 10.00 was paid as final dividend.

Quarter Ended	NAV at beginning of Quarter (Rs.)	NAV at close of Quarter (Rs.)	Distribution (Rs.)
December 31, 2010	95.60	110.40	2.80
June 30, 2011	110.57	110.11	10.00

TOP 10 STOCKS

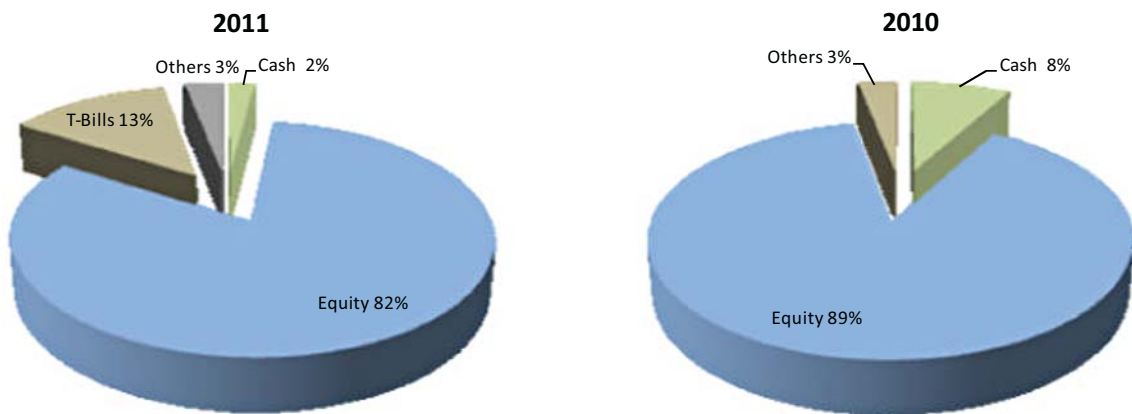
S. No	Company	% of Total Assets
1.	Fauji Fertilizer Company Limited	7.00%
2.	Pakistan Oil Fields Limited	6.80%
3.	Pakistan Petroleum Limited	4.94%
4.	Engro Corporation	4.73%
5.	Pakistan State Oil	4.59%
6.	MCB Bank Limited	4.09%
7.	International Steels Limited	3.82%
8.	Kot Addu Power Company	3.42%
9.	Attock Refinery Limited	3.06%
10.	National Bank of Pakistan	3.03%

FUND SIZE



Net Assets of FHSF stood at Rs. 123.30 million as at June 30, 2011. The fund size attained its highest level of Rs. 139.08 million in July 2010.

ASSET ALLOCATION



SALES AND REDEMPTIONS OF UNITS

During the period under review, 67,433 units of the value of Rs.7.44 million were sold while 331,837 units of value of Rs.35.73 million were redeemed resulting in to a net redemption of 264,404 units during the year.

UNIT HOLDERS PATTERN

Breakdown of unit holding by size as on June 30, 2011 is as follows:

Category	No. of units holder	No. of Units	% of Total Units
Individuals	51	40,118	3.58%
Associated Companies /Directors/ Executives	5	1,021,045	91.18%
Corporate	2	58,633	5.24%
Total	58	1,119,795	100.00%

FIRST HABIB CASH FUND
Annual Report
For the period from
10 March 2011 to 30 June 2011

FIRST HABIB CASH FUND

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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 Shahra-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

FIRST HABIB CASH FUND

DIRECTORS' REPORT TO THE UNIT HOLDERS

The Board of Directors' of Habib Asset Management Limited is pleased to present the first Annual Report of First Habib Cash Fund (FHCF) for the period ended June 30, 2011.

FUND'S PERFORMANCE

First Habib Cash Fund was offered for Initial Public Offering (IPO) on March 07, 2011. The Fund commenced activity from March 11, 2011 and during the period from March to June; the fund remained invested mainly in Treasury Bills (T-Bills).

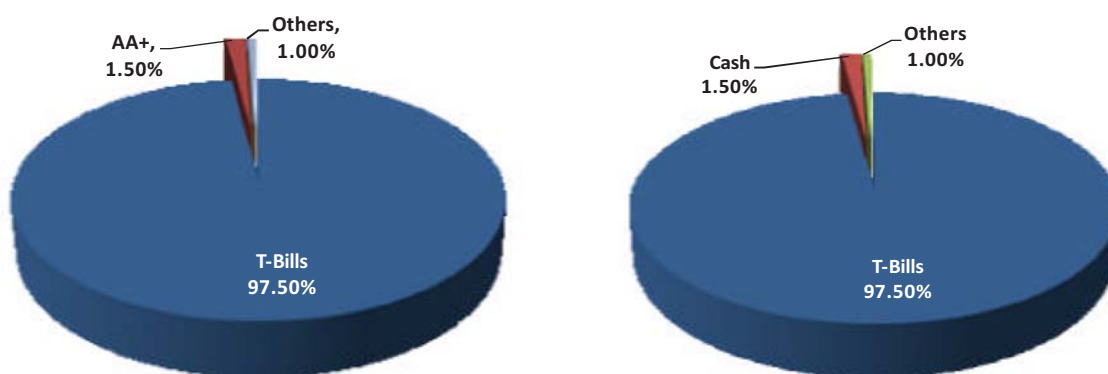
The total income and net income of First Habib Cash Fund was Rs. 22.45 million and Rs. 19.56 million respectively for the period ended June 30, 2011 providing an impressive return of 11.44% p.a. The net assets of the Fund stood at Rs. 569.98 million as of June 30, 2011.

The NAV and distribution for each quarter is as under:

Quarter Ended	NAV at beginning of Quarter (Rs.)	NAV at close of Quarter (Rs.)	Distribution (Rs.)
March 31, 2011	100.00	100.69	0.50
June 30, 2011	100.19	103.03	3.00

ASSET ALLOCATION AND CREDIT QUALITY

The credit quality and asset allocation on June 30, 2011, can be viewed as under:

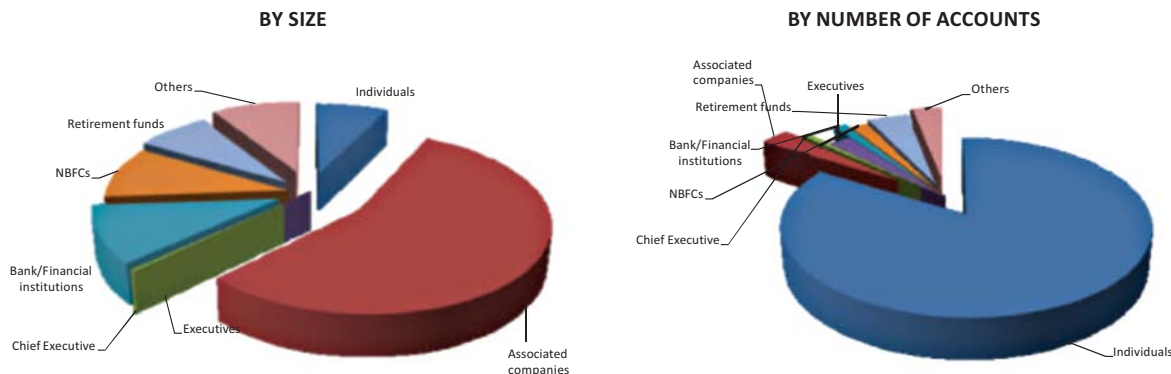


INCOME DISTRIBUTION

For the year 2011, FHCF has declared a total distribution of Rs. 3.50 per Unit. Of this amount, Rs. 0.50 was paid as interim dividend and Rs. 3.00 was paid as 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 22 to the Accounts.

MUTUAL FUND RATING

JCR-VIS has assigned a rating of "AA+(f)" to the First Habib Cash Fund. This rating denotes high degree of stability in Net Asset Value. Risk is modest but may vary slightly from time to time because of changing economic conditions.

FUTURE OUTLOOK

The country is currently passing through difficult times. We are confident that InshAllah the Nation will come through and stability and progress will return to our country. On the positive side, inflation figures are showing improvement and discount rate is expected to be reduced drastically which will have a positive impact on the corporate sector performance.

AUDITORS

The Board of Directors of the Management Company, on the recommendation of the Audit Committee has appointed Messrs Ford Rhodes Sidat Hyder & Co., Chartered Accountants as the Fund's auditors for the year ending June 30, 2012.

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, 2011 forms part of this annual report.
2. Statements under clause xix of the Code:
 - The financial statements, prepared by the Management Company of FHCF, 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 FHCF 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 FHCF'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 been fully disclosed in the accounts.
 - The details of Board Meetings held and attended by the directors are disclosed in note 25 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, 2011 is provided in note 19 to the accounts.

FIRST HABIB CASH FUND

ACKNOWLEDGEMENT

The Board is thankful to its valued Unit-holders, Central Depository Company of Pakistan Limited as Trustee, the Securities and Exchange Commission of Pakistan and the management of Lahore Stock Exchange for their support and cooperation.

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

October 06, 2011

Ali Raza D. Habib
Chairman

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 Cash Fund (the Fund), an open-end fund was established under a trust deed dated July 14, 2010, 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 March 10, 2011 to June 30, 2011 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 10, 2011
Karachi

**STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE PERIOD ENDED 30 JUNE 2011**

This statement is being presented by the Board of Directors of Habib Asset Management Limited, the management company of First Habib Cash Fund to comply with the Code of Corporate Governance in Chapter XI 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 practices 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 Cash Fund (FHCF) 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 was a casual vacancy on the Board as at 30 June 2011 for independent director which has been filled with the approval of SECP subsequent to year end.
5. The Management Company has adopted a "Code of Business Ethics and Best 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 year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the 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.
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 19 to the financial statements "Transactions with Connected Persons".
14. The Management Company has established adequate procedures and systems for related party transactions vis-à-vis the pricing method for related party transactions. All the related party transactions are placed before the Audit Committee and the Board of Directors for their review and approval.
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. The term of reference of the committee have been formed and advised to the committee for compliance.
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 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 Accountants of Pakistan.
20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirmed that all other material principles contained in the Code have been complied with.

October 06, 2011
Karachi.

Imran Azim
Chief executive officer

**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 Cash 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' 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 ended 10 March 2011 to 30 June 2011.

October 06, 2011
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of First Habib Cash Fund ("the Fund"), which comprise of the statement of assets and liabilities as at 30 June 2011, and the income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in unit holders' fund for the period from 10 March 2011 to 30 June 2011 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, and for such internal control as the Management Company determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2011, and of its financial performance, cash flows and transactions for the period from 10 March 2011 to 30 June 2011 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.

06 October, 2011
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

FIRST HABIB CASH FUND

STATEMENT OF ASSETS AND LIABILITIES

AS AT 30 JUNE 2011

	<i>Note</i>	(Rupees in '000)
Assets		
Bank balances	4	8,109
Investments	5	563,229
Income receivable	6	113
Prepayments	7	111
Preliminary expenses and floatation cost	8	2,872
Total assets		574,434
Liabilities		
Payable to Habib Asset Management Limited - Management Company	9	3,595
Payable to Central Depository Company of Pakistan Limited - Trustee	10	91
Payable to Securities and Exchange Commission of Pakistan	11	129
Worker's Welfare Fund	12	399
Accrued expenses and other liabilities	13	231
Total liabilities		4,445
Net assets		<u>569,989</u>
Unit holders' funds (as per statement attached)		<u>569,989</u>
		(Number of units)
Number of units in issue	14	<u>5,532,104</u>
		(Rupees)
Net asset value per unit		<u>103.03</u>

The annexed notes 1 to 27 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 MARCH 2011 TO 30 JUNE 2011

	<i>Note</i>	(Rupees in '000)
Income		
Profit on bank deposits	15	377
Income from Government Securities		21,943
Mark-up income on placement		362
Gain on sale of investments at fair value through profit or loss		18
Unrealised diminution on investments at fair value through profit or loss	5	<u>(248)</u>
Total income		22,452
Expenses		
Remuneration of Habib Asset Management Limited - Management Company	9.1	1,718
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10	292
Annual fee - Securities and Exchange Commission of Pakistan	11	129
Brokerage		41
Settlement and bank charges		22
Annual listing fee		105
Auditors' remuneration	16	180
Amortisation of preliminary expenses and floatation costs	8	189
Workers' Welfare Fund	12	399
Mutual fund rating fee		49
Printing and Other expenses		66
Total expenses		3,190
Net income from operating activities		19,262
Element of income and capital gains included in prices of units issued less those in units redeemed		306
Net income for the period		19,568
Earnings per unit	17	

The annexed notes 1 to 27 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB CASH FUND

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 10 MARCH 2011 TO 30 JUNE 2011

	(Rupees in'000)
Net income for the period	19,568
Other comprehensive income for the period	-
Total comprehensive income for the period	<u>19,568</u>

The annexed notes 1 to 27 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 MARCH 2011 TO 30 JUNE 2011

	(Rupees in'000)
Net income for the period	19,568
Interim cash dividend for class 'C' unit holders @ Rs. 0.50/- per unit and bonus units @ 0.4972/- for class 'A' and 'B' unit holders for every 100 units held as at 12 April 2011	(2,790)
Undistributed income carried forward	<u>16,778</u>
Undistributed income as at 30 June 2011 (Realized)	17,026
Undistributed Loss as at 30 June 2011 (Un-realized)	(248)
Undistributed income carried forward	<u>16,778</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB CASH FUND

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS FOR THE PERIOD FROM 10 MARCH 2011 TO 30 JUNE 2011

	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	8,607,817	867,512
Number of units redeemed / amount paid on redemption of units	(3,091,750)	(315,608)
	5,516,067	551,904
Element of income and capital gain included in prices of units issued less those in units redeemed	-	(306)
Interim cash dividend for class 'C' unit holders @ Rs. 0.50/- per unit and bonus units @ 0.4972/- for class 'A' and 'B' unit holders for every 100 units held as at 12 April 2011	16,037	(1,177)
Net income for the period	-	19,568
Number of units / net assets at the end of the period	<u>5,532,104</u>	<u>569,989</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

CASH FLOW STATEMENT
FOR THE PERIOD FROM 10 MARCH 2011 TO 30 JUNE 2011

(Rupees in '000)

CASH FLOW FROM OPERATING ACTIVITIES

Net income for the period	19,568
Adjustments for non-cash items	
Unrealised diminution on investments at fair value through profit or loss	248
Element of income and capital gain included in prices of units issued less those in units redeemed	(306)
Workers' Welfare Fund	399
Amortisation of preliminary expenses and floatation costs	189
	20,098

(Increase) / decrease in assets

Investments	(563,477)
Income receivable	(113)
Prepayments	(111)
Preliminary expenses and floatation costs	(3,061)
	(566,762)

Increase / (decrease) in liabilities

Payable to Habib Asset Management Limited - Management Company	3,595
Payable to Central Depository Company of Pakistan Limited - Trustee	91
Payable to Securities and Exchange Commission of Pakistan	129
Accrued expenses and other liabilities	231
	4,046

Net cash flow from operating activities

(542,618)

CASH FLOW FROM FINANCING ACTIVITIES

Net receipts from sale and redemption of units	551,904
Dividend paid	(1,177)
	550,727

Net increase in cash and cash equivalents during the period

8,109

Cash and cash equivalents at the beginning of the period

-

Cash and cash equivalents at the end of the period

8,109

Cash and cash equivalents at the end of the year comprise of :

Cash at bank - saving accounts	8,109
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The annexed notes 1 to 27 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 PERIOD FROM 10 MARCH 2011 TO 30 JUNE 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

First Habib Cash 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 14 July 2010 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 13 July 2010 under Regulation 44 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations).

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 -' to the Management Company and JCR-VIS assigned credit rating of 'AA+' to the Fund.

The objective of the Fund is to earn competitive returns from a portfolio of low risk short term duration assets while maintaining high level of liquidity through a blend assets of money market and sovereign debt instruments. The Fund, in line with its investment objective, invests primarily in treasury bills, government securities and cash and near cash instruments. The Fund has been categorized as money market scheme.

Title of the assets of the fund are held in name of CDC as trustee of 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:

Classification and fair value of investments

The Management Company has determined fair value of investments classified as 'at fair value through profit or loss' by using quotations from active market. Fair value estimates are made at a specific point in time, based on market conditions and information about financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgement (e.g. Valuation, interest rates, etc) and therefore can not be determined with precision.

Other assets

Judgement is also involved in assessing the realisability of other asset balances.

Workers' welfare fund

For details refer note 12 to these financial statements.

2.5 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards and new interpretations became effective however they did not have any material effect on the financial statements of the Fund.

New / revised accounting standards, amendments to published accounting standards, and interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2011:

- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after 1 January 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on Financial Statements of the Fund.
- 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. This amendment has no impact on Fund's Financial Statements.
- Improvements to IFRSs 2010 – In May 2010 the IASB issued improvements to IFRSs 2010 which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after 1 January 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements, 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 and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customer. Certain of these amendments will result in increased disclosures in the financial statements.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on Financial Statements of the Fund.

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on Financial Statements of the Fund.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on Financial Statements of the Fund.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on Financial Statements of the Fund.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on Financial Statements of the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.

Recognition

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

All regular way of purchases and sales of investments are recognised on the trade date i.e. the date the Fund commits to purchase/sell the investments

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 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.

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.

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 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 net assets value, determined by the Fund, applicable for the day on which fund(s) have been realised in the 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.

3.4 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.

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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 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 intends to avail tax exemption by distributing at least ninety percent of its accounting income for the period as reduced by capital gains, whether realised or unrealised, to its unit holders. Accordingly, no tax liability or deferred tax has been recognised in these financial statements.

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 reverse repurchase transactions, 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.

3.8 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 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 Mar 2011 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)

Dividend distributions (including the bonus units) declared subsequent to the balance sheet date are recorded in the period in which the distributions are approved. As per regulation 63 of Non Banking Finance companies and Notified Entities Regulations 2008, the Fund is required to distribute ninety percent of the net accounting income, excluding unrealised capital gain, to the unit holders.

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.

5. INVESTMENTS - at fair value through profit or loss

Government Securities

Issue date	Tenor	Face Value				As at 30 June 2011			Market value as a percentage of	
		As at 10 March 2011	Purchased during the period	Sold / Matured during the period	As at 30 June 2011	Carrying value	Market value	Appreciation / (Diminution)	Net Assets	Total Investments

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

02-06-2011	3 Months	-	255,000	-	255,000	249,999	249,946	(53)	43.85	44.38
07-04-2011	3 Months	-	30,000	30,000	-	-	-	-	-	-
10-02-2011	3 Months	-	10,000	10,000	-	-	-	-	-	-
10-03-2011	3 Months	-	400,000	400,000	-	-	-	-	-	-
21-04-2011	3 Months	-	150,000	50,000	100,000	99,538	99,529	(9)	17.46	17.67
24-02-2011	3 Months	-	115,000	115,000	-	-	-	-	-	-
27-01-2011	3 Months	-	27,000	27,000	-	-	-	-	-	-
30-06-2011	3 Months	-	20,000	-	20,000	19,407	19,406	(1)	3.40	3.45
05-05-2011	3 Months	-	185,000	105,000	80,000	79,257	79,219	(38)	13.90	14.07
07-04-2011	6 Months	-	50,000	-	50,000	48,300	48,262	(38)	8.47	8.57
05-05-2011	6 Months	-	70,000	-	70,000	66,976	66,867	(109)	11.73	11.87
21-10-2010	6 Months	-	50,000	50,000	-	-	-	-	-	-
08-04-2010	1 Year	-	30,000	30,000	-	-	-	-	-	-
Total as at 30 June 2011						563,477	563,229	(248)		

5.1 Rate of return on the above government securities ranges from 12.93% to 13.61%.

**30 June 2011
(Rupees in '000)**

6. INCOME RECEIVABLE

Profit receivable on saving account

113

7. PREPAYMENTS

Mutual Fund Rating Fee

111

8. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary Expenses and Flotation cost

8.1 **3,061**

Amortisation for the period from 10 March 2011 to 30 June 2011

(189)

Balance as at 30 June 2011

2,872

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 Asset Management Company 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 Mar 2011, i.e. after the close of initial period of the Fund.

9. PAYABLE TO HABIB ASSET MANAGEMENT LIMITED-MANAGEMENT COMPANY

Management fee

9.1 **534**

Formation cost

8.1 **3,061**

3,595

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 one per cent per annum for the current year in accordance with the Offering Document.

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10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE

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 (Rs. in million)	Tariff
Up to Rs. 1,000	Rs. 0.6 million or 0.17% per annum of net asset value, whichever is higher.
Rs. 1,000 to 5,000	Rs.1.70 million plus 0.085% 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 0.075% of the average daily net assets of the Fund.

12. WORKERS' WELFARE FUND

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. Consequently, a constitutional petition was filed with the Honourable High Court of Sindh by some of Collective Investment Schemes (CISs) through their Trustees on the ground that the CIS (mutual funds) are not establishments and as a result not liable to pay contribution to WWF.

Subsequently, the Ministry of Labour and Manpower (the Ministry) vide its letter dated 8 July 2010 issued advice and clarifications which stated that WWF Ordinance 1971 does not have any provisions for the applicability of WWF on those entities whose incomes are exempt from income tax under any provisions of any law, and West Pakistan and West Pakistan Shops and Establishment Ordinance, 1969 is not applicable to any public listed company and any organized financial institutions including Mutual Funds because they are ruled and governed by separate laws. Further, in a subsequent letter dated 15 July 2010 the Ministry clarified that "Mutual Fund(s) is a product which is being managed / sold by the Asset Management Companies which are liable to contribute towards Workers Welfare Fund under Section-4 of WWF Ordinance 1971. However, the income on Mutual Fund(s), the product being sold, is exempted under the law *ibid*."

Further, the Secretary (Income Tax Policy) Federal Board of Revenue issued a letter dated 6 October 2010 to the Members (Domestic Operation) North and South FBR. In the letter reference was made to the clarification issued by the Ministry of Labour and Manpower stating that mutual funds are a product and their income are exempted under the law *ibid*. The Secretary (Income Tax Policy) Federal Board of Revenue directed that the Ministry's letter may be circulated amongst field formation for necessary action. Following the issuance of FBR Letter, show cause notice which had been issued by taxation office for two mutual funds for payment of levy under WWF has been withdrawn. However, there have been instances whereby show cause notices under section 221 of the Income Tax Ordinance, 2001 have been issued to a number of mutual funds and MUFAP has requested Member Policy Direct Taxes for withdrawal of such show cause notices issued to such mutual funds. However, the Secretary (Income Tax Policy) Federal Board of Revenue vide letter 4 January 2011 has cancelled ab-initio clarificatory letter dated 6 October 2010 on applicability of WWF on mutual funds. On 14 December 2010, the Ministry filed its response to the constitutional petition pending in the Court. As per the legal counsel who is handling the case, there is contradiction between the above earlier letter and clarification of the Ministry and the response filed by the Ministry in the Court.

In view of above stated facts and considering the uncertainty on the applicability of WWF to mutual funds, the management company as a matter of abundant caution has decided to maintain provision for WWF amounting to Rs. 0.399 million upto 30 June 2011.

Recently, the Lahore High Court in a petition filed by an industrial establishment has declared the amendments introduced in the WWF Ordinance through Finance Act, 2006 and 2008 as unconstitutional and has therefore struck them down. The Management Company is evaluating the implications of the above developments.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

(Rupees in '000)

Auditors remuneration payable	180
Printing charges	41
Brokerage payable	10
	<u>231</u>

14. 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 core units are invested in the scheme for a period of two years or life of collective investment scheme whichever is earlier from the date of the closure of initial offer period. Class 'B' units are issued and redeemed in the usual course of business on a daily basis. Class 'C' units are entitled to cash dividend only even if the distribution to other classes is in form of bonus units.

Units in issue as at 30 June in each class are: **(Number of Units)**

Type 'A' Units	505,124
Type 'B' Units	2,212,904
Type 'C' Units	<u>2,814,076</u>
	<u><u>5,532,104</u></u>

15. PROFIT ON BANK DEPOSITS

(Rupees in '000)

Income on saving accounts	<u>377</u>
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16. AUDITORS' REMUNERATION

Annual audit fee	120
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	<u>15</u>
	<u><u>180</u></u>

17. EARNINGS PER UNIT

Earning per unit (EPU) for the period from 10 March 2011 to 30 June 2011 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

18. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. The Fund is also exempt from the provisions of section 113 (minimum tax) under clause II of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

No provision for taxation has been made in these financial statements as the Fund subsequent to the period-end, together with the interim distribution, distributed more than 90% of the accounting income for the period to avail exemption from tax as mentioned above. Details of distribution made are given in note 26 to these financial statements.

19. 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 and First Habib Stock Fund being the Funds managed by the common Management company, Central Depository Company Limited being the Trustee of the Fund.

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.

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19.1 Sale / Redemption of units for the period from 10 March 2011 to 30 June 2011

<u>Units sold to:</u>	(Units)	(Rupees in'000)
<i>Management Company</i>		
- Habib Asset Management Limited	336,775	33,678
<i>Associated Companies</i>		
- Bank AL Habib Limited	1,010,249	101,025
- Habib Insurance Company Limited	1,715,897	173,196
Other related parties		
- Directors of the Management Company	18,450	1,854
- Executives of the Management Company	2,791	286
- Habib Asset Management Limited - Employees Provident Fund	2,981	300
- Mr. Imran Ali Habib	2,931	300
- Mr. Murtaza Habib	2,931	300
- Mr. Asghar D. Habib	2,931	300
- Mr. Qumail Habib	2,925	300
- Mr. Abbas D Habib	2,931	300
- Mr. Ali Asad Habib	2,931	300
 <u>Units Redeemed by:</u>		
Other related parties		
- Executives of the Management Company	245	25
 <u>Bonus Units Issued:</u>		
<i>Management Company</i>		
- Habib Asset Management Limited	1,675	168
Other related parties		
- Directors of the Management Company	40	4
- Executives of the Management Company	2	-
 <u>Units held by:</u>		
<i>Management Company</i>		
- Habib Asset Management Limited	338,450	34,871
<i>Associated Companies</i>		
- Bank AL Habib Limited	1,010,249	104,086
- Habib Insurance Company Limited	1,715,897	176,789
Other related parties		
- Directors of the Management Company	18,490	1,905
- Executives of the Management Company	2,548	263
- Habib Asset Management Limited Employee Provident Fund	2,981	307
- Mr. Imran Ali Habib	2,931	302
- Mr. Murtaza Habib	2,931	302
- Mr. Asghar D. Habib	2,931	302
- Mr. Qumail Habib	2,925	301
- Mr. Abbas D Habib	2,931	302
- Mr. Ali Asad Habib	2,931	302
Details of the transactions with connected persons are as follows:		(Rupees in'000)
Habib Asset Management Limited - Management Company		
Management fee		<u>1,718</u>
First Habib Income Fund-Associated undertaking		
Government securities purchased		<u>59,542</u>

Central Depository Company of Pakistan Limited - Trustee	
Trustee fees	<u>292</u>
Details of balances with connected persons at period end are as follows:	
Bank Al Habib Limited	
Bank balances	<u>8,109</u>
Habib Asset Management Limited - Management Company	
Management fee payable and formation cost	<u>3,595</u>
Central Depository Company of Pakistan Limited - Trustee	
Trustee fee payable	<u>91</u>

20. RISK MANAGEMENT

Introduction and overview

The Fund has exposure to following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

Risk management framework

The Fund's objective in managing risk is the creation and protection of unit holders' value. Risk is inherent in the Fund's activities, but it is managed through monitoring and controlling activities which are primarily set up based on limits established by the management company, Fund's constitutive documents and the regulations and directives of the SECP. These limits reflect the business strategy and market environment of the Fund as well as the level of the risk that Fund is willing to accept. The Board of Directors of the management company supervises the overall risk management approach within the Fund.

The management of these risks is carried out by the Investment Committee (IC) under the policies and procedures approved by the Board. IC is constituted by the Board of Directors of the Management Company. IC is responsible to devise the investment strategy and manage the investment portfolio of the Fund in accordance with the limits prescribed and restrictions imposed in the Non-Banking Finance Companies and Notified Entities Regulations, 2008, Rules, and Constitutive Documents of the Fund in addition to the Fund's internal risk management policies.

20.1 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. At the period-end it arises principally from bank balances income receivable, and prepayments etc.

Management of credit risk

The Fund's policy is to enter into financial contracts in accordance with the investment guidelines approved by the Investment Committee, its Trust Deed, the requirements of NBFC rules and regulations and guidelines given by SECP from time to time.

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 is as follows:

	30 June 2011	
	Statement of assets and liabilities	Maximum exposure
	(Rupees in '000)	
Bank balances	8,109	8,109
Investments	563,229	-
Income receivable	113	113
Prepayments	111	111
	<u>571,562</u>	<u>8,333</u>

Differences in the balances as per the statement of assets & liabilities and maximum exposures were due to the fact that investments of Rs. 563.229 million relates to investments in government securities which are not considered to carry credit risk.

Credit ratings and Collaterals

Details of the credit ratings of balances with the banks 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.

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

20.2 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 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 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 2011				
	Carrying amount	Gross nominal outflow	Less than one month	One month to three months	Three months to one year
----- (Rupees in '000) -----					
<i>Non- derivative financial liabilities</i>					
Payable to Habib Asset Management Limited - Management Company	3,595	3,595	534	-	3,061
Payable to Central Depository Company of Pakistan Limited - Trustee	91	91	91	-	-
Payable to Securities and Exchange Commission of Pakistan	129	129	-	129	-
Accrued expenses and other liabilities	231	231	51	180	-
	<u>4,046</u>	<u>4,046</u>	<u>676</u>	<u>309</u>	<u>3,061</u>

20.3 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 only.

20.3.1 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, sharing bank balances. Currently the exposure in fixed rate instruments is in Government securities. Other risk management procedures are the same as those mentioned in the credit risk management.

At 30 June 2011, details of the interest rate profile of the Fund's interest bearing financial instruments were as follows:

	2011 (Rupees in '000)
Fixed rate instruments	
Investment in government securities	<u>563,229</u>
Variable rate instruments	
Bank balance	<u>8,109</u>

None of the financial liabilities carry any interest rate risk.

a) Cash flow Sensitivity analysis for variable rate instruments

In case of change of 100 basis points in KIBOR on June 30, 2011, the net assets of the Fund would have been lower/ higher by Rs 0.0102 million with consequential effect on net income for the period. The analysis assumes that all other variables remain constant.

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b) Fair value Sensitivity analysis for fixed rate instruments

As at 30 June 2011, investment in Government Securities carries fixed interest rate that exposes the Fund to fair value interest rate risk. In case of change of 100 basis points in PKRV on 30 June 2011, the net assets of the Fund would have been lower/higher by Rs.0.846 million with consequential effect on net income for the period. The analysis assumes that all other variables remain constant.

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

	Mark-up / profit rate	30 June 2011				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	11%	8,109	-	-	-	8,109
Investments	12.93%-13.61%	178,748	269,352	115,129	-	563,229
Total assets		186,857	269,352	115,129	-	571,338

None of the Fund's liabilities are subject to interest rate risk.

20.4 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.

21. 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 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 2011, all the investments were categorised in level 2.

22. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30 June 2011 is as follows:

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		140	403,233	41,557	7.29%
Associated companies	22.1	3	3,064,596	315,746	55.40%
Chief Executive	22.2	1	18,490	1,905	0.33%
Executives		4	2,598	268	0.05%
Bank Financial Institutions		2	593,055	61,103	10.72%
Non banking finance companies		3	538,655	55,500	9.74%
Retirement funds		7	418,379	43,106	7.56%
Others		5	493,098	50,804	8.91%
		165	5,532,104	569,989	100%

FIRST HABIB CASH FUND

22.1 Associated companies

	30 June 2011		
	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Habib Asset Management Limited	338,450	34,871	6.12%
Bank AL Habib Limited	1,010,249	104,086	18.26%
Habib Insurance Company Limited	1,715,897	176,789	31.02%
	<u>3,064,596</u>	<u>315,746</u>	<u>55.40%</u>

22.2 Chief executive

Imran Azim	<u>18,490</u>	<u>1,905</u>	<u>0.33%</u>
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23. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker name	2011 (Percentage)
Global Securities Pakistan Limited	17.84%
JS Global Capital Limited	0.79%
BMA Capital	15.94%
KASB Securities Limited	54.31%
Invest Capital Markets Limited	3.21%
Summit Capital (Private) Limited	7.91%
	<u>100.00%</u>

24. INVESTMENT COMMITTEE

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

Name	Designation	Qualification	Experience in years
Mr. Ali Raza D. Habib	Chairman	Graduate	55 Years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	34 Years
Mr. Mansoor Ali	Director	MBA	26 Years

24.1 Other Funds managed by the Fund Manager

Mr. Junaid Kasbati - Fund Manager

Mr. Junaid Kasbati is an MBA and possesses over six years of rich and valuable experience and in-depth understandings of money market/fixed income investments. He is also an associate member of Financial Market Association of Pakistan (FMAP). He started his career from Jahangir Siddiqui & Company Limited as a Dealer in Fixed Income Sales. Subsequently he joined Global Securities Pakistan Limited as a Senior Dealer money market and gained expertise in dealing with Financial Institutions. Before joining Habib Asset Management he was Head of Treasury in Crescent Leasing Corporation Limited where he was supervising the money market and equity operations. He is currently serving in capacity of Fund Manager for First Habib Stock Fund and First Habib Income Fund.

25. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 32nd, 33rd, 34th, 35th and 36th and 37th board meetings were held on 5 July 2010, 27 September 2010, 7 October 2010, 3 January 2011, 18 February 2011 and 13 April 2011 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	6	5	1	32nd meeting
Imran Azim	6	6	-	-
Mansoor Ali	6	6	-	-
Mohammad Ali Jameel	6	3	3	32nd meeting, 36th meeting & 37th meeting

FIRST HABIB CASH FUND

26. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors have approved final cash dividend for class 'C' unit holders @ Rs. 3.00 per unit and bonus units @ 2.9991 for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2011, amounting to Rs. 16.596 million, in their meeting held on 04 July 2011. These financial statement do not reflect this distribution.

27. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on **06 October 2011** .

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

Chief Executive

Director

**ANNUAL FUND MANAGER REPORT
FINANCIAL YEAR 2011**

FUND OBJECTIVE

First Habib Cash Fund is an open ended Money Market Fund. The objective of the Fund is to provide its unit holders, competitive returns from a portfolio of low risk, short duration assets while maintaining high liquidity.

FUND DESCRIPTION

Fund Type/Category	Open end-Money Market Scheme	Auditors External	KPMG Taseer Hadi & Co
Launch Date	March 10, 2011	Auditors Internal	A. F. Ferguson & Co.
Benchmark	Average 3 months PKRV rates (13.39%)	Management Fee	1.00% p.a.
FHCF Return	11.44%	Sales Load	Front end (Nil), Back end (Nil)
Net Assets	Rs. 569.99 million (June 30, 2011)	Minimum Subscription	Initial investment of Rs. 1,000/- Subsequently Rs. 100/- per transaction.
NAV per Unit	Rs. 103.03 per Unit (June 30, 2011)	Dealing Days / Timings	Monday to Friday / 9:00 am to 4:30 pm
Pricing Mechanism	Forward Pricing	Fund Stability Rating	AA+ (f) ' by JCR-VIS
Trustee	Central Depository Company of Pakistan Ltd.	AMC Rating	"AM3-" by PACRA

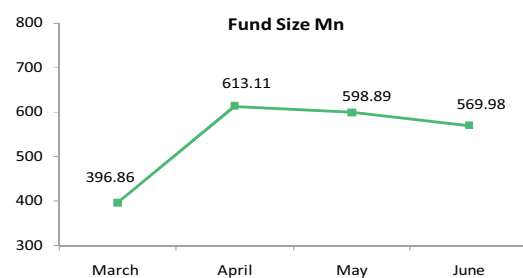
MARKET REVIEW

KEY MARKET STATISTICS					
Description	2011	2010	Change	High	Low
Discount Rate (%)	14.00	12.50	1.50	14.00	12.50
1M- KIBOR(%)	13.62	12.45	1.17	13.66	12.35
6M-KIBOR(%)	13.78	12.37	1.41	13.94	12.41
3M-TBILL-Cut off yield(%)	13.49	12.10	1.39	13.67	12.10
6M-TBILL-Cut off yield(%)	13.74	12.30	1.44	13.76	12.35
12M-TBILL-Cut off yield(%)	13.91	12.42	1.49	13.91	12.46
3M-PKRV	13.46	12.13	1.33	13.62	12.07
6M-PKRV	13.68	12.26	1.42	13.71	12.31
1Y-PKRV	13.85	12.38	1.47	13.85	12.42
PKRs/\$	85.95	85.61	0.34	86.21	83.28

The country's economy remained under pressure and witnessed slow economic recovery and high inflation. CPI for the year was 13.90% against 11.70% last year. In August 2011 CPI was declined to 11.56% as against 12.43% in July 2011. The CPI figure did show a major decline in August but that was due to change of base year from 2001 to 2008, increase in number of items in CPI basket i.e. 487 from 374 earlier and reduction in weightage of 'Food' in the CPI basket to 34.83% from 40.34% previously.

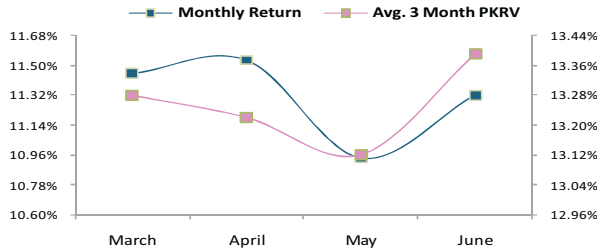
The growth in Broad Money (M2) was 15.89% in the year under review in comparison to a growth of 12.46% in 2010. A silver lining has been the current account surplus in financial year 2011 owing to rising workers' remittances which showed remarkable growth of 26% and reached at \$11.20 billion from \$8.90 billion last year.

FUND SIZE



The Initial Public Offer (IPO) for the fund was made from March 07, 2011 to March 09, 2011. The fund size at the close of IPO was Rs.349.73 million and stood at Rs. 569.99 million as on June 30, 2011.

FUND PERFORMANCE REVIEW



The fund was invested up to 98.00% in T-Bills as at June 30, 2011, being the best available avenue for money market funds and provided a return of 11.44% p.a. The weighted average time to maturity of net assets remained at 57 days.

INCOME DISTRIBUTION

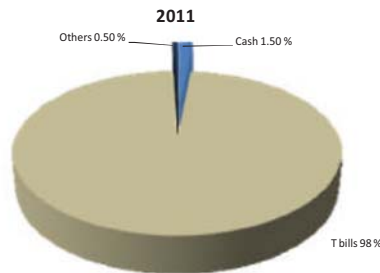
The Fund made a total distribution of Rs.3.50 per Unit during the period March-June 2011 as per details given below;

Quarter Ended	NAV at beginning of Quarter (Rs.)	NAV at close of Quarter (Rs.)	Distribution (Rs.)
March 31, 2011	100.00	100.69	0.50
June 30, 2011	100.19	103.03	3.00

SALES AND REDEMPTIONS OF UNITS

FHCF was launched in March 2011 and during the period from March to June; 8,607,817 units of the value of Rs. 867.51 million were sold while 3,091,750 units of the value of Rs. 315.61 million were redeemed resulting in to a net sale of 5,516,067 units during the period.

ASSET ALLOCATION



UNIT HOLDERS PATTERN

Breakdown of Unit holding by size as on June 30, 2011 is as follows:

Category	No. of units holder	No. of Units	% of Total Units
Individuals	140	403,233	7.29%
Associated Companies /Directors/ Executives	4	3,083,086	55.73%
Banks/DFIs	2	593,055	10.72%
Retirement Funds	7	418,379	7.56%
Corporate	12	1,034,351	18.70%
Total	165	5,532,104	100.00%



Habib Asset Management Limited

(An Associate Company of Bank AL Habib Ltd.)

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