

First Habib Income Fund



Annual Report

For the year ended June 30, 2009



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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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. Shariq Abdullah	Director
Mr. Mansoor Ali	Director

CFO and Company Secretary

Mr. Muhammad Shakeel Musani

Audit Committee

Mr. Mohammad Ali Jameel	Chairman
Mr. Shariq Abdullah	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
Bank Alfalah Limited
My Bank Limited
JS Bank Limited
NIB Bank Limited
Habib Metropolitan Bank Limited

Legal Advisor

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

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

DIRECTORS' REPORT TO THE UNIT HOLDERS

The Board of Directors' of Habib Asset Management Limited, the management company of First Habib Income Fund (FHIF), is pleased to present the third annual report together with audited Financial Statements for the year ended June 30, 2009.

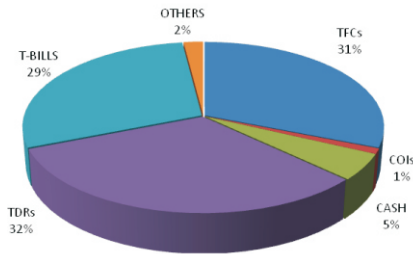
During the year under review, we were to witness a period of unprecedented financial crisis damaging markets worldwide. Pakistan was no exception but to a lesser extent because of the country's relatively low involvement in the International marketplace. Due to tight liquidity conditions that prevailed in the market, the activities in stock and money markets remained depressed. Also, under the directions of the Securities & Exchange Commission of Pakistan, the mutual fund industry had to mark down the prices of TFCs, thus scaling down the Net Asset Value of the Funds. Inevitably, there was pressure with heavy redemption but by the Grace of Allah, this was well managed and your Fund could declare dividend for the year.

Fund's Performance

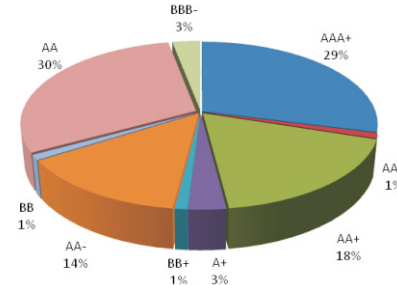
By the Grace of Almighty Allah, the First Habib Income Fund earned a total income of Rs. 153.44 million and after deducting total expenses of Rs. 42.10 million, net income for the year was Rs. 111.33 million. The net assets of the Fund stood at Rs. 1,731.68 million as on June 30, 2009.

FHIF is an open end Income Fund and seeks to earn the best possible returns by investing in a diversified portfolio of investments. The management's focus has always been on high quality of investments for the Fund. The asset allocation and credit quality of the portfolio as on June 30, 2009, can be viewed as under;

ASSET ALLOCATION



CREDIT QUALITY



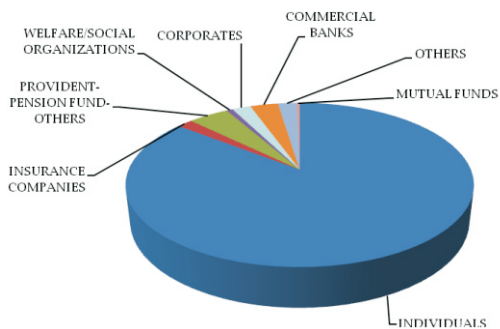
Income Distribution

For the year 2009, FHIF has declared a total distribution of Rs. 6.35 per Unit. Of this amount, Rs. 4.25 was paid as interim dividends and Rs. 2.10 was towards final dividend.

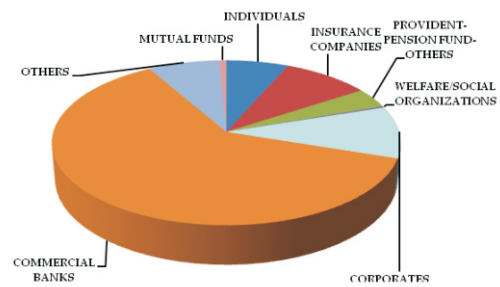
Pattern Of Unit Holding

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

UNIT HOLDING BY NO. OF ACCOUNTS



UNIT HOLDING BY SIZE



Detailed pattern of unit holding as on June 30, 2009 is disclosed in note 25 to the accounts.

First Habib Income Fund

Management Company's Rating

The Pakistan Credit Rating Agency Limited (PACRA) has assigned an Asset Manager Rating of AM3- (AM 3 Minus) to Habib Asset Management Limited. The AM3- Asset Manager Rating of HAML demonstrates that the Company meets high investment management industry standards and benchmarks.

Future Outlook

Despite the difficult conditions being witnessed in the industry, we believe that Inshallah there will now be a good recovery and we look forward to stability and progress in the Industry.

Auditors

The Fund's external auditors Messrs KPMG Taseer Hadi & Co., Chartered Accountants, have expressed their willingness to continue as the Fund's auditors for the year ending 30 June 2010. The Board of Directors of the Management Company has re-appointed Messrs KPMG Taseer Hadi & Co., Chartered Accountants as the Fund's auditors for the year ending June 30, 2010 as recommended by the Audit Committee

Corporate Governance

1. The management company has implemented the requirements of the Code of Corporate Governance last year. A prescribed statement by the management along with the auditors' report thereon for the year ended June 30, 2009 forms part of this annual report.
2. Statements under clause xix of the Code:
 - The financial statements, prepared by the Management Company of FHIF, present fairly the state of affairs of the Fund, the result of its operations, cash flows and movement in Unit-holders' funds.
 - Proper books of account of FHIF have been maintained.
 - Appropriate accounting policies have been consistently applied in preparation of financial statements.
 - Accounting estimates are based on reasonable and prudent judgment.
 - International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
 - The system of internal control is sound in design and has been effectively implemented and monitored.
 - There is no doubt upon FHIF's ability to continue as a going concern.
 - There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
 - Outstanding statutory payments on account of taxes, if any, have fully disclosed in the accounts.
 - The details of Board Meetings held and attended by the directors is disclosed in note 27 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, 2009 is provided in note 21 to the accounts.

Acknowledgment

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

The Board also wishes to place on record its appreciation for the hard work and dedication of all staff members of the Management Company.

On behalf of the Board of
Habib Asset Management Limited

Date: October 8, 2009
Karachi

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 (Fund), an open-end Mutual Fund was established under a trust deed dated September 6, 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, 2009 in accordance with the provisions of the following:

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

Muhammad Hanif
Chief Executive Officer
Central Depository Company of Pakistan Limited

October 3, 2009
Karachi

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

This statement is being presented by the Board of Directors of Habib Asset Management Limited, the management company of First Habib Income Fund to comply with the Code of Corporate Governance in Chapter XIII of Listing Regulations of the Lahore Stock Exchange for the purpose of establishing a framework of good Governance, whereby a listed Company is managed in compliance with the best practice of corporate governance.

Habib Asset Management Limited (HAML), the Management Company, is not listed and hence, the Code is not applicable to it. However, First Habib Income Fund (FHIF) managed by HAML, is listed on the Lahore Stock Exchange, therefore it comes under the ambit of the Code. The Fund, being a unit trust scheme, does not have its own Board. The Board of Directors of the Management Company manages the affairs of the Fund and has appointed the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the Company Secretary and other necessary personnel to manage the affairs of the Fund.

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

1. The Management Company encourages representation of independent non-executive directors. At present the Board consists of five directors including two non-executive directors and one independent non-executive director.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No Casual vacancy occurred in the Board during the year in the Board.
5. The Management Company has adopted a “Code of Business Ethics and Business Practices”, which has been acknowledged by all the Directors and employees of the Management Company.
6. The Board has developed a vision / mission statement and significant policies for the Fund. A complete record of the particulars along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of the remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter during the period. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. All the members of the Board are professionally qualified persons with rich experience in financial sector and are well aware of their duties and responsibilities under Memorandum and Articles of HAML and NBFC Rules, 2003 and NBFC Regulations. Therefore, no orientation courses were arranged during the year.
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 25 to the financial statements “Transactions with Connected Persons”.
14. The Management Company has complied with the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, one executive director and two non-executive directors, the Chairman of the Committee is a non-executive director.
16. 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.
17. 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.
18. The Statutory Auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the Firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on the Code of Ethics as adopted by the Institute of Chartered Accountant of Pakistan.
19. 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.
20. We confirm that all other material principles contained in the Code have been complied with.

Karachi : 8 October 2009

Imran Azim
Chief Executive Officer

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

We have audited the accompanying financial statements of First Habib Income Fund ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2009, and the income statement, cash flow statement, distribution statement and statement of movement in unit holders' funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

Opinion

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

Other matters

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed, the Non-Banking Finance Companies and Notified Entities Regulations, 2007 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Date: October 8, 2009
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of the Management Company of the First Habib Income Fund 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 Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

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

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.

Date: October 8, 2009
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

**STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2009**

	<i>Note</i>	2009	2008
		(Rupees in '000)	
Assets			
Bank balances	4	635,245	351,412
Receivable against continuous funding system transactions		-	275,422
Investments	5	1,028,240	817,111
Certificate of investments and deposits	6	25,000	450,000
Income receivable	7	42,116	51,996
Advances, deposits, prepayments and other receivables	8	2,606	6,495
Receivable against sale of investments		-	1,315
Preliminary expenses and floatation costs	9	1,529	2,053
Total assets		1,734,736	1,955,804
Liabilities			
Short term running finance	10	-	42,513
Payable to Habib Asset Management Limited - Management Company	11	71	2,443
Payable to Central Depository Company of Pakistan Limited - Trustee	12	232	268
Payable to Securities and Exchange Commission of Pakistan	13	1,499	2,239
Accrued expenses and other liabilities	14	1,254	1,630
Total liabilities		3,056	49,093
Commitments	15	-	-
Net assets		1,731,680	1,906,711
Unit holders' funds (as per statement attached)		1,731,680	1,906,711
		(Number of Units)	
Number of units in issue	16	16,952,168	18,632,666
		(Rupees)	
Net asset value per unit		102.15	102.33

The annexed notes 1 to 30 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 2009**

	<i>Note</i>	2009	2008
		(Rupees in '000)	
Income			
Profit on bank deposits	17	72,704	69,201
Income on Continuous Funding System Transactions		14,080	59,505
Income from Term Finance Certificates		101,833	65,399
Income from Certificate of Investments and Deposits		49,108	41,725
Income from Government Securities		8,251	-
Income from Clean Placements		4,672	-
(Loss) / gain on sale of investments at fair value through profit or loss		(38,707)	17,739
Unrealised diminution on investments at fair value through profit or loss	5.1	(56,486)	(4,025)
Unrealised diminution on derivative financial instruments		-	(507)
Dividend Income		8	-
Total income		<u>155,463</u>	<u>249,037</u>
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	11	26,242	33,576
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12.1	2,749	3,239
Annual fee - Securities and Exchange Commission of Pakistan	13	1,499	2,239
Brokerage		1,025	8,616
Settlement and bank charges		1,039	2,529
Annual listing fee		30	15
Auditors' remuneration	18	311	240
Amortisation of preliminary expenses and floatation costs	9	524	525
Fee and charges to National Clearing Company of Pakistan Limited		871	129
Financial charges		104	147
Legal expenses		255	-
Mutual fund rating fee		200	-
Provision against debt securities		7,253	-
Total expenses		<u>42,102</u>	<u>51,255</u>
Net income from operating activities		<u>113,361</u>	<u>197,782</u>
Element of income and capital gains included in prices of units issued less those in units redeemed		<u>(2,027)</u>	<u>21,189</u>
Net income for the year		<u><u>111,334</u></u>	<u><u>218,971</u></u>
Earnings per unit	19	-	-

The annexed notes 1 to 30 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 2009**

	2009	2008
	(Rupees in '000)	
Undistributed income brought forward	43,444	17,143
Net income for the year	111,334	218,971
Bonus units on 1 July 2007 @ 1.4975 for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2007	-	(15,466)
Interim cash dividend on 4 April 2008 for class 'C' unit holders @ Rs. 7 per unit held as at 30 May 2008	-	(110,431)
Interim bonus units on 4 April 2008 @ 6.9902 for class 'A' and 'B' unit holders for every 100 units held as at 30 May 2008	-	(66,773)
Final cash dividend on 1 July 2008 for class 'C' unit holders @ Rs. 2.25 per unit	(22,592)	-
Final bonus units on 1 July 2008 @ 2.2482 for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2008	(19,331)	-
Interim cash dividend on 8 October 2008 for class 'C' unit holders @ Rs. 2.50 per unit	(24,596)	-
Interim bonus units on 8 October 2008 @ 2.4925 for class 'A' and 'B' unit holders for every 100 units held as at 30 September 2008	(23,073)	-
Interim cash dividend on 4 May 2009 for class 'C' unit holders @ Rs. 1.75 per unit	(18,525)	-
Interim Bonus units on 4 May 2009 @1.7301 for class 'A' and 'B' unit holders for every 100 units held as at 30 April 2009	(10,195)	-
Undistributed income carried forward	<u>36,466</u>	<u>43,444</u>

The annexed notes 1 to 30 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 2009**

	2009		2008	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Net assets at the beginning of the year	18,632,666	1,906,711	10,293,012	1,046,444
Amount received on issue of units	13,981,820	1,413,764	57,122,435	5,900,978
Amount paid on redemption of units	(16,186,321)	(1,636,443)	(49,603,978)	(5,128,062)
	(2,204,501)	(222,679)	7,518,457	772,916
Element of income and capital gains included in prices of units issued less those in units redeemed	-	2,027	-	(21,189)
Issue of bonus units on 1 July 2007 @ 1.4975% for Class 'A' and 'B'	-	-	154,395	-
Issue of bonus units on 4 April 2008 @ 6.9902% for Class 'A' and 'B'	-	-	666,802	-
Issue of bonus units on 1 July 2008 @ 2.2482% for Class 'A' and 'B'	193,156	-	-	-
Issue of bonus units on 8 October 2008 @ 2.4925% for Class 'A' and 'B'	230,041	-	-	-
Issue of bonus units on 4 May 2009 @ 1.7301% for Class 'A' and 'B'	100,806	-	-	-
Interim dividend distribution on 4 April 2008 @ 7% for Class 'C'	-	-	-	(110,431)
Interim dividend distribution on 1 July 2008 @ 2.25% for Class 'C'	-	(22,592)	-	-
Interim dividend distribution on 8 October 2008 @ 2.5% for Class 'C'	-	(24,596)	-	-
Interim dividend distribution on 4 May 2009 @ 1.75% for Class 'C'	-	(18,525)	-	-
Net income for the year	-	111,334	-	218,971
Net assets at the end of the year	16,952,168	1,731,680	18,632,666	1,906,711

The annexed notes 1 to 30 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 2009**

	2009	2008
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	111,334	218,971
Adjustments		
Unrealised diminution on investments at fair value through profit or loss	56,486	4,025
Unrealised diminution on derivative financial instruments	-	507
Provision against debt securities	7,253	-
Element of income and capital gains included in prices of units issued less those in units redeemed	2,027	(21,189)
Amortisation of preliminary expenses and floatation costs	524	525
	<u>177,624</u>	<u>202,839</u>
(Increase) / decrease in assets		
Short term investment in term deposit receipt	100,000	(350,000)
Receivable against Continuous Funding System transactions	275,422	236,131
Investments	(274,868)	(644,069)
Certificate of investments and deposits	425,000	(450,000)
Income receivable	9,880	(43,189)
Security deposits and other receivables	3,889	(5,336)
Receivable against sale of investments	1,315	(1,315)
	<u>540,638</u>	<u>(1,257,778)</u>
Increase / (decrease) in liabilities		
Payable against purchase of investments	-	(5,275)
Payable to Habib Asset Management Limited - Management Company	(2,372)	(2,563)
Payable to Central Depository Company of Pakistan Limited - Trustee	(36)	68
Payable to Securities and Exchange Commission of Pakistan	(740)	2,157
Accrued expenses and other liabilities	(376)	991
	<u>(3,524)</u>	<u>(4,622)</u>
Net cash inflow / (outflow) from operating activities	<u>714,738</u>	<u>(1,059,561)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Net (payments) / receipts from sale and redemption of units	(222,679)	772,916
Dividend paid	(65,713)	(110,431)
Net increase / (decrease) in cash and cash equivalents during the year	<u>426,346</u>	<u>(397,076)</u>
Cash and cash equivalents at beginning of the year	<u>(41,101)</u>	<u>355,975</u>
Cash and cash equivalents at the end of the year	<u><u>385,245</u></u>	<u><u>(41,101)</u></u>
Cash and cash equivalents at the end of the year comprise of :		
Cash at bank - saving accounts	85,245	1,412
Term deposit receipt having maturity of 3 months or less	300,000	-
Short term running finance	-	(42,513)
	<u><u>385,245</u></u>	<u><u>(41,101)</u></u>

The annexed notes 1 to 30 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 2009**

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 '3 Star Normal' to the Management Company and the Fund respectively.

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

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, Non-Banking Finance Companies and Notified Entities Regulations, 2007 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, Non-Banking Finance Companies and Notified Entities Regulations, 2007 and Non-Banking Finance Companies and Notified Entities Regulations, 2008 shall prevail.

2.2 Initial application of a standard or an interpretation

During the year, amendments to International Accounting Standards (IAS) 39- Financial instruments: Recognition and Measurement and IFRS 7-Financial Instruments: Disclosures- regarding reclassification of financial assets became effective from 1 July 2008. Further IAS 29 -Financial Reporting in Hyperinflationary Economies, International Financial Reporting Standard (IFRS) 7- Financial Instruments: Disclosures, IFRIC 13-Customer Loyalty Programme and IFRIC 14 -The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction became effective during the year. The application of these standards and interpretations did not have any material effect on the Fund's financial statements except for certain increased disclosures.

2.3 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after 1 July 2009 are either not relevant to Fund's operations or are not expected to have significant impact on the Fund's financial statements other than certain increased disclosures:

Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009). The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics.

Revised IAS 23-Borrowing costs (effective from 1 January 2009). Amendments relating to mandatory capitalisation of borrowing costs relating to qualifying assets.

IAS 32 (amendment)-Financial instruments: Presentation and consequential amendment to IAS 1- Presentation of Financial Statements (effective for annual period beginning on or after 1 January 2009). IAS 32 amended classification of Puttable Financial Instruments.

Amendment to IAS 39- Financial Instruments: Recognition and Measurement -Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009). Amendment clarifies the application of existing principles that determine whether specific risk or portion of cash flows are eligible for designation in hedging relationship.

IFRS 2 (amendment)-Share-based payments and withdrawal of IFRIC 8- Scope of IFRS 2 and IFRIC 11- Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 January 2010). Amendment provides guidance on the accounting for share based payment transactions among group entities.

IFRS 2 (amendment)-Share-based payments (effective for annual periods beginning on or after 1 January 2009). IFRS 2 clarifies the vesting conditions and cancellations in the share-based payment arrangement.

IFRS 3 (amendment)-Business Combinations and consequential amendments to IAS 27-Consolidated and separate financial statements, IAS 28-Investment in associates and IAS 31-Interest in Joint Ventures. (effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

IFRS 4 -Insurance Contracts (effective for annual periods beginning on or after 1 January 2009). The IFRS makes limited improvements to accounting for insurance contracts and contains disclosures requirements.

Amendment to IFRS 7- Improving Disclosures about Financial Instruments (effective for annual periods beginning on or after 1 January 2009).The amendment contains additional disclosures for fair value measurement of financial instruments.

IFRS 8- Operating Segments (effective for annual period beginning on or after 1 January 2009). The standard introduced 'management approach' to segment reporting.

Amendment to IFRIC 9- Reassessment of Embedded Derivatives and consequential amendment to IAS 39- Financial Instruments: Recognition and Measurement (effective for annual period beginning on or after 30 June 2009. Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value.

IFRIC 15- Agreement for the Construction of Real Estate (effective for annual period beginning on or after 1 October 2009).The interpretation clarifies the recognition of revenue by real estate developers.

IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).The interpretation contains clarification on investment hedging of foreign operations.

IFRIC 17- Distribution of Non-cash Assets to the Owner and related amendments to IFRS 5-Non-current Assets Held for Sale and Discontinued Operations and IAS 10- Events after the Balance Sheet Date (effective for annual period beginning on or after 1 July 2009). The interpretation contains recognition and measurement requirements regarding non-cash assets distributions by the entity to the owner.

IFRIC 18- Transfer of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation contains guidance from the perspective of the recipient regarding recognition and measurement principles on transferred assets by customer to the entity.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standards.

The International Accounting Standards Board made certain amendments to existing standards as part of its Second annual improvements project. The effective dates for these amendments vary by standards.

2.4 Basis of measurement

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

2.5 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.

2.6 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.

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 in note 23 and 24 to these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIE

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 Unit Holders' Fund 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, local or foreign as the case may be, and derivatives 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 Term Finance Certificates (TFC's)/Debt Securities

The SECP vide its circular no. 1/2009 dated 06 January 2009 has changed the methodology for valuation of debt securities. Under the said directive, investment in term finance certificates are valued on the basis of traded, thinly traded and non traded securities. The circular also specifies the criteria for the provisioning of non-performing debt securities. Accordingly, investment in TFC's have been valued at the rates determined and announced by Mutual Funds Association of Pakistan (MUFAP) based on the methodology prescribed in the circular. Prior to the issuance of the said directive investment in TFC's were valued as follows:

- (i) With effect from 05 November 2008 to 9 January 2009, at the lower of discounted redeemable face value of TFC's and the market value as determined using rates notified by the MUFAP in accordance with the SECP circular no. 26/2008 dated 05 November 2008.
- (ii) Prior to 05 November 2008, at the rates notified by MUFAP in accordance with the requirements of Regulation 2(1)(xvi) of the Non-Banking Finance Companies and Notified Entities Regulation, 2007.

Had all the TFC's been valued on the basis of rates notified by MUFAP, the net assets value of the Fund calculated during the period would have been different and consequently the number of units issued / redeemed during the period as well as element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed recorded by the Fund would also have been different. These effects have not been quantified as it was impracticable to do so.

Basis of valuation of Government Securities

A government security not listed on a stock exchange and traded in the interbank market is valued at the average rate quoted on a widely used electronic quotation system and such average rate is based on the remaining tenor of the security.

Impairment

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

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

3.3 Securities under resale agreements

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

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

3.4 Unit holders' fund

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

3.5 Issue and redemption of units

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

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

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

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

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

3.7 Net asset value - per unit

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

3.8 Taxation

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

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

However, the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year. Accordingly, no tax liability or deferred tax has been recognised in these financial statements.

3.9 Revenue recognition

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

3.10 Expenses

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

3.11 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

3.12 Preliminary expenses and floatation costs

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

3.13 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances. 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.

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3.14 Other assets

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

3.15 Dividend distributions and appropriations

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

4. BANK BALANCES		2009	2008
		(Rupees in '000)	
In saving accounts	4.1	85,245	1,412
Term deposit receipts (TDRs)	4.2	550,000	350,000
		<u>635,245</u>	<u>351,412</u>

4.1 Savings accounts carry profit rates ranging from 5% to 12.5% (30 June 2008: 4.5% to 11%) per annum.

4.2 Term deposit receipts have tenor of one month to six months (2008: three months to one year) and carry profit rates ranging from 12.00% to 13.40% (30 June 2008: 10.40% to 12.50%) per annum.

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

Term Finance Certificates	5.2	541,635	802,120
Provision	5.2.1	(7,253)	-
		<u>534,382</u>	<u>802,120</u>
Government securities	5.3	493,858	-
Investment in Shares and Mutual Funds	5.4	-	15,498
Derivatives		-	(507)
		<u>1,028,240</u>	<u>817,111</u>

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

Term Finance Certificates		(56,532)	(4,597)
Government Securities	5.3	46	-
Shares and mutual funds	5.4.1	-	572
		<u>(56,486)</u>	<u>(4,025)</u>

5.2 Term Finance Certificates

Name of the investee company	Status	Number of certificates				As at 30 June 2009		Market value as a percentage of net assets	Market value as a percentage of total investments
		As at 1 July 2008	Acquired during the year	Sold during the year	As at 30 June 2009	Carrying value	Market Value		
Term Finance Certificates - Held for trading									
(Rupees in '000)									
Allied Bank Limited	Listed	10,400	3,000	5,500	7,900	40,382	38,188	2.21	3.71
Askari Bank Limited - I issue	Listed	3,000	8,990	4,000	7,990	40,270	38,359	2.22	3.73
Askari Bank Limited - II issue	Listed	200	6,990	-	7,190	35,464	34,308	1.98	3.34
Bank AL Habib Limited - II issue	Listed	9,200	104	200	9,104	48,024	43,480	2.51	4.23
Bank Alfalah Limited - II issue	Listed	10,000	-	6,860	3,140	16,112	15,284	0.88	1.49
Bank Alfalah Limited - III issue	Listed	2,000	-	2,000	-	-	-	-	-
Engro Chemical Pakistan Limited	Listed	9,281	-	9,281	-	-	-	-	-
Engro Chemical Pakistan Limited PPTFC - I issue	Unlisted	8,000	4,000	-	12,000	60,479	52,800	3.05	5.13
Engro Chemical Pakistan Limited PPTFC - II issue	Unlisted	4,000	2,000	-	6,000	29,062	26,300	1.52	2.56
Faysal Bank Limited	Listed	14,515	-	14,515	-	-	-	-	-
First Dawood Investment Bank Limited	Unlisted	2,900	-	-	2,900	14,631	10,875	0.63	1.06
First International Investment Bank Limited	Listed	5,379	-	-	5,379	17,129	16,290	0.94	1.58
Gharibwal Cement Limited	-	-	4,450	-	4,450	22,241	19,781	1.14	1.92
Jahangir Siddiqui & Company Limited	Unlisted	9,400	-	-	9,400	47,374	42,979	2.48	4.18
KASB Securities Limited	Unlisted	5,000	-	-	5,000	25,241	21,858	1.26	2.13
NIB Bank Limited	Listed	12,600	2,000	8,000	6,600	32,795	30,493	1.76	2.97
Orix Leasing Pakistan Limited	Listed	10,000	1,500	6,000	5,500	27,706	22,708	1.31	2.21
Pak American Fertilizers Limited PPTFC - II issue	Unlisted	2,000	4,000	3,000	3,000	14,963	13,028	0.75	1.27
Pak Arab Fertilizers Limited	Listed	7,000	-	7,000	-	-	-	-	-
Pakistan Mobile Communication Limited	Listed	14,240	-	14,240	-	-	-	-	-
The Royal Bank of Scotland [formerly ABN AMRO Bank (Pakistan) Limited]	Listed	3,090	-	-	3,090	15,963	15,237	0.88	1.48
Saudi Pak Leasing Company Limited - III issue	Listed	5,999	-	-	5,999	30,173	22,187	1.28	2.16
Sitara Chemicals Limited	Listed	-	4,000	-	4,000	19,548	19,995	1.15	1.94
Standard Chartered Bank (Pakistan) Limited	Listed	948	3,600	-	4,548	22,912	22,459	1.30	2.18
United Bank Limited - III issue	Listed	4,400	-	-	4,400	22,911	21,234	1.23	2.07
United Bank Limited - IV issue	Listed	3,000	5,000	5,000	3,000	14,787	13,792	0.80	1.34
		156,552	49,634	85,596	120,590	598,167	541,635		

5.2.1 Provision

Opening balance
Provision for the year
Closing balance

	2009	2008
	(Rupees in '000)	
	-	-
	5.2.1.1 7,253	-
	<u>7,253</u>	<u>-</u>

5.2.1.1 This represents specific provision made against a debt security in accordance with the provisioning policy of the Fund approved by the Board of Directors of the Management Company.

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

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

Name of the investee company	Note	Remaining principal (per TFC) as at 30 June 2009	Start date	Maturity	Credit rating	Mark-up Rate (Per annum)	Secured /Unsecured
Term Finance Certificates - Held for trading							
Allied Bank Limited - I issue		4,995.00	6-Dec-06	6-Dec-14	AA -	6 Month KIBOR + 1.90 %	Un-Secured
Askari Commercial Bank Limited - I issue		4,992.00	4-Feb-05	4-Feb-13	AA -	6 Month KIBOR + 1.50 %	Un-Secured
Askari Commercial Bank Limited - II issue		4,993.00	31-Oct-05	31-Oct-13	AA -	6 Month KIBOR + 1.50 %	Un-Secured
Bank Al Habib Limited - II issue		4,996.00	7-Feb-07	7-Feb-15	AA -	6 Month KIBOR + 1.95 %	Un-Secured
Bank Al-Falah Limited - II issue		4,991.35	23-Nov-04	23-Nov-12	AA -	6 Month KIBOR + 1.50 %	Un-Secured
Engro Chemical Pakistan Ltd PP -TFC - I	5.2.3.1	5,000.00	18-Mar-08	18-Mar-19	AA	6 Month KIBOR + 1.25 %	Secured
Engro Chemical Pakistan Ltd PP -TFC - II	5.2.3.2	5,000.00	18-Mar-08	18-Mar-19	AA	6 Month KIBOR + 1.70 %	Secured
First Dawood Investment Bank Limited PP TFC	5.2.3.3	5,000.00	11-Sep-07	11-Sep-12	BBB-	6 Month KIBOR + 1.60 %	Secured
First International Investment Bank Limited		3,123.75	11-Jul-06	11-Jul-11	A +	6 Month KIBOR + 2.25 %	Un-Secured
Gharibwal Cement Limited PP TFC	5.2.3.4	4,998.00	18-Jan-08	18-Jan-13	BBB	6 Month KIBOR + 3.00 %	Secured
Jahangir Siddiqui & Company Limited PP TFC	5.2.3.5	4,997.00	4-Jul-07	4-Jul-13	AA +	6 Month KIBOR + 1.70 %	Secured
KASB Securities Limited PP TFC	5.2.3.6	4,996.00	27-Jun-07	27-Jun-12	AA -	6 Month KIBOR + 1.90 %	Secured
NIB Bank Limited		4,998.00	5-Mar-08	5-Mar-16	A +	6 Month KIBOR + 1.15 %	Un-Secured
Orix Leasing Pakistan Limited	5.2.3.7	4,996.00	25-May-07	25-May-12	AA +	6 Month KIBOR + 1.50 %	Secured
Pak American Fertilizer Ltd PP TFC II	5.2.3.8	4,998.00	14-Jan-08	14-Jan-15	AA-	6 Month KIBOR + 1.75 %	Secured
The Royal Bank of Scotland [formerly ABN Amro (Pakistan) Limited]		4,992.00	10-Feb-05	10-Feb-13	AA -	6 Month KIBOR + 1.90 %	Un-Secured
Saudi Pak Leasing Company Limited III issue	5.2.3.9	5,000.00	13-Mar-08	13-Mar-13	BBB+	6 Month KIBOR + 1.50 %	Secured
Sitara Chemicals Limited	5.2.3.10	4,998.00	2-Jan-08	2-Jan-13	AA-	3 Month KIBOR + 1.00 %	Secured
Standard Chartered Bank Limited - III issue		4,994.00	1-Feb-06	1-Feb-13	AAA	6 Month KIBOR + 2.00 %	Un-Secured
United Bank Limited - III issue		4,998.00	8-Sep-06	8-Sep-14	AA	6 Month KIBOR + 1.70 %	Un-Secured
United Bank Limited - IV issue		4,995.00	14-Feb-08	14-Feb-18	AA	6 Month KIBOR + 0.85 %	Un-Secured

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

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

5.2.3.3 These term finance certificates are secured by First pari passu charge on leased assets and associated rental receivables.

Based on financial difficulties being faced by the borrower, a provision of Rs. 7.253 million has been made against this exposure, in line with the provisioning policy of the Fund. As the collateral is held by a number of participants, hence it is impracticable to determine its fair value.

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

5.2.3.5 These term finance certificates are secured by first ranking pari passu floating charge on all present and future moveable assets including book debts, receivables and investments but excluding pledge of shares and listed securities.

5.2.3.6 These term finance certificates are secured by first ranking pari passu charge by way of hypothecation over all present and future current assets, with 25% margin and first exclusive ranking charge over all present and future fixed assets, with 25% margin.

5.2.3.7 These term finance certificates are secured by the first exclusive and specific charge, along with a 25% margin over all of the issuer's moveable assets and receivables as per the terms and conditions of the trust deed.

5.2.3.8 These term finance certificates are secured by ranking pari passu charge over all present and future fixed assets amounting to issue amount plus 25% margin.

5.2.3.9 These term finance certificates are secured by way of first exclusive charge on specific leases including lease, rental and receivables against these leases with 25% margin.

5.2.3.10 These term finance certificates are secured by specific and exclusive hypothecation charge in respect of the musharaka assets in favour of the investors to the extent of entire legal ownership rights of the investee. The charge will include 18.22% margin.

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

Issue date	Tenor	Face value				As at 30 June 2009			Market value as a percentage of net assets	Market value as a percentage of total investments
		As at 01 July 2008	Purchases during the year	Sales / Matured during the year	As at 30 June 2009	Carrying value	Market value	Appreciation / (diminution)		
------(Rupees in '000)-----										
23-Apr-09	6 Months	-	50,000	50,000	-	-	-	-	-	-
12-Feb-09	3 Months	-	150,000	150,000	-	-	-	-	-	-
12-Feb-09	6 Months	-	250,000	-	250,000	246,291	246,375	84	14.23	23.96
4-Dec-08	6 Months	-	50,000	50,000	-	-	-	-	-	-
18-Dec-08	6 Months	-	150,000	150,000	-	-	-	-	-	-
7-May-09	3 Months	-	50,000	-	50,000	49,499	49,497	(2)	2.86	4.81
29-Jan-09	6 Months	-	200,000	-	200,000	198,022	197,986	(36)	11.43	19.25
						<u>493,812</u>	<u>493,858</u>	<u>46</u>		

5.4 Investment in shares and mutual funds

Name of the investee	As at 1 July 2008	Number of shares				Market value as at 30 June 2009	Market value as a percentage of net assets	Market value as a percentage of total investments
		Acquired during the year	Bonus / right issue	Sold during the year	As at 30 June 2009			
(Rupees in '000)								
COMMERCIAL BANKS								
MCB Bank Limited	-	156,000	-	156,000	-	-	-	-
INVESTMENT BANKS / SECURITIES								
Jahangir Siddiqui and Company Limited	-	8,500	-	8,500	-	-	-	-
INSURANCE								
Adamjee Insurance Company Limited	-	10,500	-	10,500	-	-	-	-
OIL & GAS EXPLORATION COMPANIES								
Oil & Gas Development Company Limited	-	63,500	-	63,500	-	-	-	-
Pakistan Petroleum Limited	63,000	-	-	63,000	-	-	-	-
OIL & GAS MARKETING COMPANIES								
Pakistan State Oil Company Limited	-	20,000	-	20,000	-	-	-	-
					<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

5.4.1 Cost of investment in shares and mutual funds as at 30 June 2009 is Nil (30 June 2008: Rs. 14.93 million) with an unrealised gain of Nil (30 June 2008: Rs. 0.57 million).

5.5 Shares allocated against CFS MK II square up program

Name of the investee	As at 1 July 2008	Number of shares			Market value as at 30 June 2009	Market value as a percentage of net assets	Market value as a percentage of total investments
		Acquired during the year	Bonus / right issue	Sold during the year			
(Rupees in '000)							
CEMENT							
Al Abbas Cement Industries Limited	-	217	-	217	-	-	-
Deewan Cement Limited	-	93	-	93	-	-	-
D.G Khan Cement Company Limited	-	64,200	-	64,200	-	-	-
Fauji Cement Company Limited	-	2,020	-	2,020	-	-	-
Lucky Cement Limited	-	21,242	-	21,242	-	-	-
Maple Leaf Cement Factory Limited	-	288	-	288	-	-	-
Pakistan Cement Company Limited	-	5,200	-	5,200	-	-	-
Pioneer Cement Limited	-	63	-	63	-	-	-
COMMERCIAL BANKS							
Allied Bank Limited	-	47	-	47	-	-	-
Arif Habib Bank Limited	-	999	-	999	-	-	-
Askari Bank Limited	-	73,631	-	73,631	-	-	-
Bank Alfalah Limited	-	14,917	-	14,917	-	-	-
Bank AL Habib Limited	-	111	-	111	-	-	-
Bank Islami Pakistan Limited	-	622	-	622	-	-	-
The Bank of Punjab	-	1,436	-	1,436	-	-	-
Faysal Bank Limited	-	81	-	81	-	-	-
Habib Bank Limited	-	758	-	758	-	-	-
JS Bank Limited	-	239	-	239	-	-	-
MCB Bank Limited	-	6,281	-	6,281	-	-	-
Meezan Bank Limited	-	46	-	46	-	-	-
National Bank of Pakistan Limited	-	9,183	-	9,183	-	-	-
NIB Bank Limited	-	1,955	-	1,955	-	-	-
Soneri Bank Limited	-	369	-	369	-	-	-
Saudi Pak Commercial Bank Limited	-	149	-	149	-	-	-
United Bank Limited	-	6,870	-	6,870	-	-	-
CLOSED END MUTUAL FUND							
JS Value Fund Limited	-	1,048	-	1,048	-	-	-
PICIC Growth Fund	-	212	-	212	-	-	-
Pakistan Premier Fund Limited	-	977	-	977	-	-	-
AUTOMOBILE ASSEMBLER							
Honda Atlas Cars (Pakistan) Limited	-	112	-	112	-	-	-
Indus Motor Company Limited	-	1	-	1	-	-	-
CHEMICALS							
BOC Pakistan Limited	-	10	-	10	-	-	-
ICI Pakistan Limited	-	2	-	2	-	-	-
Pakistan PTA Limited	-	1,771	-	1,771	-	-	-
Sitara Peroxide Limited	-	95	-	95	-	-	-
PHARMACEUTICALS							
Searle Pakistan Limited	-	1	-	1	-	-	-
FERTILIZER							
Engro Chemical Pakistan Limited	-	8,072	-	8,072	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	14,790	-	14,790	-	-	-
Fauji Fertilizer Company Limited	-	64	-	64	-	-	-
INVESTMENT BANKS / SECURITIES							
Arif Habib Limited	-	65	-	65	-	-	-
Arif Habib Securities Limited	-	1,528	-	1,528	-	-	-
Dawood Equities Limited	-	22	-	22	-	-	-
First National Equities Limited	-	3	-	3	-	-	-
Javed Omer Vohra and Company Limited	-	116	-	116	-	-	-
JS Investments Limited	-	11	-	11	-	-	-
Jahangir Siddiqui and Company Limited	-	472	-	472	-	-	-
Pervez Ahmed Securities Limited	-	14,043	-	14,043	-	-	-
TEXTILE COMPOSITE							
Azgard Nine Limited	-	6	-	6	-	-	-
Dawood Lawrencepur Limited	-	70	-	70	-	-	-
Nishat Chunian Limited	-	235	-	235	-	-	-
Nishat Mills Limited	-	19,996	-	19,996	-	-	-
TRANSPORT							
Pakistan International Container Terminal Limited	-	7	-	7	-	-	-

First Habib Income Fund

Name of the investee	As at 1 July 2008	Number of shares			Market value as at 30 June 2009	Market value as a percentage of net assets	Market value as a percentage of total investments
		Acquired during the year	Bonus / right issue	Sold during the year			
(Rupees in '000)							
INSURANCE							
Adamjee Insurance Company Limited	-	18,165	-	18165	-	-	-
Pakistan Reinsurance Company Limited	-	47	-	47	-	-	-
OIL & GAS EXPLORATION COMPANIES							
Oil & Gas Development Company Limited	-	1,315	-	1315	-	-	-
Pakistan Oilfields Limited	-	792	-	792	-	-	-
Pakistan Petroleum Limited	-	857	-	857	-	-	-
POWER GENERATION & DISTRIBUTION							
The Hub Power Company Limited	-	157	-	157	-	-	-
Kot Addu Power Company Limited	-	265	-	265	-	-	-
TECHNOLOGIES & COMMUNICATION							
Netsol Technologies Limited	-	281	-	281	-	-	-
Pakistan Telecommunication Company Limited	-	15	-	15	-	-	-
Telecard Limited	-	924	-	924	-	-	-
TRG Pakistan Limited -A	-	1,000	-	1,000	-	-	-
Worldcall Telecom Limited	-	821	-	821	-	-	-
ENGINEERING							
Crescent Steel and Allied Products Limited	-	107	-	107	-	-	-
Dost Steels Limited	-	581	-	581	-	-	-
SYNTHETIC & RAYON							
Dewan Salman Fibre Limited	-	1,307	-	1,307	-	-	-
REFINERY							
Attock Refinery Limited	-	7,963	-	7,963	-	-	-
Bosicor Pakistan Limited	-	935	-	935	-	-	-
National Refinery Limited	-	2	-	2	-	-	-
Pakistan Refinery Limited	-	361	-	361	-	-	-
CABLES AND ELECTRICAL GOODS							
Pak Elektron Limited	-	51	-	51	-	-	-
OIL & GAS MARKETING COMPANIES							
Attock Petroleum Limited	-	5	-	5	-	-	-
Pakistan State Oil Company Limited	-	1,055	-	1,055	-	-	-
Sui Northern Gas Pipelines Limited	-	93	-	93	-	-	-
Sui Southern Gas Company Limited	-	138	-	138	-	-	-
MISCELLANEOUS							
Pace Pakistan Limited	-	1,262	-	1,262	-	-	-
Tri-Pack Films Limited	-	1	-	1	-	-	-
					-	-	-

5.5.1 The Fund on 28 December 2008, accepted and participated in a scheme, which was formulated for squaring up of all open CFS MK II transactions as on the close of business on 24 December 2008. The Securities and Exchange Commission of Pakistan vide its letter NBFC-II/D/MUFAP/01/2009 dated 1 January 2009, allowed income / money market funds opting to CFS MK II square up program to keep the shares acquired through this program in their portfolio for an initial period of three months extendable to another three months upon application to the Commission. These share were disposed off by the Fund during the year.

6. CERTIFICATE OF INVESTMENTS AND DEPOSITS

	2009	2008
	(Rupees in '000)	
Saudi Pak Leasing Company Limited	25,000	50,000
IGI Investment Bank Limited	-	150,000
Pak Libya Holding Company Limited	-	200,000
First Dawood Investment Bank Limited	-	50,000
	25,000	450,000

6.1 Certificate of Investments and Deposits have maturity of three months (30 June 2008: twelve months to eighteen months) and carry profit rate of 15.24% (30 June 2008: 10.92% to 13.43%) per annum.

7. INCOME RECEIVABLE	2009	2008
	(Rupees in '000)	
Income accrued on Continuous Funding System transactions	-	1,389
Profit accrued on Term Finance Certificates	27,587	22,378
Profit receivable on Bank Deposits	13,965	15,507
Profit accrued on Certificate of Investments and Deposits	564	12,060
Dividend Receivable	-	662
	<u>42,116</u>	<u>51,996</u>

8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Deposit with National Clearing Company of Pakistan Limited	<i>8.1</i>	2,500	3,500
Deposit with Central Depository Company of Pakistan Limited	<i>8.1</i>	100	100
Cash Margin with National Clearing Company of Pakistan Limited		-	2,000
Annual fee to National Clearing Company of Pakistan Limited		-	871
Others		6	24
		<u>2,606</u>	<u>6,495</u>

8.1 These deposits are non remunerative.

9. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs		2,053	2,578
Less: Amortisation during the year	<i>9.1</i>	<u>(524)</u>	<u>(525)</u>
		<u>1,529</u>	<u>2,053</u>

9.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from 2 June 2007.

10. SHORT TERM RUNNING FINANCE

The Fund has obtained running finance facility under mark-up arrangement from Bank AL Habib Limited (a related party) amounting to Rs. 200 million (2008: 100 million). This facility carries mark-up at the rate of 3 months KIBOR plus 1.25% (2008: 3 months KIBOR plus 1.25%). This arrangement is secured by way of lien/pledge over Term Finance Certificates, Term Deposits Receipts Certificates of Investment and Deposits, Units of Mutual Funds and Government Securities. However, the facility remained unavailed at year end.

First Habib Income Fund

11. PAYABLE TO HABIB ASSET MANAGEMENT LIMITED – MANAGEMENT COMPANY

Under the provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Company and Notified Entities Regulation 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such net assets of the Fund. The Management Company has charged its remuneration at the rate of one and a half percent per annum for the current year in accordance with the Trust Deed.

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

2009 2008

(Rupees in '000)

Trustee fee	12.1	231	245
CDS charges		1	23
		<u>232</u>	<u>268</u>

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

13. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

This represents annual fee payable to SECP in accordance with the NBFC Regulations, whereby the Fund is required to pay SECP an amount as follows:

Upto 20 November 2008

- at the rate of 0.1% of the average daily net assets of the fund in accordance with regulation 71 of NBFC regulations 2007

From 21 November 2008 onwards

- at the rate of 0.075% of the average daily net assets of the fund in accordance with regulation 62 of NBFC regulations 2008.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

Auditors' remuneration	251	186
Brokerage	26	505
Credit rating fee	200	-
NCCPL Settlement Charges	-	43
Annual listing fee-Lahore Stock Exchange	-	15
Accrued mark up on running finance facility	-	147
Others	777	734
	<u>1,254</u>	<u>1,630</u>

15. COMMITMENTS

Continuous Funding System transactions (including transactions to be rolled over) entered into by the Fund in respect of which the purchase transactions have not been settled as at 30 June

-	95,061
<u>-</u>	<u>95,061</u>

16. CLASS OF UNITS IN ISSUE

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

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

	2009	2008
	(Number of Units)	
Type 'A' Units	1,050,979	1,582,043
Type 'B' Units	5,326,091	7,009,567
Type 'C' Units	10,575,098	10,041,056
	16,952,168	18,632,666

17. PROFIT ON BANK DEPOSITS

	2009	2008
	(Rupees in '000)	
Income on saving accounts	11,654	19,748
Income on term deposit receipts	61,050	49,453
	72,704	69,201

18. AUDITORS' REMUNERATION

Annual audit fee	188	125
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	15	15
Out of pocket expenses	33	25
	311	240

19. EARNINGS PER UNIT

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

20. UNDISTRIBUTED INCOME BROUGHT FORWARD / CARRIED FORWARD

As per schedule V to the NBFC Regulations 2008, undistributed income brought forward / carried forward needs to be bifurcated in to realized and unrealized gains. However, it is not practicable to bifurcate such amount as it is not traceable into realized and unrealized portion.

21. 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, 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.

First Habib Income Fund

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.

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

Units sold to:	2009		2008	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Management Company				
Habib Asset Management Limited	957,012	96,497	118,357	12,300
Associated Companies				
- Bank AL Habib Limited	-	-	14,808,840	1,525,000
- Habib Insurance Company Limited	2,515,086	253,000	789,833	80,000
- Trakker Direct Insurance Limited	-	-	-	-
- The Habib Foundation	-	-	48,871	5,000
Other related parties:				
- Directors and executives of the Management Company	58,810	5,881	7,360	750
- Habib Insurance Company Limited Employees Provident Fund	-	-	4,896	500
- Habib Asset Management Limited - Employees Provident Fund	2,936	300	2,011	205
- Mr. Salman Hussain D Habib	-	-	1,155	118
- Mr. Imran Ali Habib	2,741	280	2,574	263
- Mr. Murtaza Habib	2,938	300	2,936	301
- Mr. Asghar D Habib	2,937	300	2,936	301
- Mr. Qumail Habib	2,937	300	2,932	300
Bonus Units Issued:				
Management Company				
Habib Asset Management Limited	41,070	4,132	8,305	832
Associated Companies				
- Bank AL Habib Limited	-	-	11,250	1,127
- Habib Insurance Company Limited	47,857	4,812	3,713	372
- Trakker Direct Insurance Limited	3,355	337	750	75
Other related parties				
- Directors and executives of the Management Company	1,005	102	1,162	115
- Habib Sugar Mills Limited - Staff Provident Fund	8,972	901	10,744	1,076
- Habib Sugar Mills Limited - Employees Gratuity Fund	8,972	901	10,744	1,076
- Hyderi Hostel Trust	3,817	383	4,727	474
- Habib Insurance Company Limited Employees Provident Fund	3,217	324	3,780	378

	2009		2008	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Bonus Units Issued:				
- Habib Asset Management Limited - Employees Provident Fund	146	14	54	5
- Mrs. Shama Sajjad Habib	7,183	721	8,601	861
- Mr. Salman Hussain D Habib	76	8	-	-
- Mr. Imran Ali Habib	170	17	-	-
- Mr. Murtaza Habib	194	19	-	-
- Mr. Asghar D Habib	194	19	-	-
- Mr. Qumail Habib	194	19	-	-
- Central Depository Company of Pakistan Limited	5,209	521	8,595	861
 Units redeemed by:				
<i>Management Company</i>				
Habib Asset Management Limited	243,666	24,197	24,245	2,500
<i>Associated Companies</i>				
- Bank AL Habib Limited	-	-	8,345,799	862,871
- Habib Insurance Company Limited	2,039,894	205,000	594,014	60,000
- Trakker Direct Insurance Limited	54,105	5,523	-	-
- The Habib Foundation	-	-	48,871	5,131
 Other related parties				
- Directors and executives of the Management Company	38,387	3,774	36,102	3,242
- Hyderi Hostel Trust	22,224	2,275	-	-
- Habib Asset Management Limited - Employees Provident Fund	1,737	175	-	-
- Central Depository Company of Pakistan Limited	113,804	11,491	-	-
 Units held by:				
<i>Management Company</i>				
Habib Asset Management Limited	905,158	92,462	150,742	15,425
<i>Associated Companies</i>				
- Bank AL Habib Limited	7,224,291	737,961	7,224,291	739,261
- Habib Insurance Company Limited	970,082	99,094	447,032	45,745
- Trakker Direct Insurance Limited	-	-	50,750	5,193
 Other related parties				
- Directors and executives of the Management Company	26,301	2,509	5,481	505
- Habib Sugar Mills Limited - Staff Provident Fund	144,716	14,783	135,744	13,891

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	2009		2008	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Units held by:				
- Habib Sugar Mills Limited - Employees Gratuity Fund	144,716	14,783	135,744	13,891
- Hyderi Hostel Trust	41,321	4,221	59,727	6,112
- Habib Insurance Company Limited Employees Provident Fund	51,893	5,300	48,676	4,981
- Habib Asset Management Limited - Employees Provident Fund	3,410	348	2,065	211
- Mrs. Shama Sajjad Habib	115,846	11,834	108,664	11,119
- Mr. Salman Hussain D Habib	1,231	126	1,155	118
- Mr. Imran Ali Habib	5,485	560	2,574	263
- Mr. Murtaza Habib	6,068	620	2,936	301
- Mr. Asghar D Habib	6,067	620	2,936	301
- Mr. Qumail Habib	6,062	619	2,932	300
- Central Depository Company of Pakistan Limited	-	-	108,595	11,113
Other transactions and balances			2009	2008
			(Rupees in '000)	
<i>Habib Asset Management Limited - Management Company</i>				
Management fee				
Balance as at 1 July			2,443	5,006
Management fee for the year			26,242	33,576
Paid during the year			(28,614)	(36,139)
Balance as at 30 June			<u>71</u>	<u>2,443</u>
<i>AL Habib Capital Markets (Private) Limited- Brokerage house</i>				
Balance as at 1 July			-	59
Brokerage expense for the year			-	722
Paid during the year			-	(781)
Balance as at 30 June			<u>-</u>	<u>-</u>
<i>Central Depository Company of Pakistan Limited - Trustee</i>				
Balance as at 1 July			268	200
Remuneration for the year			2,749	3,239
CDS charges for the year			83	406
			2,832	3,645
Paid during the year			(2,868)	(3,577)
Balance as at 30 June			<u>232</u>	<u>268</u>
Security deposit - Non interest bearing			<u>100</u>	<u>100</u>

22. RISK MANAGEMENT

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

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

The Fund invests in a diversified portfolio of investment grade term finance certificates, government securities, corporate debt securities, certificates of investments, term deposit receipts, continuous funding system and other money market instruments (including the clean placements). Such investments are subject to varying degrees of risk. These risks emanate from various factors that include, but are not limited to:

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.

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

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

Currency risk

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

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 debt securities, from Term Deposit Receipts, Certificate of Investments and Deposits, clean placements and profit and loss sharing bank balances. The Fund carries a mix of fixed and floating rate financial instruments. Currently the exposure in fixed rate instruments is in Government securities, Term Deposit Receipts, Certificate of Investments and Deposits. 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 2009, details of the interest rate profile of the Fund's interest bearing financial instruments were as follows:

	2009	2008
	(Rupees in '000)	
Fixed rate instruments		
Financial assets	<u>1,154,103</u>	<u>801,412</u>
Variable rate instruments		
Financial assets	<u>534,382</u>	<u>802,120</u>

As at 30 June 2009, the investment in term finance certificates exposed to interest rate risk is detailed in Note 5.2. Cash and cash equivalents and Certificate of investments and deposits are not subject to cash flow and fair value interest rate risk.

a) Sensitivity analysis for variable rate instruments

Presently, Fund's investment in Term Finance Certificate carries floating interest rate that expose the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2009, the net assets of the Fund would have been higher / lower by Rs. 0.42 million (2008: 0.51 million) with consequential effect on net income for the year.

b) Sensitivity analysis for fixed rate instruments

As at 30 June 2009, investment in Government Securities carries fixed interest rate that exposes the Fund to fair value interest rate risk. In case of 100 basis points increase / decrease in PKRV on 30 June 2009, the net assets of the Fund would have been higher / lower by Rs. 0.48 million (2008: Nil) with consequential effect on net income for the year. The Fund does not account for any other fixed rate financial instrument at fair value through profit or loss.

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 2009 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates.

The following table analysis the Fund's interest rate exposure, categorised on the basis of the earlier of contractual repricing or maturity dates:

First Habib Income Fund

30 June 2009

On-balance sheet financial instruments	Effective rate of mark-up/return (%)	Exposed to MROR risk			Not exposed to MROR risk	Total
		Upto three months	More than three months and upto one year	More than one year		
----- (Rupees in '000) -----						
Financial assets						
Bank balances	5 to 12.5	385,245	250,000	-	-	635,245
Investments	13.69 to 18.49	513,853	514,387	-	-	1,028,240
Certificate of investments and deposits	15.24	25,000				25,000
Income receivable		-	-	-	42,116	42,116
Advances, deposits, prepayments and other receivables		-	-	-	2,606	2,606
		<u>924,098</u>	<u>764,387</u>	<u>-</u>	<u>44,722</u>	<u>1,733,207</u>
Financial liabilities						
Payable to Habib Asset Management Limited - Management Company		-	-	-	71	71
Payable to Central Depository Company of Pakistan Limited -Trustee		-	-	-	232	232
Payable to Securities and Exchange Commission of Pakistan		-	-	-	1,499	1,499
Accrued liabilities and other expenses		-	-	-	1,254	1,254
		-	-	-	3,056	3,056
		<u>924,098</u>	<u>764,387</u>	<u>-</u>	<u>41,666</u>	<u>1,730,151</u>

30 June 2008

On-balance sheet financial instruments	Effective rate of mark-up/return (%)	Exposed to MROR risk			Not exposed to MROR risk	Total
		Upto three months	More than three months and upto one year	More than one year		
----- (Rupees in '000) -----						
Financial assets						
Bank balances	4.5 to 11	251,412	100,000	-	-	351,412
Receivable against continuous funding system transactions	10.11 to 50	-	-	-	275,422	275,422
Investments	11.10 to 16	409,789	392,332	-	14,990	817,111
Certificates of Investments and deposits	10.92 to 13.43	450,000	-	-	-	450,000
Income receivable		-	-	-	51,996	51,996
Advances, deposits, prepayments and other receivables		2,000	-	-	4,495	6,495
Receivable against sale of Investments		-	-	-	1,315	1,315
		<u>1,113,201</u>	<u>492,332</u>	<u>-</u>	<u>348,218</u>	<u>1,953,751</u>
Financial liabilities						
Short term running finance		42,513	-	-	-	42,513
Payable to Habib Asset Management Limited - Management Company		-	-	-	2,443	2,443
Payable to Central Depository Company of Pakistan Limited -Trustee		-	-	-	268	268
Payable to Securities and Exchange Commission of Pakistan		-	-	-	2,239	2,239
Accrued liabilities and other expenses		-	-	-	1,630	1,630
		<u>42,513</u>	<u>-</u>	<u>-</u>	<u>6,580</u>	<u>49,093</u>
On-balance sheet gap 2008		<u>1,070,688</u>	<u>492,332</u>	<u>-</u>	<u>341,638</u>	<u>1,904,658</u>

First Habib Income Fund

Other price risk

Other price risk includes equity price risks which is the risk of unfavourable changes in the fair value of equity securities as the result of changes in the levels of KSE-Index and the value of individual shares. The Fund, is not exposed to equity price risk at the Balance Sheet date.

Credit risk

Credit risk management

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

In summary, compared to the maximum amount included in statement of assets and liabilities, the maximum exposure to credit risk as at 30 June 2009 is as follows:

	30 June 2009		30 June 2008	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
	------(Rupees in '000)-----			
Bank balances	635,245	635,245	351,412	351,412
Investments	1,028,240	534,382	817,111	817,111
Certificate of investments and deposits	25,000	25,000	450,000	450,000
Income receivable	42,116	42,116	51,996	51,996
Advances, deposits, and other receivables	2,606	2,606	5,624	5,624

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. 493.858 million (2008: Rs. Nil) relates to investments in Government securities which are not considered to carry credit risk.

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

- Where the investment committee makes an investment decision, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimize 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.

Details of the credit ratings and collaterals (if any) of investments are given in note 5.2.3 these financial statements.

None of the financial assets of the Fund are past due / impaired except as disclosed in note 5.2.1 to the financial statements.

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. The Fund's 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.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. 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).

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 tenpercent of the units then in issue. The Fund did not withhold any redemptions during the year.

First Habib Income Fund

The table below analysis 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:

	Carrying amount	Contractual Cash flows	30 June 2009			Total
			Upto three months	More than three months and upto one year	More than one year	
------(Rupees in '000)-----						
Payable to Habib Asset Management Limited						
- Management Company	71	71	71	-	-	71
Payable to Central Depository Company of Pakistan Limited - Trustee	232	232	232	-	-	232
Payable to Securities and Exchange Commission of Pakistan	1,499	1,499	1,499	-	-	1,499
Accrued expenses and other liabilities	1,254	1,254	1,254	-	-	1,254
------(Rupees in '000)-----						
	Carrying amount	Contractual Cash flows	30 June 2008			Total
			Upto three months	More than three months and upto one year	More than one year	
------(Rupees in '000)-----						
Short term running finance	42,513	42,513	42,513	-	-	42,513
Payable to Habib Asset Management Limited						
- Management Company	2,443	2,443	2,443	-	-	2,443
Payable to Central Depository Company of Pakistan Limited - Trustee	268	268	268	-	-	268
Payable to Securities and Exchange Commission of Pakistan	2,239	2,239	2,239	-	-	2,239
Accrued expenses and other liabilities	1,630	1,630	1,630	-	-	1,630

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.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments at fair value through profit or loss is based on the closing market prices prevailing at the day-end. The Management Company is of the view that the 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.

24. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Management Company makes estimates and assumptions that affect the reported amount of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

At fair value through profit or loss

The Management Company has determined fair value of investments classified as 'at fair value through profit or loss' by using quotations from active market and rates notified by MUFAP. 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 in accordance with the provisioning guidelines prescribed by the Securities and Exchange Commission of Pakistan and the provisioning criteria approved by the Board of Directors of the Management Company (Refer note no. 3.1). Actual results may differ and the difference could be material.

Other assets

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

25. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30 June 2009 is as follows:

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		244	1,084,509	110,784	6.40
Associated companies	25.1	2	8,199,958	837,633	48.37
Directors and Chief Executive	25.2	1	21,778	2,225	0.13
Executives		3	4,523	462	0.03
Bank / financial institutions		6	3,092,403	315,892	18.24
Insurance companies		3	587,909	60,055	3.47
Non banking finance companies		1	905,158	92,463	5.34
Retirement funds		13	662,386	67,663	3.91
Mutual Funds		1	253,750	25,921	1.50
Public limited companies		1	494,691	50,533	2.92
Others		11	1,645,103	168,049	9.70
		286	16,952,168	1,731,680	100.00

Unit holding pattern of the fund as at 30 June 2008 was as follows:

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		276	1,577,464	161,424	8.47
Associated companies	25.1	3	7,722,073	790,212	41.44
Directors and Chief Executive	25.2	1	1,005	103	0.01
Executives		4	4,476	458	0.02
Bank / financial institutions		11	3,665,698	375,117	19.67
Insurance companies		2	315,609	32,297	1.69
Non banking finance companies		3	181,673	18,591	0.98
Retirement funds		21	2,591,596	265,202	13.91
Mutual Funds		1	253,750	25,967	1.36
Public limited companies		4	1,409,741	144,261	7.57
Others		10	909,581	93,079	4.88
		336	18,632,666	1,906,711	100.00

25.1 Associated companies

	30 June 2009			30 June 2008		
	Number of units	Investment amount (Rupees in '000)	Percentage of total investment	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Bank AL Habib Limited	7,224,291	737,968	42.61	7,224,291	739,273	38.77
Habib Insurance Company Limited	975,667	99,665	5.76	447,032	45,746	2.40
Trakker Direct Insurance Limited	-	-	-	50,750	5,193	0.27
	8,199,958	837,633	48.37	7,722,073	790,212	41.44

25.2 Directors and chief executive

Imran Azim (CEO)	21,778	2,225	0.13	1,005	103	0.01
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26. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker name	2009 ------(Percentage)-----	2008
Atlas Capital Markets	5.38%	38.78%
Shehzad Chamdia Securities	0.00%	2.50%
JS Global Securities	19.98%	6.69%
Al Falah Securities	0.00%	1.43%
BMA Capital	14.96%	1.82%
Global Securities	21.53%	8.92%
IGI Finex Securities Limited	13.72%	21.06%
Atlas Capital Markets Lahore	18.93%	4.98%
Escort Investment Bank	0.92%	5.44%
Al Habib Capital Markets	0.00%	8.38%
Al Falah Securities	2.67%	-
Elixir Securities Pakistan (Pvt) Limited	0.78%	-
Invisor Securities (Pvt) Limited	0.64%	-
First Capital Securities Corporation Limited	0.49%	-
	100.00%	100.00%

27. 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	53 Years
Imran Azim	Chief Executive Officer	BA, MBA	32 Years
Shariq Abdullah	Director	Bachelor of Economics, MBA, CA (ICAEW)	21 Years

27.1 Other Funds managed by the Fund Manager

No other funds are being managed by the fund manager.

28. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 19th, 20th, 21st, 22nd, 23rd, 24th, 25th and 26th board meetings were held on 3rd July 2008, 23rd September 2008, 8th October 2008, 22nd December 2008, 27th February 2009, 11th March 2009, 24th April 2009 and 4th May 2009 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	8	5	3	19th, 21st and 26th meeting
Imran Azim	8	8	-	-
Shariq Abdullah	8	8	-	-
Mansoor Ali	8	7	1	24th meeting
Mohammad Ali Jameel	8	7	1	19th meeting

29. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors have approved 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, amounting to Rs. 35.599 million, in their meeting held on 04 July 2009. These financial statements do not reflect this distribution.

30. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on October 8, 2009.

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

Chief Executive

Director

ANNUAL FUND MANAGER'S REPORT 2009

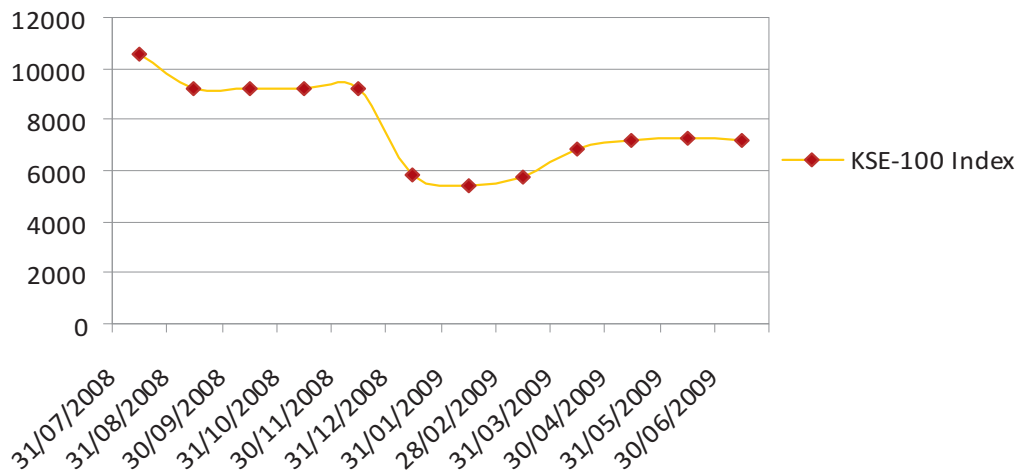
The world economies contracted by 1.3% approximately during the year 2008-09. This has been the worst year in terms of economic recession since World War II. As per IMF's report, every economy was hit and everyone missed the economic & financial targets during the year except China & India. Our economy also remained under pressure during the year due to global economic crisis.

The Karachi Stock Exchange (KSE) -100 index retained the descending inclination and remained extremely volatile during the year 2008-09. On August 27, 2008, the KSE management set a floor of 9,144 points for KSE-100 index, which remained enforced for 110 days and was removed on December 15, 2008. This regulatory move had its own negative aftermath witnessed by record thin trading volumes during the static phase. However, after removal of floor the market declined sharply and lost 36% in 12 trading sessions from 9,187 points (December 12, 2008) to 5,865 points (December 31, 2008). The KSE 100 index witnessed the lowest of 4,815 points on Jan. 26, 2009.

CFS MK II Financing was phased out during the second quarter of the year, and CFS MK-II Square-up Scheme was announced under which the financiers including mutual funds finally bought the shares at 12.5% discounted values on 24th Dec-08.

However, the second half of the FY-09 was better for the KSE as the KSE 100 index regained its lost values and market recovered 22.12% from 5,865 (Dec. 31, 2008) to 7,162 points (June 30, 2009).

KSE-100 Index performance



On money market front, State Bank of Pakistan kept its tight monetary policy stance. Treasury bills cut-off yield peaked around 14% during the year. The 3, 6 and 12 month T Bill cut-off yields climbed to 13.98%, 14.01% and 14.29% respectively in comparison to their start of the year positions of 11.42%, 11.49% and 11.74% respectively. KIBOR rates for 6 months & 1 month peaked at 15.76% (Nov. 11, 2008) and 14.90% (Oct. 8, 2008) respectively.

First Habib Income Fund

KEY MARKET STATISTICS					
FY-09					
Description	Open	Close	Change	High	Low
KSE 100	12,289.03	7,162.18	-5,126.85	12,221.53	4,815.34
1M-KIBOR (%)	13.64	13.26	-0.38	14.90	10.97
6M-KIBOR (%)	14.19	12.76	-1.43	15.76	12.43
3M-TBill-Yield	11.42	12.98	1.56	13.98	11.42
6M-TBill-Yield	11.49	12.44	0.95	14.01	11.49
1Y-Tbill-Yield	11.74	12.24	0.50	14.29	11.74
3M-PKRV	11.38	12.45	1.07	14.48	10.49
6M-PKRV	11.51	12.23	0.72	14.22	10.75
1Y-PKRV	11.79	12.15	0.36	14.48	11.15
PKRs./USD	68.10	80.95	12.85	82.50	68.10
Gold (PKRs. Per 10 gm.)	19,588	25,071	5,483	25,071	19,500

PERFORMANCE OF FIRST HABIB INCOME FUND

The First Habib Income Fund is an Open-end Scheme with the objective to achieve the best possible returns for the investors in comparison to other available investment avenues by maintaining a diversified investment with easy entry and exit.

By the end of FY 2009, FHIF completed two years and one month of successful operations. FHIF managed to earn a return of 6.31% in comparison to 5.37% of average industry performance for the year ended June 30, 2009. The Fund underperformed viz. a viz. its benchmark of one month KIBOR which stood at 13.26% at the year end. The downfall in the rate of return as compare to benchmark was attributable to discounting of TFCs portfolio under the directives of Securities & Exchange Commission of Pakistan (SECP). This proved to be a significant loss to Mutual Fund Industry and resulted in substantial decline in NAVs of almost all the funds.

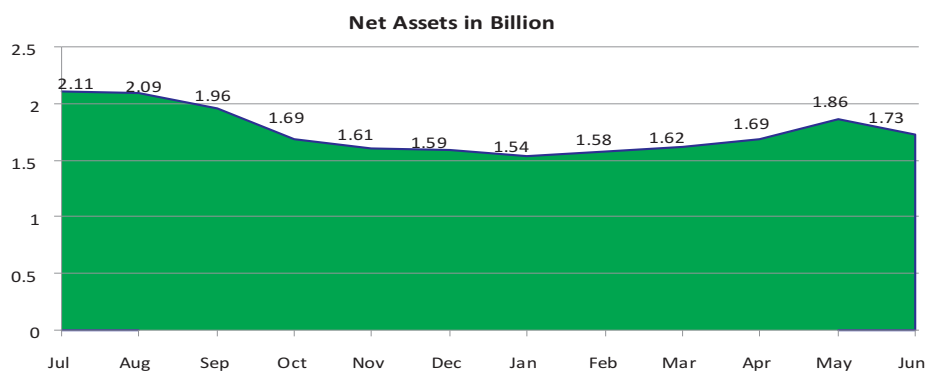
Sales and Redemption of Units

During the period under review, FHIF sold 13,981,820 units amounting to Rs. 1,413.764 million while redeemed 16,186,321 units amounting to Rs. 1,636.443 million. Thus there was a net redemption of Rs. 222.679 million. In comparison to this last year sales and redemptions stood at Rs. 5,900.978 million and Rs 5,128.062 million respectively.

The main reason for heavy redemptions was markdown of TFCs prices in early November 2008. However, your Fund managed a good liquidity and none of the investors' redemption payment was delayed.

Fund Size

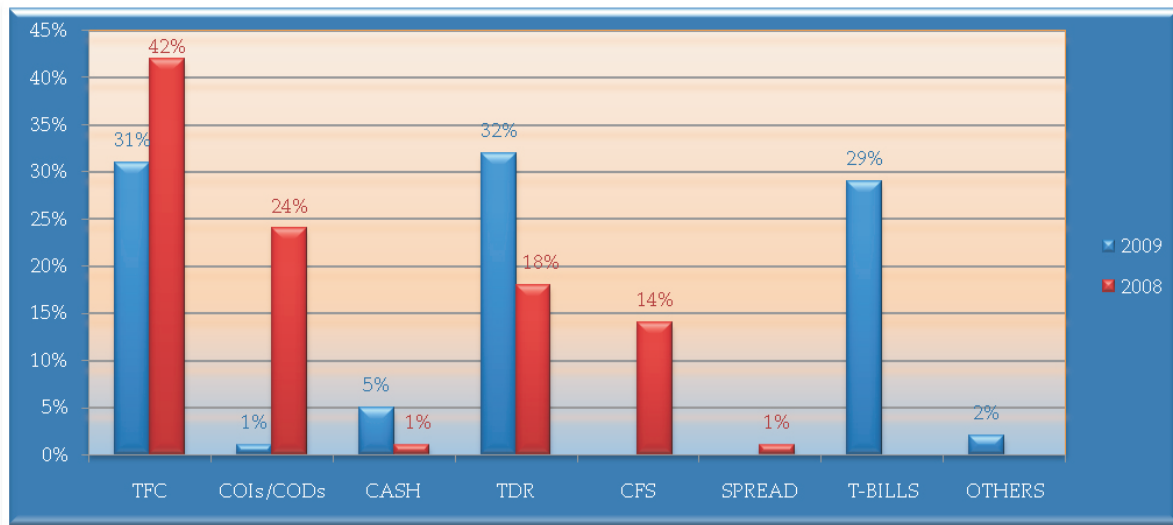
Net assets of FHIF stood at Rs. 1.73 billion at the end of FY-09 in comparison to Rs. 1.91 billion last year. During the year movement in Fund size can be seen from the figures mentioned below;



Asset Allocation

During the period, the Fund remained invested in relatively low risk instruments and managed a diversified portfolio to provide a reasonable return to its unit holders. Asset Allocation of the Fund changed during the year as proportion of TFCs decreased to 31% compared to 42% last year. The Fund started investing in short-term Treasury Bills (T-Bills) during the last quarter of FY 09, and at the year end investment in T-Bills was 29% of net assets.

Asset Allocation of FHIF for the current and previous year is provided below;



Income Distribution

The Fund earned a net income of Rs. 111.334 million during the year. Dividend paid for the year amounts to Rs. 111.988 million (Rs. 6.35 per unit). This dividend was paid by way of 100% distribution of income for the current year i.e. Rs. 111.334 million plus Rs 0.654 million out of previous years profit.

FUND PERFORMANCE TABLE

	FY – 2009	FY – 2008	FY – 2007
Net Assets Value June 30, (Rs. in Millions)	1,732.00	1,907.00	1,046.00
NAV per unit June 30, (Rs.)	102.15	102.33	101.67
Highest NAV	102.90	107.14	101.67
Lowest NAV	95.02	100.15	101.01
Dividend Distribution			
- First Interim	Rs. 2.5/ 2.49 Bonus Units*	-	-
Ex. Dividend NAV (Rs.)	100.30	-	-
- Second Interim	Rs. 1.75/ 1.73 Bonus Units*	Rs. 7/ 6.99 Bonus Units*	-
Ex. Dividend NAV (Rs.)	101.15	100.14	-
- Final	Rs. 2.1/ 2.09 Bonus Units*	Rs. 2.25/ 2.248 Bonus Units*	Rs. 1.50 Bonus Units
Ex. Dividend NAV (Rs.)	100.05	100.08	100.17
Total Distribution	6.35	9.25	1.5
Annual Return	6.31%	9.12%	21.02%

*Bonus units for every 100 units held.

BREAKDOWN OF UNIT HOLDING BY SIZE AS AT JUNE 30, 2009

Categories	No. of Unit Holders	No. of Units	% of total Units
Below 100 Units	51	2,374	0.01
From 100 to 500 Units	47	9,936	0.06
From 500 to 1,000 Units	27	16,545	0.10
From 1,000 to 10,000 Units	117	393,293	2.32
From 10,000 to 50,000 Units	19	530,626	3.13
Above 50,000 Units	29	15,999,391	94.38
Total	290	16,952,168	100.00



Habib Asset Management Limited

(An Associate Company of Bank AL Habib Ltd.)

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