

First Habib Cash Fund
First Habib Stock Fund
First Habib Income Fund
First Habib Islamic Balanced Fund



Annual Report
June 2014



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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DIRECTORS' REPORT TO THE UNIT HOLDERS

The Board of Directors of Habib Asset Management Limited is pleased to present the Annual Reports of **First Habib Income Fund (FHIF)**, **First Habib Stock Fund (FHSF)**, **First Habib Cash Fund (FHCF)**, and **First Habib Islamic Balanced Fund (FHIBF)** for the year ended June 30, 2014.

MONEY MARKET REVIEW

The State bank of Pakistan increased the interest rate by 100 bps to 10% in two separate tranches during the year by 50 bps each in September 2013 and November 2013. The increase in CPI in September 2013 to 7.4% and 10.9% in November 2013 in comparison to CPI figure of 5.3% in June 2013 warranted an increase in discount rate in the first half of financial year ended June 30, 2014. The inflationary pressure eased off in the second half of the year as CPI averaged at 8.33%. In addition to easing inflation; swelling foreign exchange reserves which were recorded at US\$ 14.14 billion at year end arrested further increase in discount rate and it was maintained at 10% for the second half of the year. The annualized cut-off yields of T-Bills for 3,6 and 12 months tenor were recorded at 9.96%,9.97% and 9.99% respectively whereas the annualized cut-off yields of PIB's for 3,5,10 and 20 years tenor were recorded at 12.38%,12.80%,13.20% and 13.11% respectively.

STOCK MARKET REVIEW

The KSE-100 index extended its bull-run for yet another year; posting a return of 41% in Financial Year 2014. The local bourse consistently breached its previous record levels to attain the highest ever level of 29,940 during the year under review. The phenomenal performance of the KSE-100 index was due to better economic performance; healthy corporate earnings; foreign investor's interest in the local bourse and the Government's privatization initiative.

FUNDS' PERFORMANCE

First Habib Income Fund (FHIF)

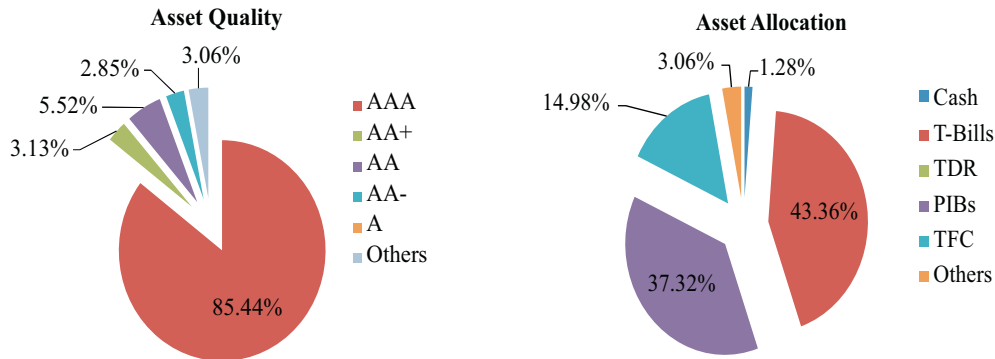
The Fund generated a return of 7.64% for the year ended June 30, 2014. The Fund's gross and net income for the financial year 2014 was reported at Rs. 60.60 million and Rs. 43.48 million respectively.

The Fund's net assets as of June 30, 2014 were Rs. 508.41 million of which majority of the portion i.e. 80.68% comprised of investments in Government Securities. One of the major shifts in investment policy for the year under review was the increased investment in Pakistan Investment Bonds (PIBs) as interest rate remained unchanged at 10% for the second half of financial year 2014. Therefore, the Fund re-aligned its investment priorities by shifting towards longer tenor PIBs in order to earn better returns than the shorter tenor T-Bills. Furthermore, 14.98% of the Fund's net assets were invested in Term Finance Certificates (TFCs)

The Fund distributed Rs. 7.30 per unit as dividend to class 'C' unit holders and 7.2948 bonus units per 100 units to other unit holders during the financial year ended June 30, 2014.

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

The asset allocation and asset quality of FHIF as of June 30, 2014, can be viewed as under:



First Habib Stock Fund (FHSF)

The financial year 2014 was another resounding year for the country's capital markets as the benchmark KSE-100 index posted gains of 41.28%. It is evident from the below mentioned break-up of gross income that capital gains from the sale of equity securities was the major driver of the Fund's earnings as it contributed to 66.68% of the Fund's earnings and was reported at Rs. 26.88 million. Another major component of the Fund's gross earnings was dividend income of Rs. 8.99 million i.e. 22.30% of the Fund's gross earnings. Keeping in view the volatile nature of the Pakistan's equity markets, the Fund increasingly placed its net assets in relatively less volatile and risky assets which also had sound dividend potential.

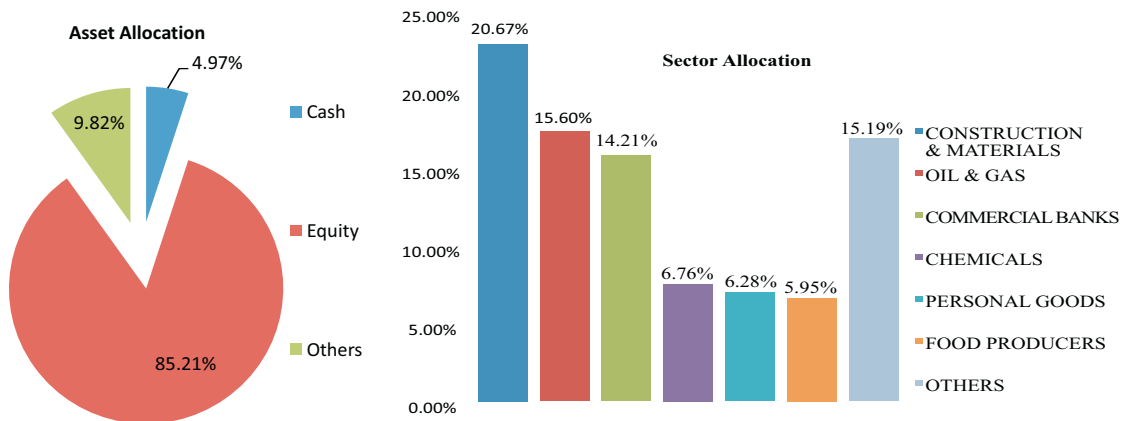
Details of the Fund's Gross Income:

	(Rs. In millions)	
Gain on Sale of Investments	26.88	66.68%
Dividend Income	8.99	22.30%
Profit on bank deposits	1.45	3.60%
Income from Government Securities	0.101	0.25%
Unrealized (loss)/gain in value of investments	2.89	7.17%
Total Gross Income	40.31	100.00%

The Fund earned a return of 22.60% for the year ended June 30, 2014 and distributed Rs. 20.00 per unit to class 'C' unit holders and 19.4712 bonus units per 100 units to other unit holders as dividend. This translates into dividend yield of ~20% for the financial year 2014.

As of June 30, 2014, the Fund's net assets stood at Rs. 147.63 million of which 85.21% of the funds were invested in shares.

JCR-VIS Credit Rating Company (JCR-VIS) has assigned 1-star fund performance ranking to FHSF.



First Habib CashFund (FHCF)

The Fund's net assets grew by Rs. 1.40 billion during the year as they stood at Rs. 3.71 billion as on June 30, 2014 against the net assets of Rs. 2.31 billion last year.

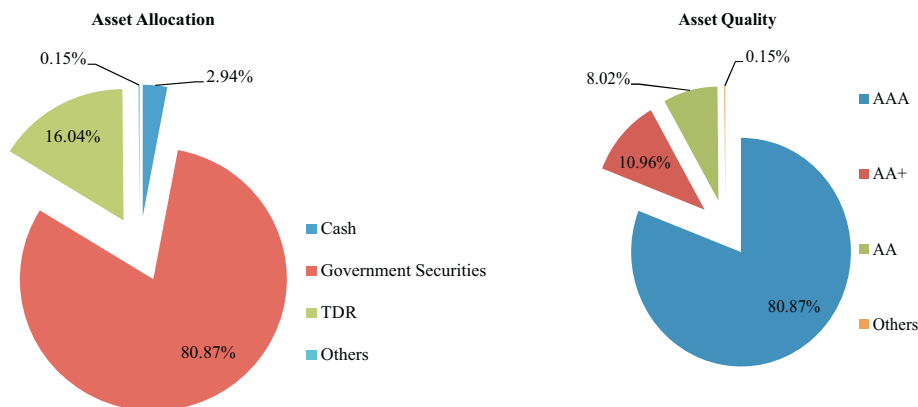
The Fund's average exposure in the government securities was increased from 86.40% in 2013 to 88.12% in the financial year 2014. As a consequence, the Fund's average exposure in Term Deposit Receipts (TDRs) was decreased from 12.30% in the financial year 2013 to 7.63% in the period under review.

The Fund earned gross and net income of Rs. 406.10 million and Rs. 335.30 million respectively with a return of 8.12% p.a.

The Fund distributed Rs.7.75 per unit to class 'C' unit holders and 7.7444 bonus units per 100 units to other unit holders as dividend for the year ended June 30, 2014.

JCR-VIS has assigned a rating of “AA(f)” to the fund. this rating denotes high degree of stability in Net Asset value. Risk is modest but may vary slightly from time to time because of changing economic conditions.

The asset allocation and credit quality of FHCF as on June 30, 2014, can be view as under:



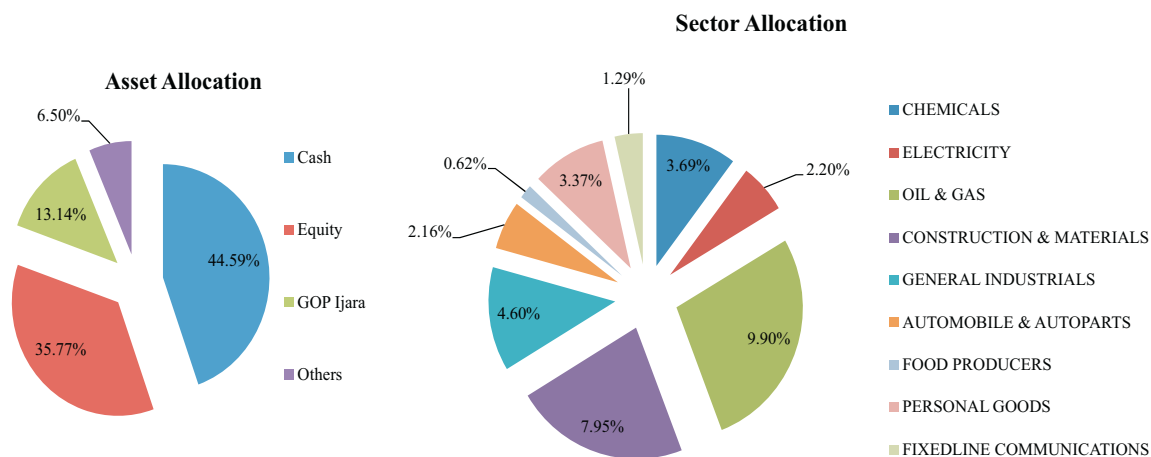
First Habib Islamic Balanced Fund (FHIBF)

During the year under review, the Fund generated a return of 12.34%; with net assets of Rs.332.88 million as at June 30, 2014.

The gross income and net income of FHIBF stood at Rs. 51.90 million and Rs.37.88 million respectively for the year ended June 30, 2014. The Fund distributed Rs. 11.00 per unit to class 'C' unit holders and 10.8208 bonus units per 100 units to other unit holders as dividend for the period July'13 - June'14.

As of June 30, 2014, the Fund was invested upto 35.77% in equities and 13.14% in Ijara Sukuk. The remaining funds were placed as cash in banks.

The asset and sector allocation of FHIBF as on June 30, 2014, can be viewed as under:



FUTURE OUTLOOK

The increased foreign inflows witnessed during the year under review have positively impacted the investor confidence; a trend which is expected to continue in the upcoming financial year. Further, expected positive steps including privatization, build-up of foreign exchange reserves through foreign remittances and foreign portfolio investment along with easing of monetary policy may stimulate economic activity and growth in the coming months.

Net Foreign Direct Investment has increased by 12% year on year basis which bodes well for the state of the country's economy and we expect further proceeds arising from privatization initiative of the government. However, energy crisis resolution remains the pivotal factor upon which growth prospects of the country would severely depend upon.

ACKNOWLEDGEMENT

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

On behalf of the Board of
Habib Asset Management Limited

Ali Raza D. Habib
Chairman

August 13, 2014

FIRST HABIB INCOME FUND
Annual Report
For the year ended 30 June 2014

FIRST HABIB INCOME FUND

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FUND'S INFORMATION

Management Company

Habib Asset Management Limited

Board of Directors of the Management Company

Mr. Ali Raza D. Habib	Chairman
Mr. Imran Azim	Chief Executive
Mr. Mohammad Ali Jameel	Director
Mr. Mansoor Ali	Director
Vice Admiral (R) Khalid M.Mir	Director
Mr. Liaquat Habib Merchant	Director

CFO and Company Secretary

Mr. Abbas Qurban	Chief Financial Officer / Company Secretary
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Audit Committee

Vice Admiral (R) Khalid M.Mir	Chairman
Mr. Ali Raza D. Habib	Member
Mr. Mohammad Ali Jameel	Member

Human Resource Committee

Mr. Liaquat Habib Merchant	Chairman
Mr. Mansoor Ali	Member
Mr. Imran Azim	Member

Auditors

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza,
Beaumont Road, Karachi.

Registrar

JWAFFS Registrar Services
(Pvt.) Limited
Kashif Centre, Room No. 505,
5th Floor, near Hotel Mehran,
Shahrah-e-Faisal, Karachi.

Trustee

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

Legal Advisor

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

Bankers to the Fund

Bank AL Habib Limited
Habib Metropolitan Bank Limited
Bank Alfalah Limited

Rating

AA-(F) Fund Stability Rating Rating by PACRA
AM3 Management Company Quality Rating
Assigned by PACRA.

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shahr-e-Faisal
Karachi - 74400, Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com



TRUSTEE REPORT TO THE UNIT HOLDERS

FIRST HABIB INCOME FUND

**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**

We Central Depository Company of Pakistan Limited, being the Trustee of First Habib Income Fund (the Fund) are of the opinion that Habib Asset Management Limited, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 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.

Aftab Ahmed Diwan
Chief Operating Officer
Central Depository Company of Pakistan Limited

Karachi: October 01, 2014



STATEMENT OF COMPLIANCE BY HABIB ASSET MANAGEMENT LIMITED WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2014

This statement is being presented by the Board of Directors of Habib Asset Management Limited, the management company of **First Habib Income Fund** (the Fund), to comply with the Code of Corporate Governance (the Code) contained in Chapter XI of the Listing Regulations of Lahore Stock Exchange (Guarantee) Limited where the Fund is listed, for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

Habib Asset Management Limited (HAML), the Management Company, is not listed and hence, the Code is not applicable to it. However, **First Habib 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 and directors representing minority interests on its Board of directors. At present, the Board includes:

Category	Names
Independent Directors	Mr. Admiral (R) Khalid M. Mir, Mr. Liaquat Habib Merchant
Executive Director	Mr. Imran Azim
Non-Executive Directors	Mr. Ali Raza D. Habib, Mr. Mohammad Ali Jameel and Mr. Mansoor Ali

The independent directors meet the criteria of independence under clause i (b) of the Code.

2. The directors have confirmed that none of them are serving as a director in more than seven listed companies, including this company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, have been declared as a defaulter by that stock exchange.
4. No casual vacancy in the Board of the Management Company has occurred during the year.
5. The Management Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed a vision / mission statement, an overall corporate strategy and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive and non-executive directors have been taken by the Board.

FIRST HABIB INCOME FUND

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for the purpose, and the Board met at least once in every quarter. 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. The directors are conversant with the relevant laws applicable to the company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities. Two directors are exempt from directors training program due to qualification and experience, however, the remaining directors will comply with this requirement in due course.
10. The Board approved the appointments of Chief Financial Officer and Company Secretary including the remuneration and terms and conditions of employment as determined by the CEO.
11. The Directors' report relating to the Fund for the year ended June 30, 2014 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 the CEO and CFO of the Management Company before approval of the Board.
13. The Directors, CEO, and executives do not hold any interest in the units of the Fund other than disclosed in note 23 to the financial statements "Transactions with Connected Persons".
14. The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once in every quarter and prior to the approval of interim and final results of the Fund as required by the Code. The terms of reference have been approved in the meeting of the Board and the Committee has been advised to ensure compliance with those terms of reference.
17. The Board has formed an HR and Compensation Committee. It comprises of three members, of whom two are non-executive directors including the chairman of the Committee.
18. The Board has setup up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. There is no mechanism in place for an annual evaluation of the board's own performance.
24. We confirm that all other applicable material principles enshrined in the Code have been complied with.

Karachi, August 13, 2014

For and on behalf of the Board



Ernst & Young, Ford Rhodes Street, Hyder
Chartered Accountants
Progressive Plaza, Besunoni Road
P.O. Box 15541, Karachi 75530
Pakistan

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

We have reviewed the enclosed Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors (the Board) of Habib Asset Management Limited (the Management Company) of First Habib Income Fund (the Fund) for the year ended 30 June 2014 to comply with the requirements of Listing Regulation Number 35 of the Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code is that of the Board 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 reflects the status of the Management Company's compliance with the provisions of the Code in respect of the Fund and report if it does not and to highlight any non-compliance with the requirements of the Code. 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board for their review and approval the Fund's related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Fund for the year ended 30 June 2014.

FIRST HABIB INCOME FUND



Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph references where these are stated in the Statement:

<u>Paragraph Reference</u>	<u>Description</u>
9	Directors have not attended any Directors' Training programme as envisaged by the Code of Corporate Governance.
23	An annual evaluation of the Board's performance as per the requirements of the Code of Corporate Governance is not in place.

Ernst & Young
Chartered Accountants

Karachi

Date: 13 August 2014



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

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 2014, and the related statements of income, comprehensive income, distribution, cash flows and movement in unit holders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of approved accounting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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



Opinion

In our opinion the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2014 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.


Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: August 13, 2014

Karachi

FIRST HABIB INCOME FUND

STATEMENT OF ASSETS AND LIABILITIES
AS AT 30 JUNE 2014

	Note	2014	2013
(Rupees in '000)			
Assets			
Bank balances	7	6,704	120,930
Investments	8	488,646	760,835
Income receivable	9	13,503	6,432
Deposits	10	17,600	2,600
Total assets		526,453	890,797
Liabilities			
Payable to Habib Asset Management Limited - Management Company		767	1,462
Provision for Federal excise duty on remuneration of the Management Company	11	1,064	118
Payable to Central Depository Company of Pakistan Limited - Trustee	12	74	140
Payable to Securities and Exchange Commission of Pakistan	13	459	811
Provision for Workers' Welfare Fund	14	14,651	13,763
Accrued expenses and other liabilities	15	1,026	992
Total liabilities		18,041	17,286
Net assets		508,412	873,511
Unit holders' funds (as per statement attached)		508,412	873,511
(Number of Units)			
Number of units in issue	16	5,077,135	8,674,471
(Rupees)			
Net asset value per unit		100.14	100.70

The annexed notes 1 to 32 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB INCOME FUND**INCOME STATEMENT**
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014	2013
		(Rupees in '000)	
Income			
Profit on bank deposits	17	5,378	12,775
Income from term finance certificates		8,637	13,005
Income from government securities		46,302	85,882
Income from clean placements		136	607
Net (loss) on investments designated at fair value through profit or loss			
- Net capital gain on sale of investments classified as held for trading		361	8,637
- Net unrealised (loss) on revaluation of investments classified as held for trading	8.2	(215)	(713)
		146	7,924
Total income		60,599	120,193
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	18	9,182	16,213
Sales tax on management fee	19	1,704	2,613
FED on management fee		1,469	118
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12.1	1,040	1,762
Annual fee to Securities and Exchange Commission of Pakistan	13	459	811
Brokerage expense		68	167
Settlement and bank charges		331	358
Annual listing fee		40	40
Auditors' remuneration	20	350	357
Provision for Workers' Welfare Fund	14	888	1,913
Mutual fund rating fee		212	193
Printing charges		106	86
Total expenses		15,849	24,631
Net income from operating activities		44,750	95,562
Net element of (loss) and capital (losses) included in prices of units issued less those in units redeemed		(1,268)	(1,841)
Net income for the year		43,482	93,721
Earnings per unit	21		

The annexed notes 1 to 32 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	(Rupees in '000)	
Net income for the year	43,482	93,721
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u><u>43,482</u></u>	<u><u>93,721</u></u>

The annexed notes 1 to 32 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB INCOME FUND

DISTRIBUTION STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	(Rupees in '000)	
Undistributed income as at 1 July (Realised)	7,499	13,745
Accumulated losses as at 1 July (Un-realized)	<u>(1,295)</u>	<u>(3,502)</u>
	6,204	10,243
Net income for the period	43,482	93,721
Final distribution at the rate of Rs 0.65 per unit (2013: Rs 1.00)	(5,638)	(10,090)
Interim distribution at the rate of Rs.0.50 per unit declared on July 26, 2013 (2013: at the rate of Rs.0.70 per unit approved on July 28, 2012)	(4,254)	(7,742)
Interim distribution at the rate of Rs.0.55 per unit declared on August 30, 2013 (2013: at the rate of Rs.0.95 per unit approved on August 25, 2012)	(4,115)	(10,541)
Interim distribution at the rate of Rs.0.60 per unit declared on September 27, 2013 (2013: at the rate of Rs.0.80 per unit approved on September 29, 2012)	(3,667)	(8,147)
Interim distribution at the rate of Rs.0.50 per unit declared on October 25, 2013 (2013: at the rate of Rs.0.80 per unit approved on October 26, 2012)	(3,060)	(8,953)
Interim distribution at the rate of Rs.0.70 per unit declared on November 29, 2013 (2013: at the rate of Rs.0.55 per unit approved on November 24, 2012)	(4,113)	(6,029)
Interim distribution at the rate of Rs.0.60 per unit declared on December 27, 2013 (2013: at the rate of Rs.0.70 per unit approved on December 29, 2012)	(3,238)	(6,368)
Interim distribution at the rate of Rs.0.70 per unit declared on January 31, 2014 (2013: at the rate of Rs.1.50 per unit approved on January 25, 2013)	(3,687)	(14,318)
Interim distribution at the rate of Rs.0.50 per unit declared on February 28, 2014 (2013: at the rate of Rs.0.55 per unit approved on February 23, 2013)	(2,651)	(6,228)
Interim distribution at the rate of Rs.0.70 per unit declared on March 31, 2014 (2013: at the rate of Rs.0.65 per unit approved on March 30, 2013)	(3,746)	(7,083)
Interim distribution at the rate of Rs.0.65 per unit declared on April 26, 2014 (2013: at the rate of Rs.0.60 per unit approved on April 27, 2013)	(3,558)	(6,586)
Interim distribution at the rate of Rs.0.70 per unit declared on May 31, 2014 (2013: at the rate of Rs.0.55 per unit approved on June 1, 2013)	(3,900)	(5,675)
Interim distribution at the rate of Rs.0.60 per unit declared on June 27, 2014 (2013: NIL)	(3,028)	-
Undistributed income carried forward	<u>1,031</u>	<u>6,204</u>
Undistributed income as at 30 June (Realized)	1,479	7,499
Accumulated losses as at 30 June (Un-realized)	<u>(448)</u>	<u>(1,295)</u>
Undistributed income carried forward	<u>1,031</u>	<u>6,204</u>

The annexed notes 1 to 32 form an integral part of these financial statements.

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

Chief Executive

Director

FIRST HABIB INCOME FUND**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS**
FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	(Rupees in '000)	
Net assets at the beginning of the year* [Rs 100.70 (2012: Rs 101) per unit]	873,511	1,019,083
Issue of 5,200,907 units (2013: 6,598,647 units)*	474,114	574,893
Redemption of 8,798,243 units (2013: 8,094,402 units)	(883,723)	(814,943)
	(409,609)	(240,050)
Distribution to unit holders in cash	(240)	(1,084)
Net element of income and capital gains included in prices of units issued less those in units redeemed	1,268	1,841
Net income for the year	43,482	93,721
Other comprehensive income / (loss)	-	-
Total comprehensive income for the year	43,482	93,721
Net assets at the end of the year [Rs 100.14 (2013: Rs 100.70) per unit]	508,412	873,511

* Including 483,982 (2013: 885,581) units issued as bonus units during the year.

The annexed notes 1 to 32 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB INCOME FUND

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	43,482	93,721
Adjustments for non-cash items		
Unrealised gain on revaluation of investments classified as held for trading	215	713
Net element of income and capital gain included in prices of units issued less those in units redeemed	1,268	1,841
	<u>44,965</u>	<u>96,275</u>
Decrease / (increase) in assets		
Investments	271,974	55,908
Income receivable	(7,071)	(2,759)
Security deposits and other receivables	(15,000)	504
	<u>249,903</u>	<u>53,653</u>
Increase / (decrease) in liabilities		
Payable to Habib Asset Management Limited - Management Company	(695)	1
Provision for federal excise duty on remuneration of Management Company	946	-
Payable to Central Depository Company of Pakistan Limited - Trustee	(67)	(8)
Payable to Securities and Exchange Commission of Pakistan	(352)	(187)
Provision for Workers' Welfare Fund	888	1,913
Accrued expenses and other liabilities	34	84
	<u>755</u>	<u>1,803</u>
Net cash inflow from operating activities	<u>295,623</u>	<u>151,731</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Net payments from sale and redemption of units	(409,609)	(240,050)
Dividend paid during the year	(240)	(1,085)
Net (decrease) in cash and cash equivalents during the year	<u>(114,226)</u>	<u>(89,404)</u>
Cash and cash equivalents at beginning of the year	120,930	210,334
Cash and cash equivalents at the end of the year	<u>6,704</u>	<u>120,930</u>
Cash and cash equivalents at the end of the year comprise of :		
Cash at bank - saving account	6,664	20,828
Cash at bank - current account	40	102
Term deposit receipts	-	100,000
	<u>6,704</u>	<u>120,930</u>

The annexed notes 1 to 32 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 2014

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 Regulation 44 of the NBFC and Notified Entities Regulations 2008.

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

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

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

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

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

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

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the NBFC Rules, the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the requirements of the said directives prevail.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for investments and derivatives which are accounted for as stated in notes 4.2 and 4.3.

These financial statements have been presented in Pakistan Rupees which is the functional and presentation currency of the Fund.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below.

4.1 New and amended standards and interpretations

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below.

New / Revised Standards, Interpretations and Amendments

The Fund has adopted the following revised standard, amendments and interpretation of IFRSs which became effective for the current year:

- IAS 19 – Employee Benefits – (Revised)
- IFRS 7 – Financial Instruments: Disclosures – (Amendments)
 - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities
- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

FIRST HABIB INCOME FUND

Improvements to Accounting Standards Issued by the IASB

IAS 1 – Presentation of Financial Statements - Clarification of the requirements for comparative information
IAS 16 – Property, Plant and Equipment – Clarification of Servicing Equipment
IAS 32 – Financial Instruments: Presentation – Tax Effects of Distribution to Holders of Equity Instruments
IAS 34 – Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities

The adoption of the above amendments, revisions, improvements to accounting standards and interpretations did not have any effect on the financial statements.

4.2 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments at fair value through profit or loss

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

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

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

b) Available-for-sale

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

c) Loans and receivables originated by the enterprise

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

d) Financial liabilities

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

Recognition

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

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

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

Measurement

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

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

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

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

Basis of valuation of Government Securities

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

Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Provision for diminution in the value of debt securities is recognised as per the requirements of Circular 1 of 2009 read with Circular 33 of 2012 issued by the SECP and based on management's assessment made in line with its provisioning policy approved by the Board of Directors of the Management Company pursuant to the requirements of the SECP's above referred circular. In case of impairment of available-for-sale investments, the cumulative loss that has been recognised directly in statement of comprehensive income is taken to the income statement.

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.

4.3 Derivative financial instruments

Derivative instruments held by the Fund are measured initially and of each subsequent measurement at their fair values which is calculated as being the net difference between the contract price and the closing price reported on the primary exchange of the futures contract. All derivatives in a net receivables positions (positive fair values) are 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.

4.4 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.

4.5 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.

FIRST HABIB INCOME FUND

4.6 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.

4.7 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 Element is arrived at by comparing the unit prices with opening Ex - NAV at the beginning of the financial year. The Element so computed is recognised in the income statement except to the extent that the amount represented by unrealised appreciation / diminution arising on available for sale securities is included in distribution statement.

4.8 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.

4.9 Taxation

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

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

4.10 Revenue recognition

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

4.11 Expenses

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

4.12 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.

4.13 Cash and cash equivalents

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

4.14 Other assets

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

4.15 Dividend distributions and appropriations

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

5. ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Classification and fair value of investments

The Management Company has determined fair value of investments classified as 'at fair value through profit or loss' by using rates quoted by Mutual Fund Association of Pakistan (MUFAP) in accordance with the circular no.1 dated 6 January 2009. Further Circular no.1 has provided the discretion to the asset management company to apply the mark up/ mark down (within the available limits as prescribed in that circular) to the non-traded debt securities for their valuation (refer note no. 4.2). Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matter of judgements (e.g. valuation, interest rates, etc.) and therefore, can not be determined with precision.

Impairment of investment

The Fund determines that investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Fund evaluates among other factors, the normal volatility in prices. In addition the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational financial cash flows (refer note 4.2 for policy on impairment). Actual results may differ and the difference could be material.

Other assets

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

Workers' welfare fund

For details refer note 14 to these financial statements.

6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, interpretations and amendments with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards, interpretations and amendments:

FIRST HABIB INCOME FUND

Standard, interpretation or amendment	Effective date (accounting periods beginning on or after)
IAS 16 & 38 - Clarification of Acceptable Method of Depreciation and Amortization	January 01, 2016
IAS 16 & 40 - Agriculture: Bearer Plants	January 01, 2016
IAS 19 - Employee Contributions	July 01, 2014
IAS 32 - Offsetting Financial Assets and Financial liabilities – (Amendment)	January 01, 2014
IAS 36 - Recoverable Amount for Non-Financial Assets – (Amendment)	January 01, 2014
IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting	
- Amortization	January 01, 2014
IFRIC 21 - Levies	January 01, 2014

The Fund expects that the adoption of the above amendments and interpretation of the standards will not affect the Fund's financial statements in the period of initial application.

In addition to the above standards and interpretations, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after July 01, 2014. The Fund expects that such improvements to the standards will not have any impact on the Fund's financial statements in the period of initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2018
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 15 – Revenue from Contracts with Customers	January 01, 2017

7. BANK BALANCES		2014	2013
		(Rupees in '000)	
Saving accounts	7.1 & 7.2	6,664	20,828
Current accounts	7.2	40	102
Term deposit receipt (TDR)		-	100,000
		<u>6,704</u>	<u>120,930</u>

7.1 Savings accounts carry profit rate of 6% to 8% (2013: 6% to 8%) per annum.

7.2 It includes balance of Rs.6.59 million (2013: Rs 20.818 million) in savings account and Rs 0.45 million (2013: Rs 0.102 million) in current account with Bank Al Habib, a related party.

8. INVESTMENTS - at fair value through profit or loss - held for trading	Note	2014	2013
		(Rupees in '000)	
Term Finance Certificates	8.1	63,888	120,991
Government securities	8.3	424,758	639,844
		<u>488,646</u>	<u>760,835</u>

FIRST HABIB INCOME FUND

8.1 Term Finance Certificates

Name of the investee company	Number of certificates				AS AT 30 JUNE 2014		Market value as a percentage of net assets	Market value as a percentage of total investments
	As at 1 July 2013	Acquired during the year	Sold / Redeemed during the year	As at 30 June 2014	Carrying value	Market Value		
Held for trading (Rupees in '000)								
Aisha Steel Mills Limited PPTFC	4,000	-	4,000	-	-	-	-	-
Allied Bank Limited - II TFC	2,000	-	-	2,000	9,347	9,765	1.92	2.00
Bank Al Falah - V	5,000	-	-	5,000	25,335	25,321	4.98	5.18
Faysal Bank Limited	3,000	-	-	3,000	3,752	3,752	0.74	0.77
Standard Chartered Bank PPTFC	5,000	-	-	5,000	24,850	25,050	4.93	5.13
United Bank Limited - IV	6,000	-	6,000	-	-	-	-	-
As at 30 June 2014					63,284	63,888		
Total as at 30 June 2013					121,616	120,991		

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

Name of the investee company	Remaining principal (per TFC) as at 30 June 2014	Start date	Maturity	Installment payments	Credit rating	Mark-up Rate (Per annum)	Secured / Unsecured
Term Finance Certificates - Held for trading							
Allied Bank Limited - II TFC	4,991.00	28-Aug-09	28-Aug-19	Half yearly	AA	6 Month KIBOR + 0.85	Unsecured
Bank Al Falah - V	4,998.00	20-Feb-13	20-Feb-21	Half yearly	AA-	6 Month KIBOR + 1.25	Unsecured
Faysal Bank Limited	1,248.00	12-Nov-07	12-Nov-14	Half yearly	AA-	6 Month KIBOR + 1.40	Unsecured
Standard Chartered Bank PPTFC	5,000.00	29-Jun-12	29-Jun-22	Half yearly	AAA	6 Month KIBOR + 0.75	Unsecured

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

	Note	2014	2013
(Rupees in '000)			
Term Finance Certificates		604	(626)
Government Securities		(76)	(87)
Pakistan Investment Bonds		(743)	-
		<u>(215)</u>	<u>(713)</u>

8.3 Government Securities

	Note	2014	2013
(Rupees in '000)			
T-bills	8.3.1	228,284	579,760
Sukuku	8.3.2	-	60,084
Pakistan Investment Bonds	8.3.3	196,474	-
		<u>424,758</u>	<u>639,844</u>

FIRST HABIB INCOME FUND

8.3.1 T-bills

Issue date	Tenor	Face Value				As At 30 June 2014		Market value as percentage of	
		As at 01 July 2013	Purchases during the year	Sold / Matured during the year	As At 30 June 2014	Carrying value	Market value	Net assets	Total investments
(Rupees in '000)									
3 Months									
18-Apr-13	3 Months	105,000	-	105,000	-	-	-	-	-
2-May-13	3 Months	248,000	-	248,000	-	-	-	-	-
12-Jul-13	3 Months	-	265,000	265,000	-	-	-	-	-
25-Jul-13	3 Months	-	375,000	375,000	-	-	-	-	-
7-Aug-13	3 Months	-	115,000	115,000	-	-	-	-	-
19-Sep-13	3 Months	-	485,000	485,000	-	-	-	-	-
3-Oct-13	3 Months	-	85,000	85,000	-	-	-	-	-
31-Oct-13	3 Months	-	200,000	200,000	-	-	-	-	-
28-Nov-13	3 Months	-	120,000	120,000	-	-	-	-	-
12-Dec-13	3 Months	-	100,000	100,000	-	-	-	-	-
26-Dec-13	3 Months	-	90,000	90,000	-	-	-	-	-
30-Dec-13	3 Months	-	29,000	29,000	-	-	-	-	-
23-Jan-14	3 Months	-	290,000	290,000	-	-	-	-	-
20-Feb-14	3 Months	-	227,000	227,000	-	-	-	-	-
28-Feb-14	3 Months	-	70,000	70,000	-	-	-	-	-
20-Mar-14	3 Months	-	45,000	45,000	-	-	-	-	-
17-Apr-14	3 Months	-	125,000	125,000	-	-	-	-	-
15-May-14	3 Months	-	175,000	92,000	83,000	82,181	82,177	16%	17%
6 Months									
10-Jan-13	6 Months	100,000	-	100,000	-	-	-	-	-
24-Jan-13	6 Months	100,000	-	100,000	-	-	-	-	-
20-Mar-14	6 Months	-	50,000	-	50,000	48,966	48,947	10%	10%
17-Apr-14	6 Months	-	100,000	-	100,000	97,213	97,160	19%	20%
1 Year									
6-Sep-12	1 Year	-	105,000	105,000	-	-	-	-	-
4-Oct-12	1 Year	30,000	-	30,000	-	-	-	-	-
Total as at 30 June 2014						228,360	228,284		
Total as at 30 June 2013						579,734	579,760		

8.3.1.1 Rate of return on above government securities ranges from 9.42% to 9.48% (2013: 8.17% to 9.60%)

8.3.2 Sukuks

Name of investee	Number of certificates				As at 30 June 2014		Market value as a percentage of net assets	Market value as a percentage of total investments
	As at 1 July 2013	Acquired during the year	Sold/Redeemed during the year	As at 30 June 2014	Carrying value	Market Value		
(Rupees in '000)								
Held for trading								
GoP Ijara 6	12,000	-	12,000	-	-	-	-	-
Total as at 30 June 2014						-	-	
Total as at 30 June 2013						60,197	60,084	

8.3.3 Pakistan Investment Bonds

Name of investee	Number of units				As at 30 June 2014		Market value as a percentage of net assets	Market value as a percentage of total investments
	As at 1 July 2013	Acquired during the year	Sold/Redeemed during the year	As at 30 June 2014	Carrying value	Market Value		
(Rupees in '000)								
Held for trading								
PIBs	-	450,000	250,000	200,000	197,216	196,474	38.64	40.21
Total as at 30 June 2014						197,216	196,474	
Total as at 30 June 2013						-	-	

8.3.3.1 Rate of return on above government securities is 11.25% (2013: NIL)

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		2014	2013
		(Rupees in '000)	
9. INCOME RECEIVABLE			
Profit accrued on Term Finance Certificates		3,321	5,070
Profit accrued on Government Securities		10,110	167
Profit receivable on Bank Deposits		72	90
Profit receivable on Term deposit receipts (TDRs)		-	1,105
		13,503	6,432
10. DEPOSITS			
Deposit with National Clearing Company of Pakistan Limited	10.1	2,500	2,500
Deposit with Central Depository Company of Pakistan Limited	10.1	100	100
Advance against Pre - IPO		15,000	-
		17,600	2,600

10.1 These deposits are non remunerative.

11. PROVISION FOR FEDERAL EXCISE DUTY ON REMUNERATION OF THE MANAGEMENT COMPANY

As per the requirement of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective from 13 June 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law. A stay order against the collection has been granted by the Honourable High Court of Sindh on a petition filed by the Mutual Funds Association of Pakistan (MUFAP). As a matter of abundant caution, the Fund has made a provision from the afore mentioned effective date and transferred its liability to the management company. Subsequently, during the year, the management company decided to retain the liability with the fund. Hence the outstanding balance represents the amount of provision that has been recovered / adjusted from the Management Company and the remaining balance of Rs. 243,894 would be adjusted against future management fees payable to the management company.

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

		2014	2013
		(Rupees in '000)	
Trustee fee	12.1	73	139
CDS charges		1	1
		74	140

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

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

13. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

14. WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs.0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for adjudication.

During the year 2011, a single bench of the Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. However, in the month of March 2013, a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity and overruled a single-member Lahore High Court (LHC) bench judgment issued in August 2011.

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However, as per the advice of legal counsel of MUFAP, the constitutional petitions filed by the CIS (as mentioned in the first paragraph) challenging the applicability of WWF contribution have not been affected by the SHC judgment.

Further, in May 2014, the Honorable Peshawar High Court (PHC) held that the impugned levy of contribution introduced in the ordinance through Finance Acts, 1996 and 2009 lacks the essential mandate to be introduced and passed through a Money bill under the constitution and, hence, the amendments made through the Finance Acts are declared as 'Ultra Vires'.

As the matter relating to levy of WWF is currently pending in the Court, the Management Company, as a matter of abundant caution, has decided to retain and continue with the provision for WWF amounting to Rs. 14.651 million (30 June 2013: Rs. 13.763 million) in these financial statements. Had the provision not been made, the net asset value of the Fund would be higher by Rs 2.89 per unit (30 June 2013: Rs.1.59 per unit).

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	2014	2013
	(Rupees in '000)	
Auditors' remuneration	302	361
Brokerage		7
Payable against redemption of units	70	-
Others	654	624
	<u>1,026</u>	<u>992</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 30 June in each class are:

	(Number of Units)	
Type 'A' Units	530,224	762,966
Type 'B' Units	1,841,245	3,599,448
Type 'C' Units	2,705,666	4,312,057
	<u>5,077,135</u>	<u>8,674,471</u>

17. PROFIT ON BANK DEPOSITS

	(Rupees in '000)	
Income on saving accounts	2,340	1,577
Income on term deposit receipts	3,038	11,198
	<u>5,378</u>	<u>12,775</u>

18. REMUNERATION OF 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.

19. SALES TAX ON MANAGEMENT FEE

During the current year, an amount of Rs. 1.704 million (June 2013: Rs. 2.613 million) was charged on account of sales tax on management fee levied through Sindh Sales Tax on Services Act, 2011

20. AUDITORS' REMUNERATION

	2014	2013
	(Rupees in '000)	
Annual audit fee	229	220
Half yearly review fee	62	60
Other certification fees	26	45
Out of pocket expenses	33	32
	<u>350</u>	<u>357</u>

21. EARNINGS PER UNIT

Earnings per unit (EPU) for the year ended 30 June 2014 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

22. TAXATION

The income of the fund is exempt from income tax under Clause (99) of Part 1 of the Second Schedule to the Income Tax Ordinance, 2001 (Clause 99) subject to the condition that not less than 90 percent of the accounting income for the year, as reduced by capital gains, whether realized or unrealized, is distributed amongst the unit holders. The Management Company has distributed not less than 90 percent of its annual accounting income to avail the tax exemption. Accordingly, no provision for current and deferred tax has been made in this financial statements.

During the year, the taxation officers have issued a show cause notice to the fund under Section 122(5A) of the Income Tax Ordinance, 2001 requiring the fund to respond as to why the assessment may not be amended for the Tax Year 2008, and raising a tax demand of Rs 76.64 million. Further in case of certain mutual funds the taxation officers have amended the assessment under Section 120 of the Income Tax Ordinance, 2001. These orders have, in form, denied the exemption to the income of the mutual funds under Clause 99, on the basis that a different viewpoint, not supported by law, is being adopted by the tax authorities for the tax effect and incidence of the 'distribution' made by the mutual funds by way of bonus units.

This industry issue has been examined by legal experts and tax advisors and there is unanimity of view that under the present regulations, including the provisions of Clause 99, tax department's contentions are primarily erroneous and not tenable under the law. This view is further supported by the fact that subsequently, through the Finance Act, 2014, an amendment has been made in Clause 99, whereby issuance of bonus units shall not be considered towards distribution of 90% of income, and only cash dividend shall be taken into consideration for computation of 90% distribution to claim exemption. Introduction of this amendment, applicable on distribution to be made from July 1, 2014, essentially strengthens the stand of the mutual fund industry that, previously, issuance of bonus units was valid for the purpose of claiming exemption in case of 90% distribution. In view of the aforesaid, appropriate appellate and executive remedies are being adopted from the forum of MUFAP to resolve the matter.

Subsequent to the year end, the Commissioner Income Tax Appeals, has passed certain orders in cases of certain mutual funds whereby the position taken by the industry has been accepted and therefore the management company is confident that the above matter would be resolved favourably in due course of time.

23. TRANSACTIONS WITH CONNECTED PERSONS

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

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

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

Units sold to:	2014		2013	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Management Company				
Habib Asset Management Limited	139,561	13,996	-	-
Associated Companies				
- Bank AL Habib Limited	3,471,130	348,867	-	-
Other related parties:				
- Directors and executives of the Management Company	-	-	-	-
- Habib Asset Management Limited				
Employees Provident Fund	4,487	449	8,622	865
- Greenshield Insurance Brokers	-	-	48,812	4,900
- Fauji Fertilizer Bin Qasim	-	-	2,988,122	300,011
- Attock Cement Pakistan Limited	-	-	996,917	100,000

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	2014		2013	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<u>Bonus Units Issued:</u>				
<i>Management Company</i>				
Habib Asset Management Limited	11,761	1,177	10,795	1,082
<i>Associated Companies</i>				
- Bank AL Habib Limited	241,440	24,162	513,511	51,380
<i>Other related parties</i>				
- Directors and executives of the Management Company	341	34	609	60
- Habib Insurance Company Limited- Employees Provident Fund	6,424	643	6,925	690
- Habib Asset Management Limited - Employees Provident Fund	341	34	75	8
- Greenshield Insurance Brokers	2,488	249	2,676	268
- Fauji Fertilizer Bin Qasim	-	-	35,439	3,546
- Attock Cement Pakistan Limited	-	-	20,832	2,085
- Mrs. Shama Sajjad Habib	14,341	1,435	15,461	1,545
- Mr. Salman Hussain D Habib	-	-	45	4
- Mr. Imran Ali Habib	-	-	-	-
- Mr. Murtaza Habib	1,080	108	1,164	116
- Mr. Asghar D. Habib	-	-	-	-
- Mr. Qumail Habib	1,079	108	1,164	116
- Mr. Abas D. Habib	1,079	108	1,164	116
- Mr. Ali Asad Habib	970	97	1,046	104
- Mrs. Razia Ali Habib	-	-	542	54
- Mrs. Hina Shoaib	12	1	13	1
- Mr. Sajjad Hussain	329	33	354	36
<u>Units redeemed by:</u>				
<i>Management Company</i>				
Habib Asset Management Limited	-	-	19,937	2,000
<i>Associated Companies</i>				
- Bank AL Habib Limited	5,219,380	524,480	1,576,280	158,659
- Habib Insurance Company Limited	99,582	10,000	-	-
<i>Other related parties</i>				
- Directors and executives of the Management Company	3,447	346	8,986	903
- Habib Asset Management Limited - Employees Provident Fund	2,143	215	5,469	550
- Greenshield Insurance Brokers	4,976	500	54,877	5,500
- Fauji Fertilizer Bin Qasim	-	-	3,023,561	304,393
- Mrs. Razia Ali Habib	-	-	8,058	810
- Mr. Salman Hussain D Habib	-	-	1,730	173
<u>Units held by:</u>				
<i>Management Company</i>				
Habib Asset Management Limited	269,063	26,943	117,441	11,856
<i>Associated Companies</i>				
- Bank AL Habib Limited	2,696,602	270,032	4,203,413	423,279
- Habib Insurance Company Limited	9,003	902	108,585	10,934

FIRST HABIB INCOME FUND

	2014		2013	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Units sold to:				
Other related parties				
- Directors and executives of the Management Company	1,284	129	4,390	442
- Habib Insurance Company Limited- Employees Provident Fund	84,372	8,449	77,948	7,849
- Habib Asset Management Limited - Employees Provident Fund	5,912	592	3,228	325
- Greenshield Insurance Brokers	31,574	3,162	34,062	3,430
- Attock Cement Pakistan Limited	-	-	1,017,748	102,466
- Mrs. Shama Sajjad Habib	188,352	18,861	174,011	17,523
- Mr. Salman Hussain D Habib	-	-	-	-
- Mr. Murtaza Habib	14,185	1,420	13,105	1,320
- Mr. Asghar D Habib	-	-	-	-
- Mr. Qumail Habib	14,175	1,419	13,096	1,319
- Mr. Abas D Habib	14,175	1,419	13,096	1,319
- Mr. Ali Asad Habib	12,735	1,275	11,676	1,185
- Mrs. Razia Ali Habib	-	-	-	-
- Mrs. Hina Shoaib	152	15	141	14
- Mr. Sajjad Hussain	4,317	432	3,989	402

Details of transactions with connected persons are as follows:

	2014	2013
	(Rupees in '000')	
Habib Asset Management Limited - Management Company		
Management fee	12,355	18,944
Bank AL Habib Limited		
Profit on Bank Balance	3,172	1,533
Custodial Fee	-	30,000
Central Depository Company of Pakistan Limited - Trustee		
-Remuneration to the Trustee	1,040	1,762
First Habib Cash Fund-Associated undertaking		
-Government securities sold	39,325	-

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

	2014	2013
Bank AL Habib Limited		
-Bank Balance	6,700	20,921
Habib Asset Management Limited - Management Company		
Management Company fee payable	767	1,462
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	74	140
Security deposit - Non interest bearing	100	100

24. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

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Risk management framework

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

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

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

24.1 Credit risk

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

Management of credit risk

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

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

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

Exposure to credit risk

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

	30 June 2014		30 June 2013	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
	------(Rupees in '000)-----			
Bank balances	6,704	6,704	120,930	120,930
Investments	488,646	63,888	760,835	120,991
Income receivable	13,503	3,393	6,432	6,265
Deposits	17,600	17,600	17,600	2,600
	<u>526,453</u>	<u>91,585</u>	<u>905,797</u>	<u>250,786</u>

Differences in the balances as per the statement of assets & liabilities and maximum exposures in investments were due to the fact that investments of Rs. 424.758 million (2013: Rs. 639.844 million) relates to investments in Government securities which are not considered to carry credit risk, and therefore pertaining income receivable amounting to Rs. 10.11 million (2013: Rs. 0.167 million) is also excluded.

Credit ratings and Collaterals

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

Ratings	2014	2013
AAA	48%	21%
AA	13%	32%
AA-	39%	47%
	<u>100%</u>	<u>100%</u>

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

Ratings	2014	2013
AA+	99.94%	17.00%
AA	0.06%	83.00%
	<u>100%</u>	<u>100%</u>

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

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Around 89.76% (2013; 71.83%) of the Funds financial assets are in Government Securities which are not exposed to credit risk while the remaining portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

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

	2014	2013
Banks	9.17%	49.22%
Financial services	90.83%	42.73%
Industrial metals and mining	-	8.06%
	<u>100%</u>	<u>100%</u>

Past due and impaired assets

None of the financial assets of the Fund are past due / impaired. No provisions have been booked during the year.

Settlement risk

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

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

24.2 Liquidity risk

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

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

Management of Liquidity Risk

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

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

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

Maturity analysis of financial liabilities

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

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

	30 June 2014				
	Carrying amount	Gross nominal outflow	Less than one month	One to three months	Three months to one year
----- (Rupees in '000) -----					
<i>Non-derivative financial liabilities</i>					
Payable to Habib Asset Management Limited - Management Company	767	767	767	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	74	74	74	-	-
Payable to Securities and Exchange Commission of Pakistan	459	459	-	459	-
Accrued expenses and other liabilities	1,026	1,026	724	302	-
	<u>2,326</u>	<u>2,326</u>	<u>1,565</u>	<u>761</u>	<u>-</u>
	30 June 2013				
	Carrying amount	Gross nominal outflow	Less than one month	One to three months	Three months to one year
----- (Rupees in '000) -----					
<i>Non-derivative financial liabilities</i>					
Payable to Habib Asset Management Limited - Management Company	1,462	1,462	1,462	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	140	140	140	-	-
Payable to Securities and Exchange Commission of Pakistan	811	811	-	811	-
Accrued expenses and other liabilities	992	992	631	361	-
	<u>3,405</u>	<u>3,405</u>	<u>2,233</u>	<u>1,172</u>	<u>-</u>

24.3 Market risk

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

Management of market risks

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee of Management Company and regulations laid down by the Securities and Exchange Commission of Pakistan (SECP). The maximum risk resulting from financial instruments equals their fair value.

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Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on investment in Government Securities, certain Term Finance Certificates, Term Deposit Receipts, Certificate of Investments, clean placements and profit and loss sharing bank balances. The Fund carries a mix of fixed and floating rate financial instruments. Currently the exposure in fixed rate instruments is in Government securities only. To enhance the earning potential of the Fund, the Fund invests in variable rate instruments as most of the instruments currently available are indexed to KIBOR. The Fund monitors the interest rate environment on a regular basis and alters the portfolio mix of fixed and floating rate securities. Other risk management procedures are the same as those mentioned in the credit risk management.

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

	2014	2013
	(Rupees in '000)	
Fixed rate instruments		
Government securities	228,284	579,760
Term Finance Certificate	-	-
Term Deposit Receipts	-	100,000
	228,284	679,760
Variable rate instruments		
Government securities	-	60,084
Term Finance Certificates	63,888	120,991
Bank balance	6,709	20,930
	70,597	202,005

None of the financial liabilities carry any interest rate risk.

a) Cash flow Sensitivity analysis for variable rate instruments

In case of change of 100 basis points in KIBOR and Weighted Average Yield on 30 June 2014, the net assets of the Fund would have been lower / higher by Rs 0.90 million (2013: Rs. 1.036 million) with consequential effect on net income for the year. The analysis assumes that all other variables remain constant.

b) Fair value Sensitivity analysis for fixed rate instruments

As at 30 June 2014, investment in Government Securities exposes the Fund to fair value interest rate risk. In case of 100 basis points increase / decrease in PKRV on 30 June 2014, the net assets of the Fund would have been lower/ higher by Rs. 3.14 million (2013: Rs. 0.355 million) with consequential effect on net income for the year. The analysis assumes that all other variables remain constant.

The composition of the Fund's investment portfolio, KIBOR rates and yield matrix calculated by MUFAP is expected to change over time. Accordingly, the sensitivity analysis prepared as of 30 June 2014 is not necessarily indicative of the effect on the Fund's net assets of future movements in interest rates.

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

30 June 2014	Markup / profit rate	Less than one month	One to three months	Three months to one year	Total
----- (Rupees in '000) -----					
<i>Assets</i>					
Bank balances	6% - 8%	6,704	-	-	6,704
Investments	8.75% - 10.25%	-	131,124	357,522	488,646
Total assets		6,704	131,124	357,522	495,350
30 June 2013	Markup / profit rate	Less than one month	One to three months	Three months to one year	Total
----- (Rupees in '000) -----					
<i>Assets</i>					
Bank balances	6% - 9.6%	120,930	-	-	120,930
Investments	8.17% - 13.79%	570,435	94,175	96,225	760,835
Total assets		691,365	94,175	96,225	881,765

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

FIRST HABIB INCOME FUND

24.4 Unit Holders' Fund risk management

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

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

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund's accounting policy on fair value measurements is discussed in note 4.2 .

Fair Value Hierarchy

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

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

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

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

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

30 June 2014

	Level 1	Level 2	Level 3	Total
	------(Rupees in '000)-----			
Term finance certificates	-	63,888	-	63,888
Government securities	-	424,758	-	424,758
	<u>-</u>	<u>488,646</u>	<u>-</u>	<u>488,646</u>

30 June 2013

	Level 1	Level 2	Level 3	Total
	------(Rupees in '000)-----			
Term finance certificates	-	120,991	-	120,991
Government securities	-	639,844	-	639,844
	<u>-</u>	<u>760,835</u>	<u>-</u>	<u>760,835</u>

26. PATTERN OF UNIT HOLDING

Unit holding pattern of the fund as at 30 June 2014 is as follows

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		138	875,622	87,683	17.25%
Associated companies	26.1	3	2,974,669	297,876	58.59%
Chief executive	26.2	1	1,285	128	0.03%
Bank / financial institutions		1	13,400	1,342	0.26%
Insurance companies		1	21	2	-
Non banking finance companies		-	-	-	-
Retirement funds		8	523,625	52,435	10.31%
Others		13	688,513	68,946	13.56%
		<u>165</u>	<u>5,077,135</u>	<u>508,412</u>	<u>100%</u>

FIRST HABIB INCOME FUND

Unit holding pattern of the Fund as at 30 June 2013 was as follows:

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		150	1,099,905	110,759	12.68%
Associated companies	26.1	3	4,429,738	446,070	51.07%
Chief executive	26.2	1	1,187	119	0.01%
Bank / financial institutions		2	534,146	53,788	6.16%
Insurance companies		1	20	3	-
Non banking finance companies		4	392,427	39,517	4.52%
Retirement funds		13	790,166	79,569	9.11%
Others		12	1,426,882	143,686	16.45%
		186	8,674,471	873,511	100.00%

26.1 Associated companies

	30 June 2014			30 June 2013		
	Number of units	Investment amount (Rupees in '000)	Percentage of total investment	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Habib Asset Management Limited	9,003	902	0.18%	117,741	11,856	1.36%
Habib Insurance Company Limited	269,063	26,943	5.30%	108,585	10,934	1.25%
Bank AL Habib Limited	2,696,602	270,031	53.11%	4,203,413	423,280	48.46%
	2,974,668	297,876	58.59%	4,429,739	446,070	51.07%

26.2 Chief executive

Imran Azim	1,284	0.03%	1,187	119	0.014%
------------	-------	-------	-------	-----	--------

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

Broker name	2014 (Percentage)	2013
AKD Securities Limited	-	25.66
BMA Capital	-	2.65
Elixir Securities Pakistan (Private) Limited	-	1.72
Global Securities Pakistan Limited	7.74	5.91
Invest Capital Markets Limited	5.62	2.09
JS Global Capital Limited	0.48	26.68
KASB Securities Limited	37.51	17.43
Optimus Markets (Private) Limited	-	4.45
Summit Capital (Private) Limited	-	5.14
Topline Securities (Private) Limited	-	8.27
Arif Habib Limited	3.94	-
Invest and Finance Securities (Pvt) Limited	24.37	-
Invest One Markets Limited	18.86	-
Optimus Markets (Pvt) Limited	1.48	-
	100.00	100.00

FIRST HABIB INCOME FUND

28. INVESTMENT COMMITTEE

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

Name	Designation	Qualification	Experience in years
Mr. Ali Raza D. Habib	Chairman	Graduate	58 Years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	37 Years
Mr. Mansoor Ali	Director	MBA	29 Years

28.1 Fund Manager

Mr. Ahmed Abbas - Fund Manager

Mr. Ahmed Abbas is an MBA Finance and has eight years of rich and valuable experience and in-depth understanding of money market/fixed income investments and operations. He started his career with Global Securities Pakistan Limited as a Dealer Fixed Income Sales and gained expertise in dealing with Financial Institutions. Subsequently he joined Habib Asset Management as Assistant Manager Treasury and used his analytic and planning skills for better returns of the Fund. He is currently serving in the capacity of Fund Manager for First Habib Income Fund.

29. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 49th, 50th, 51th, 52th, 53th and 54th AND 55th board meetings were held on 5 July 2013, 26 September 2013, 29 October 2013, 15 January 2014, 17 February 2014 and 24 April 2014 and 27 June 2014 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	7	4	3	49th, 54th and 55th meeting
Imran Azim	7	7	-	
Mansoor Ali	7	7	-	
Mohammad Ali Jameel	7	4	3	50th, 51st meeting and 55th meeting
Vice Admiral('R) Khalid M Mir	7	6	1	55th meeting
Liaquat Habib Merchant	7	4	3	49th, 51st and 54th meeting

30. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

There were no non-adjusting events after the date of the balance sheet

31. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the Management Company on August 13, 2014.

32. GENERAL

Figures have been rounded off to the nearest thousand rupees.

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

Chief Executive

Director

**ANNUAL FUND MANAGER REPORT
FINANCIAL YEAR 2014**

FUND OBJECTIVE

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

FUND DESCRIPTION

Fund Type Category	Open end - Income Scheme	Auditors External	Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants
Launch Date	2-Jun-07	Management Fee	1.50% p.a.
Benchmark	50% average of 6 months KIBOR and 50% of 6 month bank deposit rate of three (3) A minus and above rated banks	Sales Load	Nil
FHIF Return	7.64%	Minimum Subscription	Initial Investment of Rs. 1000/-/Subsequently Rs. 100 per transaction
Net Assets	Rs. 508.41 million (June 30, 2014)	Dealing Days/Timings	Monday to Friday/ 9:00 am to 04:30 pm
NAV per Unit	100.1377 (June 30, 2014)	Fund Stability Rating	AA-(f) by PACRA
Pricing Mechanism	Forward Pricing	AMC Rating	"AM3" by PACRA
Trustee	Central Depository Company of Pakistan Ltd.		

MARKET REVIEW

KEY MARKET STATISTICS					
Description	2014	2013	Change	High	Low
Discount Rate (%)	10.00	9.00	1.00	10.00	9.00
1M-KIBOR (%)	9.81	9.95	-0.14	10.37	9.01
6M-KIBOR (%)	9.82	9.91	-0.09	10.19	9.08
3M-TBILL-Cut off yield (%)	9.69	9.65	0.04	9.96	8.96
6M-TBILL-Cut off yield (%)	9.68	9.68	0.00	9.98	8.99
12M-TBILL-Cut off yield (%)	9.85	9.72	0.13	9.99	8.98
3M-PKRV (%)	9.59	9.72	-0.13	9.98	8.87
6M-PKRV (%)	9.68	9.74	-0.06	10.00	8.93
1Y-PKRV (%)	9.81	9.80	0.01	10.06	9.05
PKR/US\$	102.42	96.86	5.56	108.50	96.02

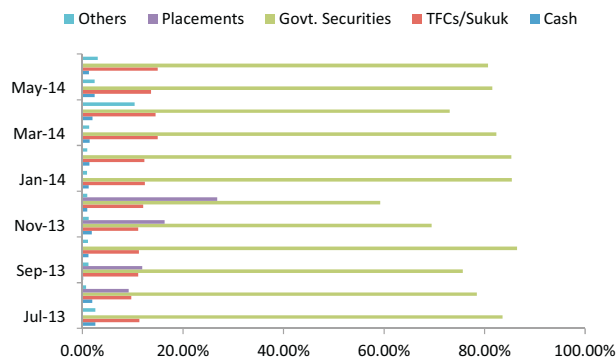
The State Bank of Pakistan adopted a contractionary monetary policy for the first half of the financial year 2014. Interest rate was increased by 100 bps to 10.0% in two equal tranches of 50bps each in September 2013 and November 2013 respectively. Rising fiscal deficit due to circular debt payments and tapering of subsidies in energy sector led to a rise in general inflation levels which formed the basis of the aforementioned increase in discount rate.

As net foreign exchange reserves held by the State Bank of Pakistan started picking up pace along with a reduction in general inflation levels in the second half of the year ended June 30, 2014; status quo was maintained by the monetary authority and discount rate was kept unchanged at 10.0%.

During the year under review, Pakistan successfully negotiated the terms of an Extended Fund Facility with IMF worth US\$6.4 billion. The Government of Pakistan made total repayments of US\$ 3.13 billion to the IMF in the financial year 2014 as the foreign exchange reserves held by the State Bank of Pakistan hit a 9-year low of US\$3.05 billion in November 2013. However, the foreign exchange reserves position started to improve in the second half of the year ended June 30, 2014 as the reserves swelled to US\$14.14 billion by year end.

The country's current account balance deficit increased by 19% in the financial year 2014 to US\$2.97 billion. The net inflow of foreign investment witnessed a 177% increase year on year basis to US\$4.38 billion in the year ended June 30, 2014, largely due to US\$2.12 billion inflow through the sale of Eurobonds in the international debt markets as well as through privatisation proceeds from the Secondary Public Offerings (SPO) of United Bank Ltd. (UBL) and Pakistan Petroleum Ltd. (PPL)

Fund Performance Review



The Fund primarily remained invested in the government securities, namely T-Bills and PIBs where it maintained an average exposure of 78.42% during the year under review. The Fund's exposure in T-Bills in the first quarter of the financial year 2014 was maintained at 79.21% and the investments in TDRs were maintained at 7.02%. However, as interest rate started rising and its future direction became increasingly uncertain, the Fund reduced its exposure in the government securities and shifted its investments toward TDRs in the second quarter of the year ended June 30, 2014.

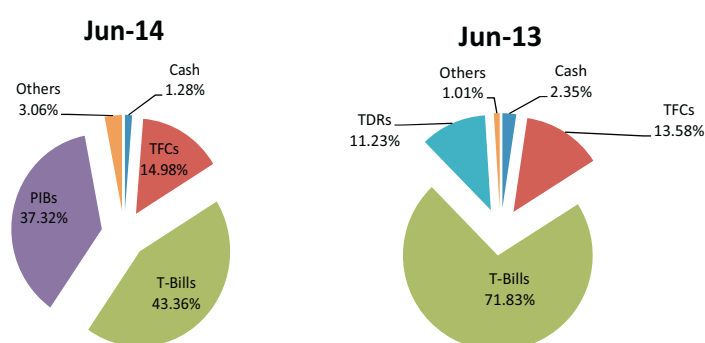
FIRST HABIB INCOME FUND

A clear shift in the Fund's investment policy was witnessed in the second half of the financial year 2014 as it increasingly placed more assets in longer tenor PIBs as it became clearer that discount rate would be maintained at 10% for the foreseeable future. During the year under review, the average exposure of the Fund in government securities, TDRs and TFCs was maintained at 78.42%, 5.35% and 12.46% respectively.

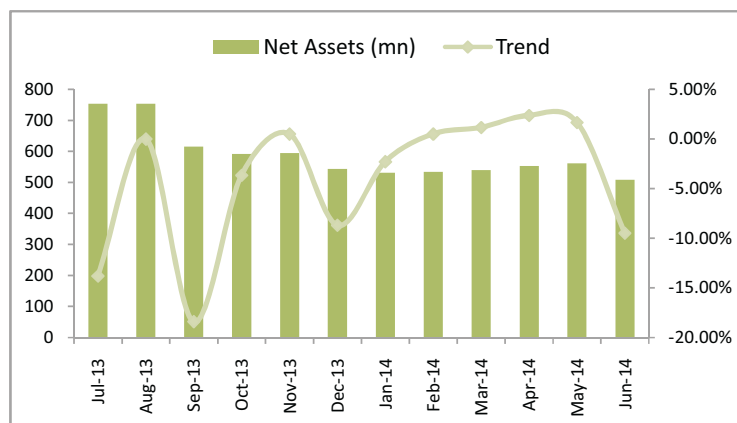
The Fund changed its benchmark in May 2014 to better reflect its relative performance. The Fund was previously employing "Average 1 month KIBOR" as its benchmark which only reflected its relative performance from the government securities' perspective. An element of 'bank deposit rates' was introduced in the new benchmark to incorporate the Fund's performance in relation to its investments avenues of Term Deposit Receipts (TDRs) and Term Finance Certificates (TFCs). Therefore the Fund's benchmark was changed to "50% average of 6 months KIBOR and 50% of 6 months bank deposit rate of three (3) A minus and above rated banks".

As of June 30, 2014, the Fund was invested up to 14.98% in TFCs, 43.36% in T-Bills and 37.32% in PIBs. The Fund generated a return of 7.64% p.a. for the financial year 2014. The weighted average time to maturity of net assets at year end stood at 650 days.

Asset Allocation as on June 30



Fund Size



The net assets of FHIF were recorded at Rs. 508.412million as at June 30, 2014 in comparison to the last year's net assets of Rs. 873.51million.

Sales and Redemptions of Units

During the year, 5,200,907 units of the value of Rs.474.11million were sold while 8,798,243 units of the value of Rs.883.72million were redeemed resulting in to a net redemption of 3,597,336 units of the value of Rs. 409.61 million during the year.

Income Distribution

FHIF distributed an amount of Rs.7.30 per unit as dividend for the year ended June 30, 2014. The detail of dividend distribution is given as under;

FIRST HABIB INCOME FUND

A clear shift in the Fund's investment policy was witnessed in the second half of the financial year 2014 as it increasingly placed more assets in longer tenor PIBs as it became clearer that discount rate would be maintained at 10% for the foreseeable future. During the year under review, the average exposure of the Fund in government securities, TDRs and TFCs was maintained at 78.42%, 5.35% and 12.46% respectively.

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Asset Allocation as on June 30

2013-2014	Cum NAV Rs.	Ex NAV Rs.	Distribution Rs.
Jul-Sept	101.7075	100.0575	1.65
Oct-Dec	101.8213	100.0213	1.80
Jan-Mar	102.0254	100.1254	1.90
April-June	102.0174	100.0674	1.95

Unit Holder Pattern

For the breakdown of unit holding by size as on June 30, 2014, please refer to note 26 to the Annual Accounts.

FHIF Performance at a Glance

	2014	2013	2012
Net Assets as at June 30, 2014 (millions)	508.41	874.00	1,019.00
NAV per unit June 30, 2014	100.1377	100.6990	101.0009
Highest NAV	100.8254	101.6003	103.1600
Lowest NAV	99.9187	99.9943	100.1369
Total Distribution	7.30	9.00	10.00
Annual Return	7.64%	9.42%	10.27%

FIRST HABIB STOCK FUND
Annual Report
For the year ended 30 June 2014

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FUND'S INFORMATION

Management Company

Habib Asset Management Limited

Board of Directors of the Management Company

Mr. Ali Raza D. Habib	Chairman
Mr. Imran Azim	Chief Executive
Mr. Mohammad Ali Jameel	Director
Mr. Mansoor Ali	Director
Vice Admiral (R) Khalid M.Mir	Director
Mr Liaquat Habib Merchant	Director

CFO and Company Secretary

Mr. Abbas Qurban	Chief Financial Officer / Company Secretary
------------------	--

Audit Committee

Vice Admiral (R) Khalid M.Mir	Chairman
Mr. Ali Raza D. Habib	Member
Mr. Mohammad Ali Jameel	Member

Human Resource Committee

Mr. Liaquat Habib Merchant	Chairman
Mr. Mansoor Ali	Member
Mr. Imran Azim	Member

Auditors

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza,
Beaumont Road, Karachi.

Registrar

JWAFS Registrar Services
(Pvt.) Limited
Kashif Centre, Room No. 505,
5th Floor, near Hotel Mehran,
Shahrah-e-Faisal, Karachi.

Trustee

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

Legal Advisor

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

Bankers to the Fund

Bank AL Habib Limited

Rating

MFR-1 Star Performing Ranking by JCR-VIS
AM3 Management Company Quality Rating
Assigned by PACRA.

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shakra-e-Faisal
Karachi - 74400, Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com



TRUSTEE REPORT TO THE UNIT HOLDERS

FIRST HABIB STOCK FUND

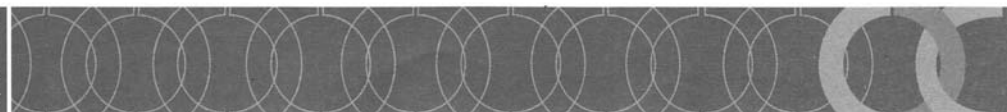
**Report of the Trustee pursuant to Regulation 41(h) and clause 9 of schedule V of
the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

We Central Depository Company of Pakistan Limited, being the Trustee of First Habib Stock Fund (the Fund) are of the opinion that Habib Asset Management Limited, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 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.

Aftab Ahmed Diwan
Chief Operating Officer
Central Depository Company of Pakistan Limited

Karachi: October 01, 2014



FIRST HABIB STOCK FUND

STATEMENT OF COMPLIANCE BY HABIB ASSET MANAGEMENT LIMITED WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2014

This statement is being presented by the Board of Directors of Habib Asset Management Limited, the management company of **First Habib Stock Fund** (the Fund), to comply with the Code of Corporate Governance (the Code) contained in Chapter XI of the Listing Regulations of Lahore Stock Exchange (Guarantee) Limited where the Fund is listed, for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

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

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

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of directors. At present, the Board includes:

Category	Names
Independent Directors	Mr. Admiral (R) Khalid M. Mir, Mr. Liaquat Habib Merchant
Executive Director	Mr. Imran Azim
Non-Executive Directors	Mr. Ali Raza D. Habib, Mr. Mohammad Ali Jameel and Mr. Mansoor Ali

The independent directors meet the criteria of independence under clause i (b) of the Code.

2. The directors have confirmed that none of them are serving as a director in more than seven listed companies, including this company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, have been declared as a defaulter by that stock exchange.
4. No casual vacancy in the Board of the Management Company has occurred during the year.
5. The Management Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed a vision / mission statement, an overall corporate strategy and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive and non-executive directors have been taken by the Board.

FIRST HABIB STOCK FUND

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for the purpose, and the Board met at least once in every quarter. 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. The directors are conversant with the relevant laws applicable to the company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities. Two directors are exempt from directors training program due to qualification and experience, however, the remaining directors will comply with this requirement in due course.
10. The Board approved the appointments of Chief Financial Officer and Company Secretary including the remuneration and terms and conditions of employment as determined by the CEO.
11. The Directors' report relating to the Fund for the year ended June 30, 2014 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 the CEO and CFO of the Management Company before approval of the Board.
13. The Directors, CEO, and executives do not hold any interest in the units of the Fund other than disclosed in note 23 to the financial statements "Transactions with Connected Persons".
14. The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once in every quarter and prior to the approval of interim and final results of the Fund as required by the Code. The terms of reference have been approved in the meeting of the Board and the Committee has been advised to ensure compliance with those terms of reference.
17. The Board has formed an HR and Compensation Committee. It comprises of three members, of whom two are non-executive directors including the chairman of the Committee.
18. The Board has setup up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. There is no mechanism in place for an annual evaluation of the board's own performance.
24. We confirm that all other applicable material principles enshrined in the Code have been complied with.

Karachi, August 13, 2014

For and on behalf of the Board

FIRST HABIB STOCK FUND



Ernst & Young Ford Rhodes Street -Hydar
Chamarao Accountants
Progressive Plaza, Basumant Road
P.O. Box 18841, Karachi 75530
Pakistan

Tel: +9221 3565 0007-11
Fax: +9221 3565 1968
erfn.habib@erney.com
erfn.habib@erney.com

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

We have reviewed the enclosed Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors (the Board) of Habib Asset Management Limited (the Management Company) of **First Habib Stock Fund** (the Fund) for the year ended **30 June 2014** to comply with the requirements of Listing Regulation Number 35 of the Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code is that of the Board 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 reflects the status of the Management Company's compliance with the provisions of the Code in respect of the Fund and report if it does not and to highlight any non-compliance with the requirements of the Code. 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board for their review and approval the Fund's related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Fund for the year ended 30 June 2014.



Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph references where these are stated in the Statement:

<u>Paragraph Reference</u>	<u>Description</u>
9	Directors have not attended any Directors' Training programme as envisaged by the Code of Corporate Governance.
23	An annual evaluation of the Board's performance as per the requirements of the Code of Corporate Governance is not in place.

Ewst & Young Farwa Khwaja Siddiqi Hyd
Chartered Accountants

Karachi

Date: 13 August 2014



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza, Beaumont Road
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Pakistan

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eyfrsh.khi@pk.ey.com
ey.com/pk

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **First Habib Stock Fund (the Fund)**, which comprise the statement of assets and liabilities as at **30 June 2014**, and the related statements of income, comprehensive income, distribution, cash flows and movement in unit holders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of approved accounting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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



Opinion

In our opinion the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2014 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.


Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: August 13, 2014

Karachi

FIRST HABIB STOCK FUND**STATEMENT OF ASSETS AND LIABILITIES**
AS AT 30 JUNE 2014

	Note	2014	2013
		(Rupees in '000)	
Assets			
Bank balances	7	8,687	8,061
Investments	8	148,988	164,127
Dividend and Income receivable	9	402	140
Deposits, advances and prepayments	10	5,455	2,600
Receivable against sale of investments		11,253	-
Preliminary expenses and floatation costs	11	55	255
Total assets		174,840	175,183
Liabilities			
Payable to Habib Asset Management Limited - Management Company		239	528
Provision for Federal Excise Duty on remuneration of the Management Company	12	907	41
Payable to Central Depository Company of Pakistan Limited - Trustee	13	63	64
Payable to Securities and Exchange Commission of Pakistan (SECP)	14	171	152
Provision for Workers' Welfare Fund	15	2,012	1,373
Accrued expenses and other liabilities	16	23,820	414
Payable against purchase of investments		-	4,273
Total liabilities		27,212	6,845
Net assets		147,628	168,338
Unit holders' funds (as per statement attached)		147,628	168,338
(Number of units)			
Number of units in issue	17	1,424,626	1,261,174
(Rupees)			
Net asset value per unit		103.63	133.48

The annexed notes 1 to 33 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 2014

	Note	2014 (Rupees in '000)	2013
Income			
Profit on bank deposits	18	1,452	1,217
Income from Government Securities		101	18
Dividend income		8,987	7,561
Net gain on investment at fair value through profit or loss			
- Net capital gain on sale of investment classified as held for trading		26,875	48,453
- Net unrealised gain on revaluation of investment classified as held for trading		2,894	3,783
		29,769	52,236
Total income		40,309	61,032
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	19	5,411	4,797
Sales Tax on management fee	20	1,004	785
Federal Excise Duty on management fee		866	41
Remuneration of Central Depository Company of Pakistan Limited - Trustee	13.1	698	700
Annual fee - Securities and Exchange Commission of Pakistan	14	171	152
Brokerage expense		1,624	1,838
Settlement and bank charges		366	338
Annual listing fee		30	20
Auditors' remuneration	21	283	286
Amortisation of preliminary expenses and floatation costs	22	200	200
Provision for Workers' Welfare Fund	15	639	862
Mutual Fund Rating Fee		155	158
Federal excise duty		245	278
Printing charges		108	86
Total expenses		11,800	10,541
Net income from operating activities		28,509	50,491
Net Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		2,925	(8,275)
Net income for the period		31,434	42,216
Earning Per Unit	22		

The annexed notes 1 to 33 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB STOCK FUND

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	(Rupees in '000)	
Net income for the year	31,434	42,216
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u>31,434</u>	<u>42,216</u>

The annexed notes 1 to 33 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 2014

	2014	2013
	(Rupees in '000)	
Undistributed income as at 1 July (Realised)	38,513	7,962
Undistributed Income / (loss) as at 1 July (Un-Realised)	3,747	(3,834)
	42,260	4,128
Final dividend distribution for class 'C' unit holders @ Rs.3.75/- per unit and bonus units @3.7486 units for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2012	-	(4,084)
Final dividend distribution for class 'C' unit holders @ Rs.32.50/- per unit and bonus units @32.1853 units for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2013	(40,988)	-
Final dividend distribution for class 'C' unit holders @ Rs.20.00/- per unit and bonus units @19.4712 units for class 'A' and 'B' unit holders for every 100 units held as at 27 June 2014	(27,662)	-
Net income for the period	31,434	42,216
Undistributed income carried forward	5,044	42,260
Undistributed income as at 30 June (Realised)	1,737	38,513
Undistributed income as at 30 June (Un-Realised)	3,307	3,747
Undistributed income carried forward	5,044	42,260

The annexed notes 1 to 33 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB STOCK FUND**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS**
FOR THE YEAR ENDED 30 JUNE 2014

	2014		2013	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Net assets at the beginning of the period	1,261,174	168,338	1,089,073	113,032
Amount received on issuance of units	885,164	99,838	1,168,676	135,566
Amount paid on redemption of units	(873,324)	(95,802)	(1,005,195)	(127,529)
	11,840	4,036	163,481	8,037
Net Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	-	(2,925)	-	8,275
Interim bonus units distribution 4 July 2012 @ Rs.3.7486/- for Class 'A' and 'B' unit holders	-	-	8,620	-
Final Cash dividend distribution 4 July 2012 @ Rs.3.75/- for class 'C' unit holders'	-	-	-	(3,222)
Final bonus units distribution 5 July 2013 @ Rs.32.1853/- for Class 'A' and 'B' unit holders	102,330	-	-	-
Final dividend distribution 5 July 2013 @ Rs.32.50/- for class 'C' for the year ended 30 June 2013	-	(30,655)	-	-
Interim bonus units distribution 27 June 2014 @ Rs.19.4712/- for Class 'A' and 'B' unit holders	49,282	-	-	-
Interim Cash dividend distribution 27 June 2014 @ Rs.20.00/- for Class 'C' unit holders	-	(22,600)	-	-
Net income for the year	-	31,434	-	42,216
Net assets at the end of the period	1,424,626	147,628	1,261,174	168,338

The annexed notes 1 to 33 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 2014

	2014	2013
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the period	31,434	42,216
Adjustments for non-cash items		
Unrealised (appreciation)/ diminution on investments at fair value through profit or loss - net	(2,894)	(3,783)
Net Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(2,925)	8,275
Amortisation of preliminary expenses and floatation costs	200	200
	25,815	46,908
(Increase) / decrease in assets		
Investments	18,033	(88,018)
Dividend and Income receivable	(262)	61
Deposits, advances and prepayments	(2,855)	-
Receivable against sale of investments	(11,253)	4,641
Advance against subscription of shares	-	-
	3,663	(83,316)
Increase / (decrease) in liabilities		
Payable to Habib Asset Management Limited - Management Company	(289)	245
Provision for federal excise duty on remuneration of the Management Company	866	-
Payable to Central Depository Company of Pakistan Limited - Trustee	(1)	4
Payable to Securities and Exchange Commission of Pakistan (SECP)	19	47
Provision for Workers' Welfare Fund	639	862
Payable against purchase of investments	(4,273)	4,273
Accrued expenses and other liabilities	23,406	93
	20,367	5,524
Net cash generated from / (utilized in) operating activities	49,845	(30,884)
CASH FLOW FROM FINANCING ACTIVITIES		
Net receipts from sale and redemption of units	4,036	8,037
Dividend Paid	(53,255)	(3,222)
	(49,219)	4,815
Net increase / (decrease) in cash and cash equivalents during the period	626	(26,069)
Cash and cash equivalents at the beginning of the period	8,061	34,130
Cash and cash equivalents at the end of period	8,687	8,061
Cash and cash equivalents at the end of the year comprise of:		
Cash and bank - saving accounts	8,687	8,061

The annexed notes 1 to 33 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB STOCK FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

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

Pakistan Credit Rating Agency (PACRA) has assigned asset management rating of 'AM3' to the Management Company and a performance ranking of 'MFR 1-Star' to the Fund.

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

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

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

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the NBFC Rules, the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the requirements of the said directives prevail.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for investments and derivatives which are accounted for as stated in notes 4.2.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements have been consistently applied except as described in note 4.1.

4.1 New and amended standards and interpretations

The Fund has adopted the following revised standard, amendments and interpretation of IFRSs which became effective for the current year:

IAS 19 – Employee Benefits – (Revised)

IFRS 7 – Financial Instruments: Disclosures – (Amendments)

– Amendments enhancing disclosures about offsetting of financial assets and financial liabilities

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

Improvements to Accounting Standards Issued by the IASB

IAS 1 – Presentation of Financial Statements - Clarification of the requirements for comparative information
IAS 16 – Property, Plant and Equipment – Clarification of Servicing Equipment
IAS 32 – Financial Instruments: Presentation – Tax Effects of Distribution to Holders of Equity Instruments
IAS 34 – Interim Financial Reporting – Interim Financial Reporting and Segment Information for
Total Assets and Liabilities

The adoption of the above amendments, revisions, improvements to accounting standards and interpretations did not have any effect on the financial statements.

4.2 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) *Financial instruments at fair value through profit or loss*

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

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

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

b) *Available-for-sale*

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

c) *Loans and receivables originated by the enterprise*

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

d) *Financial liabilities*

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

Recognition

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

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

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

Measurement

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

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

Fair value measurement principles

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

FIRST HABIB STOCK FUND

Basis of valuation of Government Securities

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

Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Impairment loss in respect of investments (other than debt securities) is recognised when there is objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is considered an objective evidence of impairment. Provision for diminution in the value of debt securities is recognised as per the requirements of Circular 1 of 2009 read with Circular 33 of 2012 issued by the SECP and based on management's assessment made in line with its provisioning policy approved by the Board of Directors of the Management Company pursuant to the requirements of the SECP's above referred circular. In case of impairment of available for sale investments, the cumulative loss that has been recognised directly in statement of comprehensive income is taken to the income statement.

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.

4.3 Unit holders' fund

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

4.4 Issue and redemption of units

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

Units redeemed are recorded at the redemption price, applicable on the units for which the Fund receives redemption applications during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less the allowable purchase load (if any). Redemption of units is recorded on acceptance of application for redemption.

4.5 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 Element is arrived at by comparing the unit prices with opening Ex - NAV at the beginning of the financial year. The Element so computed is recognised in the income statement except to the extent that the amount represented by unrealized appreciation / diminution arising on available for sale securities is included in distribution statement.

4.6 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.

4.7 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 realized or unrealized, is distributed amongst the Fund's unit holders.

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

4.8 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date 'at which the transaction takes place.
- Unrealized gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss are included in the Income Statement in the period in which they arise.
- Income on government securities is recognised on an accrual basis using the effective interest rate method.
- Profit on bank deposit is recognised on time proportion basis taking in to account effective yield.
- Dividend income is recognised when the right to receive the dividend is established.
- Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

4.9 Expenses

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

4.10 Provisions

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

4.11 Preliminary expenses and floatation costs

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

4.12 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.

4.13 Other assets

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

4.14 Dividend (including bonus units)

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

5. ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

FIRST HABIB STOCK FUND

Classification and fair value of investments

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

Impairment of investment

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

Workers' welfare fund

For details refer note 15 to these financial statements.

Other assets

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

6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, interpretations and amendments with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards, interpretations and amendments:

Standard, interpretation or amendment	Effective date (accounting periods beginning on or after)
IAS 16 & 38 - Clarification of Acceptable Method of Depreciation and Amortization	January 01, 2016
IAS 16 & 40 - Agriculture: Bearer Plants	July 01, 2014
IAS 19 - Employee Contributions	
IAS 32 - Offsetting Financial Assets and Financial liabilities – (Amendment)	January 01, 2014
IAS 36 - Recoverable Amount for Non-Financial Assets – (Amendment)	January 01, 2014
IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting Amortization	January 01, 2014
IFRIC 21 - Levies	January 01, 2014

The Fund expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Fund's financial statements in the period of initial application.

In addition to the above standards and interpretations, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after July 01, 2014. The Fund expects that such improvements to the standards will not have any impact on the Fund's financial statements in the period of initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	Effective date (accounting periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2015
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 15 – Revenue from Contracts with Customers	January 01, 2017

7. BANK BALANCES

This represents balance with Bank Al Habib Limited, a related party. The balance is held in saving account and carries profit rate of 7.5% (2013: 7.5%) per annum.

FIRST HABIB STOCK FUND

8 INVESTMENTS- at fair value through profit or loss

	Note	2014 (Rupees in '000)	2013
Equity securities	8.1	148,988	164,127
Government securities	8.2	-	-
		148,988	164,127

8.1 Equity securities

Name of Investee	As at 1 July 2013	Purchased / Bonus / right shares received during the year	Disposed during the period	As at 30 June 2014	Carrying value as at 30 June 2014	Market value as at 30 June 2014	Market Value as a	
							Net Assets	Total Investment
-----Number of shares-----		-----Rupees in '000)-----						
Oil and gas								
Attock Petroleum Limited	-	14,350	14,350	-	-	-	-	-
Attock Refinery Limited	31,700	146,300	163,000	15,000	3,108	3,184	2%	2%
Oil and Gas Development Company Limited	27,769	129,200	137,000	19,969	5,202	5,218	4%	4%
Pakistan Oilfields Limited	27,269	77,550	96,650	8,169	4,350	4,691	3%	3%
Pakistan Petroleum Limited	54,626	139,625	185,000	9,251	1,979	2,075	1%	1%
Pakistan State Oil Limited	18,800	215,100	208,100	25,800	10,235	10,032	7%	7%
Shell Pakistan Limited	-	15,000	7,500	7,500	2,061	2,072	1%	1%
National Refinery Limited	19,200	10,500	29,700	-	-	-	-	-
Mari Gas Limited	-	107,300	107,300	-	-	-	-	-
Chemicals								
Fauji Fertilizer Company Limited	134,647	96,500	196,100	35,047	3,858	3,934	3%	3%
ICI Pakistan Limited	-	90,500	70,300	20,200	7,799	7,885	5%	5%
Dawood Hercules Chemicals limited	102,500	57,000	159,500	-	-	-	-	-
Engro Fertilizers Limited	-	126,800	126,800	-	-	-	-	-
Engro Corporation Limited	70,900	197,500	268,400	-	-	-	-	-
Engro Polymer & Chemical Limited	-	197,500	197,500	-	-	-	-	-
Fatima Fertilizers Company	-	57,000	57,000	-	-	-	-	-
Fauji Fertilizers Bin Qasim Limited	-	191,500	191,500	-	-	-	-	-
Clarent Pakistan Limited	14,700	27,000	41,700	-	-	-	-	-
Industrial Metals and Mining								
Crescent steel & Allied Product Limited	-	50,000	50,000	-	-	-	-	-
International Steels Limited	-	121,000	121,000	-	-	-	-	-
Construction and Materials (Cement)								
Attock Cement Pakistan Limited	-	36,550	36,550	-	-	-	-	-
Cherat Cement Company Limited	-	215,000	85,000	130,000	9,255	8,510	6%	6%
D.G. Khan Cement Company limited	86,000	490,000	516,000	60,000	5,389	5,278	4%	4%
Fauji Cement Company Limited	-	525,000	375,000	150,000	2,925	2,886	2%	2%
Kohat Cement Limited	-	34,000	19,000	15,000	1,960	1,917	1%	1%
Lefrage Pakistan Cement Limited	-	810,000	500,000	310,000	4,473	4,954	3%	3%
Lucky Cement Limited	32,100	223,000	237,700	17,400	6,207	7,139	5%	5%
Maple Leaf Cement Factory Limited	-	911,500	730,000	181,500	5,678	5,454	4%	4%
Service Industry Limited	-	9,000	-	9,000	5,089	4,455	3%	3%
General Industries								
Cherat Packaging Limited	-	58,500	58,500	-	-	-	-	-
Siemens Pakistan Engineering Company Limited	-	3,250	1,850	1,400	1,965	1,760	1%	1%
Thal Limited	90,000	78,700	128,800	39,900	5,911	8,275	6%	6%
Packages Limited	-	34,600	34,600	-	-	-	-	-
Engineering								
Al Ghazi Tractors Limited	19,800	-	19,800	-	-	-	-	-
Hinopak Motors Limited	-	12,600	12,600	-	-	-	-	-
Millat Tractors Limited	-	2,350	2,350	-	-	-	-	-
Automobiles & Parts								
Atlas Honda Limited	-	7,500	-	7,500	2,302	1,724	1%	1%
Atlas Battery Limited	-	1,100	1,100	-	-	-	-	-
Pak Suzuki Motor Company Limited	-	59,500	59,500	-	-	-	-	-
Food Producers								
Engro Foods Limited	12,000	364,500	343,000	33,500	3,870	3,435	2%	2%
Habib Sugar Mills Limited (Related Party)	494,000	25,000	419,000	100,000	2,587	3,650	2%	2%
Mitchells Fruit Farms Limited	-	3,300	-	3,300	2,284	2,178	1%	1%
Nestle Pakistan Limited	760	1,160	1,780	140	1,214	1,142	1%	1%
National Foods Limited	-	4,500	4,500	-	-	-	-	-
Balance c/f					99,701	101,848		

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8.1 Equity securities (continued)

Name of Investee	As at 1 July 2013	Purchased / Bonus / right shares received during the year	Disposed during the period	As at 30 June 2014	Carrying value as at 30 June 2014	Market value as at 30 June 2014	Market Value as a	
							Net Assets	Total Investment
-----Number of shares-----					----(Rupees in '000)----			
Balance b/f					<u>99,701</u>	<u>101,848</u>		
Personal Goods (Textiles)								
Nishat Chunian Limited	-	314,850	284,850	30,000	1,434	1,272	1%	1%
Nishat Mills Limited	48,959	247,500	277,959	18,500	2,141	2,071	1%	1%
Ellcot Spinning Mills Limited	-	28,000	28,000	-	-	-	-	-
Hira Textile Limited	-	150,000	150,000	-	-	-	-	-
Gul Ahmed Textile Mills Limited	-	36,000	21,000	15,000	1,059	960	1%	1%
Sapphire Fibers Limited	-	19,300	10,700	8,600	3,037	2,494	2%	2%
Shams Textile Mills Limited	-	16,000	-	16,000	1,213	687	-	-
Pharma And Bio Tech								
Abbot Laboratories Pakistan Limited	-	5,000	5,000	-	-	-	-	-
Glaxo Smith Kline Pak Limited	-	195,000	195,000	-	-	-	-	-
WYETH Pakistan Limited	500	-	500	-	-	-	-	-
Fixed Line Telecommunication								
Pakistan Telecommunication Limited	145,000	1,185,000	1,195,000	135,000	3,957	3,438	2%	2%
Electricity								
Hub Power Company Limited	192,078	270,000	427,078	35,000	2,284	2,056	1%	1%
K-Electric Unit Limited	-	375,000	125,000	250,000	2,066	2,123	1%	1%
Kot Addu Power Company Limited	60,500	98,000	138,500	20,000	1,221	1,181	1%	1%
Nishar Power Limited	-	274,500	205,500	69,000	2,214	2,455	2%	2%
Nishat Chunian Power Limited	75,000	204,000	213,500	65,500	2,318	2,485	2%	2%
Karachi Electric Supply Corporation	200,000	100,000	300,000	-	-	-	-	-
Banks								
Bank Alfalah Limited	-	603,000	603,000	-	-	-	-	-
Faysal Bank Limited	-	320,000	230,000	90,000	1,186	1,454	1%	1%
Habib Bank Limited	-	60,200	39,000	21,200	3,949	4,108	3%	3%
Habib Metropolitan Bank Limited (Related Party)	-	105,000	80,000	25,000	652	805	1%	1%
MCB Bank Limited	5,500	133,670	113,800	25,370	6,579	7,645	5%	5%
National Bank of Pakistan Limited	-	723,000	643,000	80,000	4,770	4,978	3%	3%
United Bank Limited	-	157,971	123,200	34,771	5,457	5,861	4%	4%
Allied Bank Limited	-	74,000	74,000	-	-	-	-	-
Non Life Insurance								
Adamjee Insurance Company Limited	92,000	178,306	247,000	23,306	856	1,067	1%	1%
IGI Insurance Limited	-	86,800	86,800	-	-	-	-	-
Software and Computer Services								
NETSOL Technologies Limited	-	155,000	155,000	-	-	-	-	-
Total as at 30 June 2014					<u>146,094</u>	<u>148,988</u>		
Total as at 30 June 2013					<u>160,344</u>	<u>164,127</u>		

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

Issue date	Tenor	Face value				As at 30 June 2014			Market value as a percentage of net assets
		As at 1 July 2013	Purchased during the period	Disposed / Matured during the period	As at 30 June 2014	Carrying value as at 30 June 2014	Market value as at 30 June 2014	Appreciation / (diminution)	
------(Rupees in '000)-----									
9-Sep-13	3 Months	-	750,000	750,000	-	-	-	-	-
Total as at 30 June 2014						-	-	-	
Total as at 30 June 2013						-	-	-	

9. DIVIDEND AND INCOME RECEIVABLE

	2014	2013
	(Rupees in '000)	
Dividend receivable	298	79
Profit receivable on saving account	104	61
	<u>402</u>	<u>140</u>

10. DEPOSITS, ADVANCES AND PREPAYMENTS

	2014	2013
Deposit with National Clearing Company of Pakistan Limited	2,500	2,500
Cash margin to NCCPL against Equity Transaction	1,000	-
Deposit with Central Depository Company of Pakistan Limited	100	100
Advance against subscription of shares	1,855	-
	<u>5,455</u>	<u>2,600</u>

11. PRELIMINARY EXPENSES AND FLOATATION COSTS

	2014	2013
	(Rupees in '000)	
Opening balance	255	455
Less: Amortization for the year	(200)	(200)
	<u>55</u>	<u>255</u>

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

12. PROVISION FOR FEDERAL EXCISE DUTY ON REMUNERATION OF THE MANAGEMENT COMPANY

As per the requirement of the Finance Act, 2013, the Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective from 13 June 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law. A stay order against the collection has been granted by the Honourable High Court of Sindh on a petition filed by the Mutual Funds Association of Pakistan (MUFAP). As a matter of abundant caution, the Fund has made a provision from the afore mentioned effective date and transferred its liability to the management company. Subsequently, during the year, the management company decided to retain the liability with the fund. Hence the balance outstanding represents the amount of provision that has been recovered / adjusted from the Management Company and the remaining balance of Rs. 259,687.93 is yet to be recovered from the management company.

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

	Note	2014	2013
		(Rupees in '000)	
Trustee fee	13.1	58	58
CDS charges		5	6
		<u>63</u>	<u>64</u>

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- 13.1 The Trustee is entitled to a remuneration for services rendered to the Fund under the provisions of the Trust Deed based on the daily Net Asset Value of the Fund. The remuneration of the Trustee has been calculated as per following applicable tariff;

Average net assets (Rs. in million)	Tariff
Upto Rs. 1,000	Rs. 0.7 million or 0.2% per annum of net asset value, whichever is higher.
Rs. 1,000 and above	Rs. 2 million plus 0.10% per annum of net asset value exceeding Rs. 1,000 million

14. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

This represents annual fee payable to Securities and Exchange Commission of Pakistan (SECP) in accordance with the rule 62 of the NBFC Regulations 2008, whereby the Fund is required to pay SECP an amount at the rate of 0.095% of the average daily net assets of the Fund.

15. PROVISION AGAINST CONTRIBUTION TO WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs.0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for adjudication.

During the year 2011, a single bench of the Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. However, in the month of March 2013, a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity and overruled a single-member Lahore High Court (LHC) bench judgment issued in August 2011.

However, as per the advice of legal counsel of MUFAP, the constitutional petitions filed by the CIS (as mentioned in the first paragraph) challenging the applicability of WWF contribution have not been affected by the SHC judgment.

Further, in May 2014, the Honorable Peshawar High Court (PHC) held that the impugned levy of contribution introduced in the ordinance through Finance Acts, 1996 and 2009 lacks the essential mandate to be introduced and passed through a Money bill under the constitution and, hence, the amendments made through the Finance Acts are declared as 'Ultra Vires'.

As the matter relating to levy of WWF is currently pending in the Court, the Management Company, as a matter of abundant caution, has decided to retain and continue with the provision for WWF amounting to Rs. 2,011,986.01 (30 June 2013: Rs. 1,373,106) in these financial statements. Had the provision not been made, the net asset value of the Fund would be higher by Rs 1.412 per unit (30 June 2013: Rs.1.088 per unit).

16. ACCRUED EXPENSES AND OTHER LIABILITIES

	2014	2013
	(Rupees in '000)	
Auditors' remuneration	222	290
Printing charges	110	80
Dividend payable	21,340	-
Withholding tax payable	1,263	4
Payable against redemption of units	805	-
Others	80	40
	<u>23,820</u>	<u>414</u>

17. 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.

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

	2014	2013
	(Number of Units)	
Type 'A' Units	62,187	69,862
Type 'B' Units	732,423	548,079
Type 'C' Units	630,016	643,233
	1,424,626	1,261,174

18. PROFIT ON BANK DEPOSITS

	2014	2013
	(Rupees in '000)	
Mark-up income on saving account	1,452	1,217

18.1 It represents profit on deposits with Bank Al Habib, a related party. Markup on this account ranges from 7.5%-11% (2013: 7.5%-11%).

19. REMUNERATION OF THE 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.

20. SALES TAX ON REMUNERATION OF THE MANAGEMENT COMPANY

During the year, an amount of Rs.498,566 (2013: Rs.486,624) was charged on account of sales tax on remuneration of the Management Company levied through Sindh Sales Tax on Services Act, 2011.

	2014	2013
	(Rupees in '000)	
21. AUDITORS' REMUNERATION		
Annual audit fee	178	165
Half yearly review fee	52	50
Other certifications fee	27	45
Out of pocket expenses	26	26
	283	286

22. EARNINGS PER UNIT

Earnings per unit (EPU) for the year ended 30 June 2014 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

23. TAXATION

The income of the fund is exempt from income tax under Clause (99) of Part 1 of the Second Schedule to the Income Tax Ordinance, 2001 (Clause 99) subject to the condition that not less than 90 percent of the accounting income for the year, as reduced by capital gains, whether realized or unrealized, is distributed amongst the unit holders. The Management Company has distributed not less than 90 percent of its annual accounting income to avail the tax exemption. Accordingly, no provision for current and deferred tax has been made in this financial statements.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund's accounting policy on fair value measurements is disclosed in the financial statements for the year ended June 30, 2014.

Fair value hierarchy

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

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

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

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

As at 30 June, all investments were categorized in Level 1.

25. TRANSACTIONS WITH CONNECTED PERSONS

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

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

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

Details of transactions with connected persons are as follows:

	2014	2013
	(Rupees in '000)	
Habib Asset Management Limited - Management Company		
Management fee	5,411	4,797
Sales Tax on Management Fee	1,004	785
Federal Excise Duty on Management fee	866	41
AL Habib Capital Markets (Private) Limited - Brokerage house		
Brokerage	175	180
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	698	700
Bank Al Habib Limited		
Profit on Bank Balances	1,452	1,217

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

	2014	2013
	(Rupees in '000)	
Bank Al Habib Limited		
Bank Balance	<u>8,687</u>	<u>8,061</u>
Habib Asset Management Limited - Management Company		
Management Company Fee payable	<u>411</u>	<u>440</u>
Sales Tax on Management fee payable	<u>88</u>	<u>88</u>
Federal Excise Duty on Management Fee payable	<u>647</u>	<u>41</u>
Central Depository Company of Pakistan Limited - Trustee		
- Remuneration payable	<u>63</u>	<u>64</u>
- Security deposit - Non interest bearing	<u>100</u>	<u>100</u>

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25.1 Sale / Redemption of units

	2014		2013	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Units sold to:				
Management Company				
- Habib Asset Management Limited	2,098	250	-	-
Associated Companies				
- Habib Insurance Company Limited	305,290	35,000	883,741	100,000
Other related parties				
- Mr. Junaid Kasbati	246	30	-	-
- Habib Asset Management Ltd.Emp.Provident Fund	585	70	-	-
- Directors of the Management Company	844	96	2,249	288
- Mrs. Razia Ali Habib	-	-	29,042	3,665
- Mrs. Batool Ali Raza Habib	-	-	31,697	4,000
- Mrs. Fatima Ali Raza Habib	-	-	26,427	3,335
- Mr. Aun Muhammad Ali Raza Habib	-	-	10,579	1,335
Bonus Units Issued:				
Management Company				
Habib Asset Management Limited	19,627	1,982	6,148	615
Other related parties				
- Directors of the Management Company	3,632	370	345	35
- Habib Asset Management Limited - Employees Provident Fund	532	54	39	4
- Mrs. Razia Habib	6,222	628	-	-
- Mr. Sajjad Hussain	6,128	623	-	-
- Mr. Aun Mohammad Ali Raza Habib	11,212	1,137	-	-
- Mrs. Batool Ali Raza Habib	8,570	865	-	-
- Mrs. Fatima Ali Raza Habib	8,934	906	-	-
- Mrs. Salma Shahzad	58	6	-	-
- Mr. Junaid Kasbati	48	5	-	-
- Habib Asset Management Limited (Core Investor)	26,063	2,644	-	-
- Mrs. Ishrat Malik	623	64	-	-
- Mrs. Fatima Ali Raza Habib	8,934	906	-	-
Units redeemed by:				
Management Company				
- Habib Asset Management Limited	19,665	2,407	50,632	7,000
Other related parties				
- Directors of the Management Company	-	-	5,824	800
- Habib Insurance Company Limited	-	-	799,617	100,000
- Mrs. Razia Habib	24,286	2,500	10,137	1,388
- Mr. Aun Mohammad Ali Raza Habib	19,429	2,000	71,818	9,906
- Mrs. Batool Ali Raza Habib	-	-	5,069	694
- Mrs. Salma Shahzad	236	25	-	-
- Mrs. Fatima Ali Raza Habib	-	-	5,069	694
Units held by:				
Management Company				
- Habib Asset Management Limited	-	-	119,523	15,954
Associated Companies				
- Bank AL Habib Limited	200,000	20,725	500,000	66,740
- Habib Insurance Company Limited	476,112	49,337	443,233	59,163
- Trakker Direct Insurance Limited	-	-	5,854	782

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	2014		2013	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Other related parties				
- Directors of the Management Company	10,463	1,084	5,988	799
- Habib Asset Management Limited-Employees Provident Fund	1,131	117	1,080	144
	840	87	18,905	2,523
- Mr. Sajjad Hussain	16,706	1,731	10,579	1,412
- Mr. Aun Mohammad Ali Raza Habib	17,670	1,831	25,887	3,456
- Bank Al-Habib (Core Investor)	300,000	31,088	-	-
- Mr. Junaid Kasbati	294	30	-	-
- Habib Asset Management Limited (Core Investor)	44,309	4,591	-	-
- Habib Insurance Company Limited (Core Investor)	153,904	15,948	-	-
- Mrs. Ishrat Malik	3,821	396	-	-
- Mrs. Fatima Ali Raza Habib	12,640	1,310	21,359	2,851
- Mrs. Batool Ali Raza Habib	-	-	26,628	3,555

26. RISK MANAGEMENT

Introduction and overview

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

Risk management framework

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

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

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

26.1 Credit risk

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

Management of credit risk

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

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

- Where the investment committee makes an investment decision, the credit rating and credit worthiness of the issuer is taken into account along with the financial background so as to minimise the risk of default.
- Investment transactions are carried out with a large number of brokers, whose credit rating is taken into account so as to minimise the risk of default and transactions are settled or paid for only upon delivery.

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- The risk of counterparty exposure due to failed trades causing a loss to the Fund is mitigated by a periodic review of trade reports, credit ratings and financial statements on a regular basis. In addition, the investment Committee approves the trading of securities of entities with credit ratings approved by external rating agencies.

Exposure to credit risk

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

	2014		2013	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
	(Rupees in '000)		(Rupees in '000)	
Bank balances	8,687	8,687	8,061	8,061
Investments	148,988	-	164,127	-
Dividend receivable	402	402	140	140
Receivable against sale of investments	11,253	11,253	-	-
Deposits	5,455	5,455	2,600	2,600
	174,785	25,797	174,928	10,801

Differences in the balances as per the statement of assets & liabilities and maximum exposures were due to the fact that investments of Rs. 148.988 million (2013: Rs.164.127 million) relates to investments in equity securities which are not considered to carry credit risk.

Credit ratings and Collaterals

Ratings	2014	2013
	(Percentage)	
AA+	100%	100%

Concentration of credit risk

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

Past due and impaired assets

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

Settlement risk

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

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

26.2 Liquidity risk

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

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

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Management of Liquidity Risk

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

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

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

Maturity analysis of financial liabilities

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

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

	30 June 2014				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	More than one month and up to three months	More than three months and up to one year
----- (Rupees in '000) -----					
<i>Non- derivative financial liabilities</i>					
Payable to Habib Asset Management Limited					
- Management Company	239	239	239	-	-
Payable to Central Depository Company of Pakistan Limited					
- Trustee	63	63	63	-	-
Payable to Securities and Exchange Commission of Pakistan	171	171	-	171	-
Accrued expenses and other liabilities	23,820	23,820	23,820	-	-
	24,293	24,293	24,122	171	-
----- (Rupees in '000) -----					
	30 June 2013				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	More than one month and up to three months	More than three months and up to one year
----- (Rupees in '000) -----					
<i>Non- derivative financial liabilities</i>					
Payable to Habib Asset Management Limited					
- Management Company	569	569	569	-	-
Payable to Central Depository Company of Pakistan Limited					
- Trustee	60	60	60	-	-
Payable to Securities and Exchange Commission of Pakistan	152	152	-	152	-
Accrued expenses and other liabilities	414	414	414	-	-
	1,195	1,195	1,043	152	-

26.3 Market risk

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

Management of Market Risk

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan (SECP). The maximum risk resulting from financial instruments equals their fair value.

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

Interest rate risk

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

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

	2014	2013
	(Rupees in '000)	
Fixed rate instruments		
Investment in government securities	-	-
Variable rate instruments	-	-

b) Fair value sensitivity analysis for fixed rate instruments

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

The composition of the Fund's financial instruments, interest rates are expected to change overtime. Accordingly, the sensitivity analysis prepared as of 30 June 2014 is not necessarily indicative of the effect on the fund's net assets of future movements in interest rates.

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

		2014				
Markup /Profit (%)	Less than one month	One to three months	Three months to one year	More than one year	Total	
----- (Rupees in '000) -----						
<i>Assets</i>						
Bank balances	7.5-10	8,687	-	-	-	8,687
Total assets		8,687	-	-	-	8,687
		2013				
Markup /Profit (%)	Less than one month	One to three months	Three months to one year	More than one year	Total	
----- (Rupees in '000) -----						
<i>Assets</i>						
Bank balances	7.5-10	8,061	-	-	-	8,061
Total assets		8,061	-	-	-	8,061

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

FIRST HABIB STOCK FUND

Other price risk

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

The Fund manages this risk by limiting its investment exposure in the following ways:

- 10% of NAV or index weight of a single security, subject to a maximum limit of 15%, whichever is higher.
- higher of 30% of NAV or index weight of a single stock exchange sector, subject to a maximum limit of 35% of NAV.

A summary analysis of local investments by industry sector, the percentage in relation to Fund's assets is presented in note 8.1 to these financial statements. Further, the Fund's policy requires that the overall Fund position is monitored on a daily basis by the Fund Manager and is reviewed on bi-monthly basis by the Investment Committee and by the Board of Directors in every meeting of the Board. Non-compliance with the Fund's investment policies is reported to the Board of Directors.

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

As at 30 June, the fair value of equity securities exposed to price risk are disclosed in notes 8.1.

Sensitivity analysis

The following table illustrates the sensitivity of the Fund's net asset value attributable to unit holders and net profit for the year to change of 10% in the fair values of the Fund's investment in equity securities as at 30 June 2013. This level of change is considered to be reasonably possible and represents management's best estimate of a reasonable possible shift in respective market indices and resulting increase/decrease in fair value of the Fund's investment in equity securities.

	2014	2013
	(Rupees in '000)	
Effect on income statement, net assets attributable to unit holders of an increase in index		
Equity investments	<u>14,899</u>	<u>16,413</u>

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

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.

27. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30 June 2014 is as follows:

Category	Number of unit holders	Number of units	Investment Amount (Rupees in '000)	Percentage of Total Investment
Individuals	64	205,226	21,268	14.41
Associated companies	4	1,183,570	122,647	83.08
Chief Executive	1	10,463	1,084	0.73
Executive	-	-	-	-
Retirement Funds	1	1,131	117	0.08
Others	1	24,236	2,512	1.70
	<u>71</u>	<u>1,424,626</u>	<u>147,628</u>	<u>100.00</u>

FIRST HABIB STOCK FUND

Unit holding pattern of the fund as at 30 June 2013 is as follows:

Category	Number of unit holders	Number of units	Investment Amount (Rupees in	Percentage of Total
Individuals	48	170,149	22,711	13.49
Associated companies	4	1,068,609	142,636	84.73
Chief Executive	1	5,989	798	0.47
Executive	-	-	-	-
Retirement Funds	1	1,080	144	0.09
Others	1	15,347	2,049	1.22
	<u>55</u>	<u>1,261,174</u>	<u>168,338</u>	<u>100.00</u>

Associated companies	2014			2013		
	Number of units	Investment Amount (Rupees in '000)	Percentage of total investment	Number of units	Investment Amount (Rupees in '000)	Percentage of total investment
Habib Asset Management Limited	44,309	4,590	3%	119,523	15,954	9
Bank AL Habib Limited	500,000	51,810	35%	500,000	66,740	40
Habib Insurance Company Limited	630,016	65,289	44%	443,233	59,163	35
Trakker Direct Insurance Limited	9,245	958	1%	5,854	782	0
	<u>1,183,570</u>	<u>122,647</u>	<u>83%</u>	<u>1,068,610</u>	<u>142,639</u>	<u>84</u>

Chief executive

Imran Azim (CEO)	<u>10,463</u>	<u>1,084</u>	<u>1%</u>	<u>5,988.00</u>	<u>799.16</u>	<u>0.47</u>
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28. BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Name of Broker	2014 (Percentage)	2013 (Percentage)
Al Habib Capital Market (Private) Limited	11.46%	10.29%
BMA Capital	6.19%	2.96%
Ali Husain Rajab Ali Limited	1.72%	6.97%
Pearl Securities Limited	10.11%	11.13%
AKD Securities Limited	7.20%	7.41%
KASB Securities Limited	3.05%	4.43%
Habib Metro Financial Services	6.86%	7.94%
IGI Finex Securities Limited	9.72%	2.09%
Global Securities Pakistan Limited	0.02%	0.06%
Invest Capital Markets Limited	7.44%	10.10%
Topline Securities (Private) Limited	10.56%	9.18%
MM Securities (Private) Limited	3.98%	3.39%
Summit Capital (Private) Limited	10.78%	9.55%
Multiline Securities (Private) Limited	7.20%	4.53%
Elixer Securities Pakistan (Private) Limited	0.00%	5.67%
Standard	2.22%	0.01%
Arif Habib Limited	1.49%	4.29%
	<u>100.00%</u>	<u>100.00%</u>

FIRST HABIB STOCK FUND

29. INVESTMENT COMMITTEE

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

<u>Name</u>	<u>Designation</u>	<u>Qualification</u>	<u>Experience in years</u>
Mr. Ali Raza D Habib	Chairman	Graduate	58 Years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	37 Years
Mr. Mansoor Ali	Director	MBA	29 Years

30. Other Funds managed by the Fund Manager

Mr. Junaid Kasbati - Fund Manager

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

31. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 49rd, 50th, 51th, 52th, 53th and 54th AND 55th board meetings were held on 5 July 2013, 26 September 2013, 29 October 2013, 15 January 2014, 17 February 2014 and 24 April 2014 and 27 June 2014 respectively.

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

<u>Name of Director</u>	<u>Number of meetings</u>			<u>Meeting not attended</u>
	<u>Held</u>	<u>Attended</u>	<u>Leave Granted</u>	
Ali Raza D. Habib	7	4	3	49th ,54th and 55th meeting
Imran Azim	7	7	-	Nil
Mansoor Ali	7	7	-	Nil
Mohammad Ali Jameel	7	4	3	50th, 51st meeting and 55th meeting
Vice Admiral('R) Khalid M Mir	7	6	1	55th meeting
Liaquat Habib Merchant	7	4	3	49th,51st and 54th meeting

32. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 13, 2014.

33. GENERAL

Figures have been rounded off to the nearest thousand rupees.

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

Chief Executive

Director

ANNUAL FUND MANAGER REPORT FINANCIAL YEAR 2014

FUND OBJECTIVE:

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

FUND DESCRIPTION

Fund Type Category	Open end-Equity Scheme	Auditors External	Ernst & Young Ford Rhodes Sidat Hyder, Chartered
Launch Date	10-Oct-09	Management Fee	3.00% p.a.
Benchmark	KSE-30 Index(Total Return)	Sales Load	Nil
FHSF Return	22.60%	Minimum Subscription	Initial Investment of Rs. 1000/- Subsequently Rs. 100 per transaction
Net Assets	Rs. 147.63 million (June 30, 2014)	Dealing Days/Timings	Monday to Friday/ 9:00 am to 4:30 pm
NAV per unit	103.6254 (June 30, 2014)	Fund Performance Ranking	MFR 1 Star by JCR - VIS
Pricing Mechanism	Forward Pricing	AMC Rating	"AM3" PACRA
Trustee	Central Depository Company of Pakistan Ltd.		

MARKET REVIEW

During the year country's stock market remained bullish and surged by 41.16%. The benchmark KSE-100 index peaked at 29,940 points as on June 03, 2014 and consistently traded in an uncharted territory to close at 29,653 points as on June 30, 2014. The average daily shares turnover for the KSE-100 index was recorded at 147 million shares, up by 17.6% year on year basis. The initial rally witnessed in the KSE-100 index was instigated by the resolution of circular debt of Rs. 480 billion and the successful entry in an IMF program by the newly elected Nawaz Sharif government. The IMF's Extended Fund Facility worth US\$6.4 billion improved the investors' outlook on the country's economy.

The European Union voted to grant Generalised System of Preferences (GSP) plus status to Pakistan during the year under review which allowed duty free access to Pakistani products in European Union. This was a significant development for the country's export oriented Textile sector as it rallied to gain 30.48% year on year basis. However, the rally witnessed in the sector was mitigated by a sharp fall in the value of US Dollar against Pakistan Rupee as it depreciated -6% in the second half of the financial year 2014.

The steep fall in the value of US Dollar can also be attributed to swelling foreign exchange reserves which had jumped to a high of US\$ 14.14 billion by year end. It is also pertinent to note that the foreign exchange reserves held by the State Bank of Pakistan hit a low US\$3.05 billion in November 2013. However, much anticipated auction of 3G/4G spectrum and the issuance of Eurobonds by the Pakistani government in the international debt markets cushioned the fall in foreign exchange reserves as the Government of Pakistan was able to raise more than US\$3 billion from these transactions.

The government initiated much awaited privatization process during the year by making secondary public offerings of its stake in United Bank Ltd. (UBL) and Pakistan Petroleum Ltd. (PPL). The Government of Pakistan offered 19.8% and 5% stake to both local and foreign institutional investors in UBL and PPL respectively. Both of the aforementioned issues were oversubscribed as the government of Pakistan was able to raise Rs. 54 billion.

The Morgan Stanley Capital International (MSCI) index for the frontier markets in its semi-annual review upgraded Pakistan's weight in the index from 4.1% to 6.2% and added Pakistan Tobacco, K-Electric, Lucky Cement and Pakistan State Oil in the index. The move re-iterated the investor confidence in Pakistan as a growing frontier market with enormous growth potential. Furthermore, the Pakistani Capital markets also fared well on the news of Capital Gains Tax which was expected to increase to 17.5% for the financial year 2015 but was increased to 12.5% in the Federal Budget announced in June 2014.

During the year under review; Initial Public Offerings (IPO) of three companies of Engro Fertilizer, Hascol Petroleum and Avanceon Ltd. took place as their strike prices arrived at Rs. 28.25, Rs 56.50 and Rs. 14.00 respectively.

FUND PERFORMANCE REVIEW

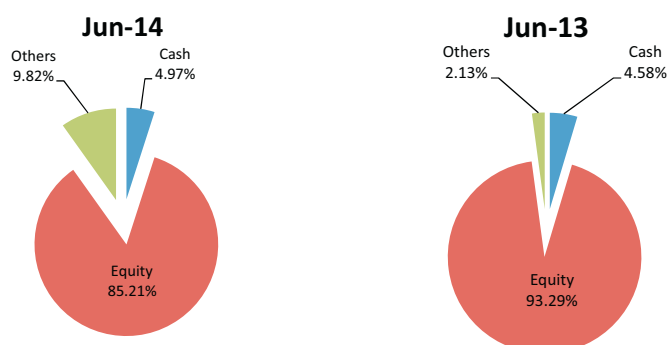
The wave of positivity generated by the general elections held in May 2013 overwhelmed the market players. In line with the sentiment, the Fund commenced with 94.13% of its assets being placed in equities. The Fund's average exposure in equities touched its lowest of 80.24% for the first quarter of the year ended June 30, 2014; while maintaining an average exposure of 84% for the remainder of the Financial Year 2014.

During the year under review, the Fund changed its benchmark from "KSE-100" index to "KSE-30 Index (Total Return)" to better reflect the relative performance of the fund. The rationale behind the change in benchmark was that the portfolio maintained by the Fund mostly comprised of scrips which are part of a KSE-30 Index. Therefore, the latter was chosen as a preferred benchmark of the Fund performance from May 2014 onwards.

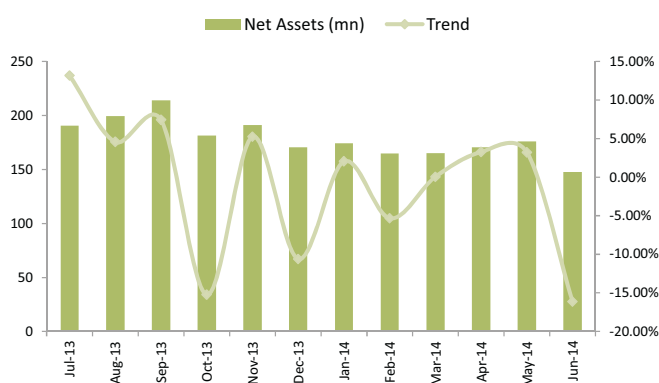
As of June 30, 2014, the Fund was invested up to 85.21% in equities and had provided a return of 22.60%. The Fund also distributed Rs. 20 per unit as dividend to unit holders, which translated into a healthy dividend yield of ~20%.

FIRST HABIB STOCK FUND

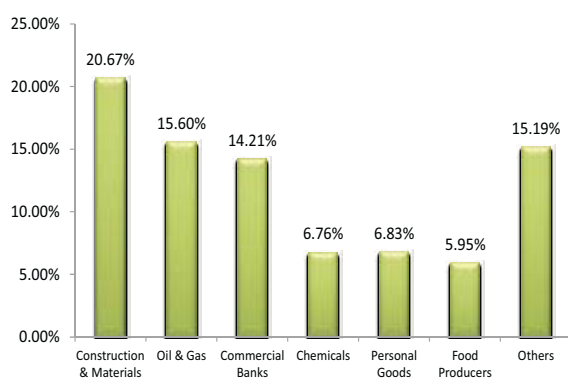
ASSET ALLOCATION AS ON JUNE 30



FUND SIZE



Net Assets of FHSF stood at Rs. 147.63 million as at June 30, 2014 against net assets of Rs. 168.39 million at June 30, 2013.



S.No.	Company	%of Total Assets
1	Pakistan State Oil	5.74%
2	Cherat Cement Company Ltd.	4.87%
3	Thall Engineering Ltd.	4.73%
4	Fauji Fertilizer Corp.	4.51%
5	Muslim Commercial Bank	4.37%
6	Lucky Cement Ltd.	4.08%
7	United Bank Ltd.	3.35%
8	Maple Leaf Cement Factory Ltd.	3.12%
9	D.G.Khan Cement	3.02%
10	Oil & Gas Development Corp.	2.98%

INCOME DISTRIBUTION

FHSF distributed Rs. 20.00 per unit as dividend for the year 2013-14 for class 'C' unit holders. For other unit holders, the fund distributed 19.4712 bonus units per 100 units as final dividend.

2013-2014	Cum NAV Rs.	Ex - NAV Rs.	Distribution Rs.
July-June	122.7159	102.7159	20.00

SALES AND REDEMPTIONS OF UNITS

During the year, 885,164 units of the value of Rs.99.84million were sold while 873,324units of value of Rs. 95.80million were redeemed resulting in to a net sale of 11,840 units of the value of Rs. 4.04 million during the year.

Unit Holders Pattern

For the breakdown of unit holding by size as on June 30, 2014, please refer to note 27 to the Annual Accounts 2014.

FHSF Performance at a Glance

	2014	2013	2012
Net Assets as at June, 30 (Rs. In Millions)	148	168	113
NAV per unit as on June , 30 (Rs.)	103.6254	133.4777	103.7875
Highest NAV	139.7828	141.6390	110.7018
Lowest NAV	102.2498	102.0752	87.2135
Total Distribution (Rs.)	20.00	32.50	3.50
Annual Return	22.60%	33.43%	3.67%

FIRST HABIB CASH FUND
Annual Report
For the year ended 30 June 2014

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FUND'S INFORMATION

Management Company

Habib Asset Management Limited

Board of Directors of the Management Company

Mr. Ali Raza D. Habib	Chairman
Mr. Imran Azim	Chief Executive
Mr. Mohammad Ali Jameel	Director
Mr. Mansoor Ali	Director
Vice Admiral (R) Khalid M.Mir	Director
Mr. Liaquat Habib Merchant	Director

CFO and Company Secretary

Mr. Abbas Qurban	Chief Financial Officer / Company Secretary
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Audit Committee

Vice Admiral (R) Khalid M.Mir	Chairman
Mr. Ali Raza D. Habib	Member
Mr. Mohammad Ali Jameel	Member

Human Resource Committee

Mr. Liaquat Habib Merchant	Chairman
Mr. Mansoor Ali	Member
Mr. Imran Azim	Member

Auditors

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza,
Beaumont Road, Karachi.

Registrar

JWAFFS Registrar Services
(Pvt.) Limited
Kashif Centre, Room No. 505,
5th Floor, near Hotel Mehran,
Shahrah-e-Faisal, Karachi.

Trustee

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

Legal Advisor

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

Bankers to the Fund

Bank AL Habib Limited
Habib Bank Limited

Rating

AA (f) Fund Stability Rating by JCR-VIS
AM3 Management Company Quality Rating
Assigned by PACRA.

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shakra-e-Faisal
Karachi - 74400, Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com



TRUSTEE REPORT TO THE UNIT HOLDERS

FIRST HABIB CASH FUND

**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**

We Central Depository Company of Pakistan Limited, being the Trustee of First Habib Cash Fund (the Fund) are of the opinion that Habib Asset Management Limited, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 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.

Aftab Ahmed Diwan
Chief Operating Officer
Central Depository Company of Pakistan Limited

Karachi: October 01, 2014



FIRST HABIB CASH FUND

STATEMENT OF COMPLIANCE BY HABIB ASSET MANAGEMENT LIMITED WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2014

This statement is being presented by the Board of Directors of Habib Asset Management Limited, the management company of **First Habib Cash Fund** (the Fund), to comply with the Code of Corporate Governance (the Code) contained in Chapter XI of the Listing Regulations of Lahore Stock Exchange (Guarantee) Limited where the Fund is listed, for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

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

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

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of directors. At present, the Board includes:

Category	Names
Independent Directors	Mr. Admiral (R) Khalid M. Mir, Mr. Liaquat Habib Merchant
Executive Director	Mr. Imran Azim
Non-Executive Directors	Mr. Ali Raza D. Habib, Mr. Mohammad Ali Jameel and Mr. Mansoor Ali

The independent directors meet the criteria of independence under clause i (b) of the Code.

2. The directors have confirmed that none of them are serving as a director in more than seven listed companies, including this company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, have been declared as a defaulter by that stock exchange.
4. No casual vacancy in the Board of the Management Company has occurred during the year.
5. The Management Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed a vision / mission statement, an overall corporate strategy and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive and non-executive directors 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 the purpose, and the Board met at least once in every quarter. 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. The directors are conversant with the relevant laws applicable to the company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities. Two directors are exempt from directors training program due to qualification and experience, however, the remaining directors will comply with this requirement in due course.
10. The Board approved the appointments of Chief Financial Officer and Company Secretary including the remuneration and terms and conditions of employment as determined by the CEO.
11. The Directors' report relating to the Fund for the year ended June 30, 2014 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 the CEO and CFO of the Management Company before approval of the Board.
13. The Directors, CEO, and executives do not hold any interest in the units of the Fund other than disclosed in note 23 to the financial statements "Transactions with Connected Persons".
14. The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once in every quarter and prior to the approval of interim and final results of the Fund as required by the Code. The terms of reference have been approved in the meeting of the Board and the Committee has been advised to ensure compliance with those terms of reference.
17. The Board has formed an HR and Compensation Committee. It comprises of three members, of whom two are non-executive directors including the chairman of the Committee.
18. The Board has setup up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. There is no mechanism in place for an annual evaluation of the board's own performance.
24. We confirm that all other applicable material principles enshrined in the Code have been complied with.

Karachi, August 13, 2014

For and on behalf of the Board

FIRST HABIB CASH FUND



Ernst & Young Zoya Rhodes & Co. Private Limited
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REVIEW REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors (the Board) of Habib Asset Management Limited (the Management Company) of **First Habib Cash Fund** (the Fund) for the year ended **30 June 2014** to comply with the requirements of Listing Regulation Number 35 of the Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code is that of the Board 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 reflects the status of the Management Company's compliance with the provisions of the Code in respect of the Fund and report if it does not and to highlight any non-compliance with the requirements of the Code. 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board for their review and approval the Fund's related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Fund for the year ended 30 June 2014.



Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph references where these are stated in the Statement:

<u>Paragraph Reference</u>	<u>Description</u>
9	Directors have not attended any Directors' Training programme as envisaged by the Code of Corporate Governance.
23	An annual evaluation of the Board's performance as per the requirements of the Code of Corporate Governance is not in place.

Ernst & Young Faw Rashed Siddiqi
Chartered Accountants

Karachi

Date: 13 August 2014



Ernst & Young Ford Rhodes Sidat Hyder
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INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **First Habib Cash Fund (the Fund)**, which comprise the statement of assets and liabilities as at **30 June 2014**, and the related statements of income, comprehensive income, distribution, cash flows and movement in unit holders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of approved accounting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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



Opinion

In our opinion the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2014 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.


Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: August 13, 2014

Karachi

FIRST HABIB CASH FUND**STATEMENT OF ASSETS AND LIABILITIES**
AS AT 30 JUNE 2014

	Note	2014	2013
		(Rupees in '000)	
Assets			
Bank balances and term deposit receipts	7	707,907	403,542
Investments	8	3,024,303	1,913,031
Income receivable	9	4,295	3,116
Prepayments	10	131	124
Preliminary expenses and floatation cost	11	1,036	1,647
Total assets		3,737,672	2,321,460
Liabilities			
Payable to Habib Asset Management Limited - Management Company		2,264	2,273
Provision for Federal Excise Duty on remuneration of the Management Company	12	7,006	184
Payable to Central Depository Company of Pakistan Limited -Trustee	13	306	207
Payable to Securities and Exchange Commission of Pakistan	14	3,198	2,220
Provision for Workers' Welfare Fund	15	15,379	8,536
Accrued expenses and other liabilities	16	4,112	393
Total liabilities		32,265	13,813
Net assets		3,705,407	2,307,647
Unit holders' funds (as per statement attached)		3,705,407	2,307,647
		(Number of Units)	
Number of units in issue	17	37,000,462	22,904,353
		(Rupees)	
Net asset value per unit		100.14	100.75

The annexed notes 1 to 32 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 2014

	Note	2014 (Rupees in '000)	2013
Income			
Profit on bank deposits	18	43,767	34,313
Income from government securities		360,857	263,533
Mark-up income on placements		2,293	3,493
Net gain/(loss) on investments classified as held for trading			
- Net capital (loss)/gain on sale of investments classified as held for trading		(226)	1,760
- Net unrealised (loss)/gain on revaluation of investments classified as held for trading	8	(590)	320
		(816)	2,080
Total income		406,101	303,419
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	19	42,639	29,606
Sales tax on management fee	20	7,914	4,766
FED on management fee		6,822	184
Remuneration of Central Depository Company of Pakistan Limited - Trustee	13	3,948	3,284
Annual fee - Securities and Exchange Commission of Pakistan	14	3,198	2,221
Brokerage expense		362	83
Settlement and bank charges		186	279
Annual listing fee		40	40
Auditors' remuneration	21	289	286
Amortisation of preliminary expenses and floatation costs	11	612	612
Provision for Workers' Welfare Fund	15	6,842	5,219
Mutual fund rating fee		183	177
Printing and other expenses		107	86
Total expenses		73,142	46,843
Net income from operating activities		332,959	256,576
Net element of income/(loss) and capital gains/(loss) included in prices of units issued less those in units redeemed		2,341	(833)
Net income for the year		335,300	255,743
Earnings per unit	22		

The annexed notes 1 to 32 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB CASH FUND

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	(Rupees in '000)	
Net income for the year	335,300	255,743
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u>335,300</u>	<u>255,743</u>

The annexed notes 1 to 32 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 2014

	2014	2013
	(Rupees in '000)	
Undistributed income as at 1 July (Realised)	16,414	21,539
Accumulated gains/(losses) as at 1 July (Un-realized)	<u>320</u>	<u>(538)</u>
Undistributed income brought forward	16,734	21,001
Net income for the period	335,300	255,744
Final distribution at the rate of Rs 0.70 per unit (2012: Rs 1.05)	(16,033)	(21,057)
Interim distribution at the rate of Rs.0.55 per unit declared on July 26, 2013 (2013: at the rate of Rs.0.75 per unit approved on July 27, 2012)	(18,901)	(20,216)
Interim distribution at the rate of Rs.0.65 per unit declared on August 30, 2013 (2013: at the rate of Rs.1.00 per unit approved on August 24, 2012)	(25,901)	(34,544)
Interim distribution at the rate of Rs.0.60 per unit declared on September 27, 2013 (2013: at the rate of Rs.0.80 per unit approved on September 28, 2012)	(23,958)	(25,120)
Interim distribution at the rate of Rs.0.55 per unit declared on October 25, 2013 (2013: at the rate of Rs.0.80 per unit approved on October 25, 2012)	(23,945)	(30,651)
Interim distribution at the rate of Rs.0.70 per unit declared on November 29, 2013 (2013: at the rate of Rs.0.60 per unit approved on November 24, 2012)	(32,555)	(22,437)
Interim distribution at the rate of Rs.0.65 per unit declared on December 27, 2013 (2013: at the rate of Rs.0.75 per unit approved on December 25, 2012)	(32,046)	(24,112)
Interim distribution at the rate of Rs.0.70 per unit declared on January 31, 2014 (2013: at the rate of Rs.0.60 per unit approved on January 25, 2013)	(34,818)	(18,901)
Interim distribution at the rate of Rs.0.70 per unit declared on February 28, 2014 (2013: at the rate of Rs.0.60 per unit approved on February 23, 2013)	(31,746)	(16,536)
Interim distribution at the rate of Rs.0.60 per unit declared on March 28, 2014 (2013: at the rate of Rs.0.70 per unit approved on March 30, 2013)	(25,302)	(15,651)
Interim distribution at the rate of Rs.0.65 per unit declared on April 25, 2014 (2013: at the rate of Rs.0.65 per unit approved on April 26, 2013)	(26,582)	(13,871)
Interim distribution at the rate of Rs.0.75 per unit declared on May 30, 2014 (2013: at the rate of Rs.0.70 per unit approved on May 31, 2013)	(32,192)	(16,915)
Interim distribution at the rate of Rs.0.65 per unit declared on June 27, 2014 (2013: NIL)	(23,932)	-
Undistributed income carried forward	<u>4,123</u>	<u>16,734</u>
Undistributed income as at 30 June (Realized)	4,713	16,414
Accumulated losses as at 30 June (Un-realized)	(590)	320
Undistributed income carried forward	<u>4,123</u>	<u>16,734</u>

The annexed notes 1 to 32 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB CASH FUND**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS**
FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	(Rupees in '000)	
Net assets at the beginning of the year* [Rs 100.75 (2013: Rs 101.07) per unit]	2,307,647	2,026,950
Issue of 76,633,871 units (2013: 45,926,613 units)*	7,367,947	4,614,864
Redemption of 62,537,762 units (2013: 45,463,317 units)	(6,281,371)	(4,569,478)
	1,086,576	45,386
Distribution to unit holders in cash	(21,775)	(21,266)
Net element of loss and capital loss included in prices of units issued less those in units redeemed	(2,341)	833
Net income for the year	335,300	255,743
Other comprehensive gain / (loss)	-	-
Total comprehensive income for the year	335,300	255,743
Net assets at the end of the year [Rs 100.14 (2013: Rs 100.75) per unit]	3,705,407	2,307,647

* Including 3,259,052 (2013: 2,386,005) units issued as bonus units during the year.

The annexed notes 1 to 32 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 2014

	2014	2013
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	335,300	255,744
Adjustments for non-cash items		
Unrealised (gain)/loss on revaluation of investments classified as held for trading	590	(320)
Net element of loss/(income) and capital loss/(gain) included in prices of units issued less those in units redeemed	(2,341)	833
Amortisation of preliminary expenses and floatation costs	612	612
	334,161	256,869
Decrease / (increase) in assets		
Investments	(1,111,862)	(273,284)
Placements	-	25,000
Income receivable	(1,178)	(1,683)
Prepayments	(7)	(3)
	(1,113,047)	(249,970)
Increase / (decrease) in liabilities		
Payable to Habib Asset Management Limited - Management Company	(9)	205
Provision for Federal Excise Duty on remuneration of the Management Company	6,822	184
Payable to Central Depository Company of Pakistan Limited - Trustee	99	(14)
Payable to Securities and Exchange Commission of Pakistan	978	1,272
Provision for Workers' Welfare Fund	6,843	5,219
Accrued expenses and other liabilities	3,719	81
	18,452	6,947
Net cash generated from/(used in) operating activities	(760,434)	13,846
CASH FLOW FROM FINANCING ACTIVITIES		
Net receipts from sale and redemption of units	1,086,576	45,386
Dividend paid	(21,777)	(21,266)
Net cash generated from financing activities	1,064,799	24,120
Net increase in cash and cash equivalents during the year	304,365	37,966
Cash and cash equivalents at the beginning of the year	403,542	365,576
Cash and cash equivalents at the end of the year	707,907	403,542
Cash and cash equivalents at the end of the year comprise of :		
Cash at bank - saving account	107,907	203,542
Term deposit receipts having maturity of less than one month	600,000	200,000
	707,907	403,542

The annexed notes 1 to 32 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB CASH FUND

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. LEGAL STATUS AND NATURE OF BUSINESS

First Habib Cash Fund (the "Fund") was established under a Trust Deed executed between Habib Asset Management Limited (HAML) as Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 14 July 2010 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 13 July 2010 under Regulation 44 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations).

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

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

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

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

The Fund has been categorized as an Open -End Money Market Scheme as per the criteria laid down by the Securities and Exchange Commission of Pakistan (SECP) for categorisation of Collective Investment Schemes (CIS).

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

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

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the NBFC Rules, the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the requirements of the said directives prevail.

3. BASIS OF MEASUREMENT

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 New and amended standards and interpretations

The Fund has adopted the following revised standard, amendments and interpretation of IFRSs which became effective for the current year:

IAS 19 – Employee Benefits – (Revised)

IFRS 7 – Financial Instruments: Disclosures – (Amendments)

– Amendments enhancing disclosures about offsetting of financial assets and financial liabilities

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

Improvements to Accounting Standards Issued by the IASB

IAS 1 – Presentation of Financial Statements - Clarification of the requirements for comparative information
IAS 16 – Property, Plant and Equipment – Clarification of Servicing Equipment
IAS 32 – Financial Instruments: Presentation – Tax Effects of Distribution to Holders of Equity Instruments
IAS 34 – Interim Financial Reporting – Interim Financial Reporting and Segment Information for
Total Assets and Liabilities

The adoption of the above amendments, revisions, improvements to accounting standards and interpretations did not have any effect on the financial statements.

4.2 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) *Financial instruments at fair value through profit or loss*

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

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

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

b) *Available-for-sale*

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

c) *Loans and receivables originated by the enterprise*

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

d) *Financial liabilities*

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

Recognition

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

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

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

Measurement

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

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

FIRST HABIB CASH FUND

Basis of valuation of Government Securities

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

Derecognition

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

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

Offsetting of financial instruments

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

4.3 Unit holders' fund

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

4.4 Issue and redemption of units

Units issued are recorded at the net assets value, determined by the Fund, applicable for the day on which fund(s) have been realised in the bank account.

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

4.5 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 Element is arrived at by comparing the unit prices with opening Ex - NAV at the beginning of the financial year. The Element so computed is recognised in the income statement except to the extent that the amount represented by unrealised appreciation / diminution arising on available for sale securities is included in distribution statement.

4.6 Net asset value - per unit

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

4.7 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.

4.8 Revenue recognition

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

4.9 Expenses

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

4.10 Provisions

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

4.11 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from 10 Mar 2011 as per the Trust Deed of the Fund.

4.12 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.

4.13 Other assets

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

4.14 Dividend (including bonus units)

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

5. ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Classification and fair value of investments

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

Other assets

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

Workers' welfare fund

For details refer note 15 to these financial statements.

FIRST HABIB CASH FUND

6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, interpretations and amendments with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards, interpretations and amendments:

Standard, interpretation or amendment

IAS 16 & 38	– Clarification of Acceptable Method of Depreciation and	January 01, 2016
IAS 16 & 40	– Agriculture: Bearer Plants	January 01, 2016
IAS 19	– Employee Contributions	July 01, 2014
IAS 32	– Offsetting Financial Assets and Financial liabilities – (Amendment)	January 01, 2014
IAS 36	– Recoverable Amount for Non-Financial Assets – (Amendment)	January 01, 2014
IAS 39	– Novation of Derivatives and Continuation of Hedge Accounting Amortization	January 01, 2014
IFRIC 21	– Levies	January 01, 2014

The Fund expects that the adoption of the above amendments and interpretation of the standards will not affect the Fund's financial statements in the period of initial application

In addition to the above standards and interpretations, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after July 01, 2014. The Fund expects that such improvements to the standards will not have any impact on the Fund's financial statements in the period of initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard

IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2018
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 15 – Revenue from Contracts with Customers	January 01, 2017

7. BANK BALANCES

		2014	2013
		(Rs in '000)	
Saving accounts	7.1	107,907	203,542
Term deposit receipts (TDRs)	7.2	600,000	200,000
		<u>707,907</u>	<u>403,542</u>

7.1 It represents balance with Bank Al Habib Limited, a related party which carry profit ranging from 8% to 9% (30 June 2013: 8%) per annum and balance with Habib Bank Limited which carry profit ranging from 8.75% to 10% (30 June 2013: 8.5%).

7.2 Term deposit receipts (TDRs) have tenor ranging from two months to six months (30 June 2013: two months) and carry profit rate ranging from 10.25% to 10.30% (30 June 2013: 9.60%) per annum. These TDRs will mature by 24 Nov 2014.

8. INVESTMENTS

At fair value through profit or loss

Government Securities - Market Treasury Bills

Issue date	Tenor	No. Of Units				As at 30 June 2014			Market value as percentage of	
		As at 01 July 2013	Purchases during the year	Sold / Matured during the year	As at 30 June 2014	Carrying value	Market value	Appreciation / Depreciation	Net assets	Total investments
		(units in '000)				(Rupees in '000)				
3 Months										
18-Apr-13	3 Months	165,000	-	165,000	-	-	-	-	-	-
2-May-13	3 Months	657,000	-	657,000	-	-	-	-	-	-
12-Aug-13	3 Months	-	1,305,000	1,305,000	-	-	-	-	-	-
25-Aug-13	3 Months	-	2,240,000	2,240,000	-	-	-	-	-	-
7-Sep-13	3 Months	-	950,000	950,000	-	-	-	-	-	-
5-Sep-13	3 Months	-	900,000	900,000	-	-	-	-	-	-
19-Sep-13	3 Months	-	3,204,300	3,204,300	-	-	-	-	-	-
3-Oct-13	3 Months	-	1,510,000	1,510,000	-	-	-	-	-	-
13-Oct-13	3 Months	-	1,205,000	1,205,000	-	-	-	-	-	-
21-Oct-13	3 Months	-	610,000	610,000	-	-	-	-	-	-
28-Nov-13	3 Months	-	2,542,000	2,542,000	-	-	-	-	-	-
12-Dec-13	3 Months	-	1,680,000	1,680,000	-	-	-	-	-	-
26-Dec-13	3 Months	-	1,145,000	1,145,000	-	-	-	-	-	-
9-Jan-14	3 Months	-	129,400	129,400	-	-	-	-	-	-
23-Jan-14	3 Months	-	2,403,700	2,403,700	-	-	-	-	-	-
6-Feb-14	3 Months	-	100,000	100,000	-	-	-	-	-	-
20-Feb-14	3 Months	-	1,791,000	1,791,000	-	-	-	-	-	-
28-Feb-14	3 Months	-	1,600,000	1,600,000	-	-	-	-	-	-
6-Mar-14	3 Months	-	655,000	655,000	-	-	-	-	-	-
20-Mar-14	3 Months	-	295,500	295,500	-	-	-	-	-	-
2-May-14	3 Months	-	75,000	-	75,000	74,537	74,540	2,600	2.00%	0.35%
29-May-14	3 Months	-	20,000	20,000	-	-	-	-	-	-
17-Apr-14	3 Months	-	1,295,000	879,000	416,000	415,035	415,031	(4,241)	11.00%	1.95%
15-May-14	3 Months	-	1,467,000	585,000	882,000	873,280	873,254	(25,513)	24.00%	4.09%
12-Jun-14	3 Months	-	450,000	-	450,000	442,200	442,181	(19,200)	12.00%	2.07%
6 Months										
24-Jan-13	6 Months	110,000	500,000	610,000	-	-	-	-	-	-
21-Feb-13	6 Months	203,000	-	203,000	-	-	-	-	-	-
2-May-13	6 Months	-	85,000	85,000	-	-	-	-	-	-
30-May-13	6 Months	-	609,800	609,800	-	-	-	-	-	-
27-Jun-13	6 Months	-	100,000	100,000	-	-	-	-	-	-
12-Jul-13	6 Months	-	305,000	305,000	-	-	-	-	-	-
23-Jan-14	6 Months	-	100,000	-	100,000	99,377	99,386	9,483	3.00%	0.47%
20-Mar-14	6 Months	-	350,000	-	350,000	342,758	342,629	(128,943)	9.00%	1.61%
17-Apr-14	6 Months	-	800,000	-	800,000	777,706	777,282	(423,974)	21.00%	3.65%
1 Year										
20-Jun-12	1 Year	-	24,400	24,400	-	-	-	-	-	-
12-Jul-12	1 Year	385,000	-	385,000	-	-	-	-	-	-
26-Jul-12	1 Year	100,000	-	100,000	-	-	-	-	-	-
9-Aug-12	1 Year	305,000	-	305,000	-	-	-	-	-	-
6-Sep-12	1 Year	-	195,000	195,000	-	-	-	-	-	-
18-Oct-12	1 Year	-	64,600	64,600	-	-	-	-	-	-
29-Nov-12	1 Year	-	5,000	5,000	-	-	-	-	-	-
30-May-13	1 Year	-	500,000	500,000	-	-	-	-	-	-
Total as at 30 June 2014						3,024,893	3,024,303	(590)		
Total as at 30 June 2013						1,912,710	1,913,031	320		

Rate of return on above government securities ranges from 8.80% to 9.59% (2013: 8.16% to 11.76%)

FIRST HABIB CASH FUND

	Note	2014 (Rupees in '000)	2013
9. INCOME RECEIVABLE			
Profit receivable on saving account		583	775
Profit receivable on TDRs		3,712	2,341
		<u>4,295</u>	<u>3,116</u>
10. PREPAYMENTS			
Mutual fund rating fee		<u>131</u>	<u>124</u>
11. PRELIMINARY EXPENSES AND FLOATATION COSTS			
Preliminary Expenses and Flotation cost	11.1	1,647	2,259
Amortisation during the year		(612)	(612)
		<u>1,036</u>	<u>1,647</u>

11.1 This represents expenses incurred on the formation of the Fund. Regulation 60 (2) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 requires that all expenses incurred in connection with the incorporation, establishment and registration of collective investment scheme (formation cost) shall be reimbursable by a collective investment scheme to an Asset Management Company subject to the audit of expenses. The said formation cost shall be amortised by the collective investment scheme over a period of not less than five years or with in the maturity date of collective investment scheme. Accordingly the said expenses are being amortised over a period of five years effective from 10 March 2011, i.e. after the close of initial period of the Fund.

12. PROVISION FOR FEDERAL EXCISE DUTY ON REMUNERATION OF THE MANAGEMENT COMPANY

As per the requirement of the Finance Act, 2013, the Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective from 13 June 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law. A stay order against the collection has been granted by the Honourable High Court of Sindh on a petition filed by the Mutual Funds Association of Pakistan (MUFAP). As a matter of abundant caution, the Fund has made a provision from the afore mentioned effective date and transferred its liability to the management company. Subsequently, during the year, the management company decided to retain the liability with the fund. Hence the outstanding balance represents the amount of provision that has been recovered / adjusted from the Management Company and the remaining balance of Rs. 1,591,963 would be adjusted against future management fees payable to the management company.

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

The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed based on the daily Net Asset Value of the Fund. The remuneration of the Trustee has been calculated as per following applicable tariff;

Net Assets (Rs.)	Tariff
Up to Rs. 1 billion	0.15% p.a. of Net Assets.
1 billion to 10 billion	Rs.1.5 million plus 0.075% p.a. of Net Assets, exceeding Rs 1 billion.
Over 10 billion	Rs 8.25 million plus 0.06% p.a. of Net Assets,exceeding Rs 10 billion.

14. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

15. WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs.0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for adjudication.

FIRST HABIB CASH FUND

During the year 2011, a single bench of the Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. However, in the month of March 2013, a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity and overruled a single-member Lahore High Court (LHC) bench judgment issued in August 2011.

However, as per the advice of legal counsel of MUFAP, the constitutional petitions filed by the CIS (as mentioned in the first paragraph) challenging the applicability of WWF contribution have not been affected by the SHC judgment.

Further, in May 2014, the Honorable Peshawar High Court (PHC) held that the impugned levy of contribution introduced in the ordinance through Finance Acts, 1996 and 2009 lacks the essential mandate to be introduced and passed through a Money bill under the constitution and, hence, the amendments made through the Finance Acts are declared as 'Ultra Vires'.

As the matter relating to levy of WWF is currently pending in the Court, the Management Company, as a matter of abundant caution, has decided to retain and continue with the provision for WWF amounting to Rs. 15,378,582 (30 June 2013: Rs.8,536,156) in these financial statements. Had the provision not been made, the net asset value of the Fund would be higher by Rs 0.4156 per unit (30 June 2013: Rs.0.3727 per unit).

16. ACCRUED EXPENSES AND OTHER LIABILITIES	2014	2013
	(Rupees in '000)	
Auditors remuneration payable	243	290
Printing charges	119	81
Payable against redemption of units	3,585	-
Others	165	22
	<u>4,112</u>	<u>393</u>

17. CLASS OF UNITS IN ISSUE

The Fund has three classes of units as per the Trust Deed. Class 'A' units pertain to core investors. Such core units are invested in the scheme for a period of two years or life of collective investment scheme whichever is earlier from the date of the closure of initial offer period. Class 'B' units are issued and redeemed in the usual course of business on a daily basis. Class 'C' units are entitled to cash dividend only even if the distribution to other classes is in form of bonus units.

Units in issue as at 30 June in each class are:	2014	2013
	(Number of Units)	
Type 'A' Units	-	-
Type 'B' Units	30,900,183	18,823,072
Type 'C' Units	6,100,279	4,081,281
	<u>37,000,462</u>	<u>22,904,353</u>

18. PROFIT ON BANK DEPOSITS	Note	2014	2013
		(Rupees in '000)	
Income on saving accounts	18.1	20,775	2,905
Income on term deposit receipts		22,992	31,408
		<u>43,767</u>	<u>34,313</u>

18.1 It represents profit on deposits with Bank Al Habib, a related party and an account with Habib Bank Limited.

19. 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 per cent per annum for the current year in accordance with the Trust Deed.

20. SALES TAX ON MANAGEMENT FEE

During the current year, an amount of Rs. 7.91 Million (June 2013: Rs. 4.77 Million) was charged on account of sales tax on management fee levied through Sindh Sales Tax on Services Act, 2011.

FIRST HABIB CASH FUND

	2014	2013
	(Rupees in '000)	
21. AUDITORS' REMUNERATION		
Annual audit fee	175	165
Half yearly review fee	57	50
Other certifications fee	30	49
Out of pocket expenses	27	22
	289	286

22. EARNINGS PER UNIT

Earning per unit (EPU) for the year ended 30 June 2014 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

23. TAXATION

The income of the fund is exempt from income tax under Clause (99) of Part 1 of the Second Schedule to the Income Tax Ordinance, 2001 (Clause 99) subject to the condition that not less than 90 percent of the accounting income for the year, as reduced by capital gains, whether realized or unrealized, is distributed amongst the unit holders. The Management Company has distributed not less than 90 percent of its annual accounting income to avail the tax exemption. Accordingly, no provision for current and deferred tax has been made in this financial statements.

24. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include Habib Asset Management Limited being the Management Company, associated companies of the Management Company, First Habib Income Fund, First Habib Islamic Balanced Fund and First Habib Stock Fund being the Funds managed by the common Management company, Central Depository Company Limited being the Trustee of the Fund.

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

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

24.1 Sale of units

<u>Units sold to:</u>	For the year ended		For the year ended	
	30 June 2014		30 June 2013	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Management Company				
- Habib Asset Management Limited	589,276	59,098	1,273,102	128,100
Associated Companies				
- Bank AL Habib Limited	2,708,315	272,383	-	-
- Habib Insurance Company Limited	6,273,831	629,500	5,677,878	570,000
Other related parties				
- Directors of the Management Company	10,660	1,070	16,299	1,638
- Executives of the Management Company	10,853	1,090	12,457	1,250
- Habib Asset Management Limited - Employees Provident Fund	6,239	625,000	7,569	760
- Habib Sugar Mills Limited	15,938,690	1,600,000	9,948,630	1,000,000
- Sukaina Educational & Welfare Trust	414,274	41,651	293,400	29,410
- Ghulaman-e-Abbas Trust	1,799	180	166,959	16,745
- Greenshield Insurance Brokers	14,895	1,500	24,972	2,500
- Hasni Textiles Pvt Limited	198,610	20,000	1,742,055	175,000
- Hasni Knitwear Pvt Limited	-	-	497,707	50,000
- Dawood Habib Memorial Trust	14,018	1,410	31	3
- Mr. Haider Azim	50	5	170	17
- Mr. Imran Ali Habib	9,935	1,000	-	-
- Mr. Murtaza Habib	9,935	1,000	-	-
- Mr. Qumail Habib	9,935	1,000	-	-
- Mr. Abbas D Habib	19,857	2,000	-	-
- Mr. Ali Asad Habib	19,616	1,975	-	-

FIRST HABIB CASH FUND

	For the year ended 30 June 2014		For the year ended 30 June 2013	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
- Mrs Razia Ali Habib	-	-	97,902	9,828
- Mr Sajjad Hussain	9,928	1,000	-	-
<u>Bonus Units Issued:</u>				
<i>Management Company</i>				
- Habib Asset Management Limited	137,548	13,764	60,990	6,104
<i>Associated Companies</i>				
- Bank AL Habib Limited	264,799	26,498	-	-
<i>Other related parties</i>				
- Directors of the Management Company	2,522	252	3,400	338
- Executives of the Management Company	610	61	424	40
- Habib Asset Management Limited - Employees Provident Fund	695	70	466	46
- Habib Sugar Mills Limited	684,093	68,459	472,121	47,244
- Sukaina Educational & Welfare Trust	28,635	2,865	18,148	1,817
- Greenshield Insurance Brokers	119	12	213	21
- Ghulaman-e-Abbas Trust	10,728	1,074	15,051	1,505
- Hasni Textiles Pvt Limited	149,064	14,917	76,662	7,671
- Hasni Knitwear Pvt Limited	29,373	2,939	23,335	2,336
- Dawood Habib Memorial Trust	24,534	2,455	23,481	2,351
- Mr. Imran Ali Habib	1,732	173	776	77
- Mr. Murtaza Habib	1,731	173	775	77
- Mr. Asghar D. Habib	1,668	167	776	77
- Mr. Qumail Habib	1,730	173	775	77
- Mr. Abbas D Habib	1,731	173	775	77
- Mr. Ali Asad Habib	1,709	171	775	77
- Mrs Razia Ali Habib	5,844	585	8,785	881
- Mrs. Batool Ali Raza Habib	3,295	330	8,038	805
- Mrs. Fatima Ali Raza Habib	5,832	584	8,349	832
- Mr. Sajjad Hussain	2,785	279	5,328	534
- Mr. Aon Muhammad Ali Raza Habib	6,957	696	11,709	1,172
- Mrs. Samina Imran	8	1	27	3
- Mr. Haider Azim	34	3	97	9
- Mrs. Hina Shoaib	2	0.219	2	1
<u>Units redeemed by:</u>				
<i>Management Company</i>				
- Habib Asset Management Limited	470,700	47,300	312,654	31,400
<i>Associated Companies</i>				
- Bank AL Habib Limited	3,005,498	302,272	-	-
- Habib Insurance Company Limited	5,580,380	560,000	6,068,296	610,000
<i>Other related parties</i>				
- Directors of the Management Company	19,885	2,000	23,428	2,350
- Executives of the Management Company	5,030	505	14,000	1,408
- Employee Provident Fund	-	-	11,901	1,200
- Habib Sugar Mills Limited	16,622,783	1,667,001	10,420,752	1,045,615
- Sukaina Educational & Welfare Trust	79,541	8,000	189,076	19,000
- Greenshield Insurance Brokers	-	-	24,927	2,500
- Hasni Textiles Pvt Limited	2,166,391	217,981	-	-
- Ghulaman-e-Abbas Trust	59,359	5,965	130,466	13,099
- Mr. Muhammad Shakeel Mosani	14,899	1,495	-	-

FIRST HABIB CASH FUND

	For the year ended 30 June 2014		For the year ended 30 June 2013	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
- Mrs Razia Ali Habib	143,140	14,346	18,968	1,903
- Mrs. Batool Ali Raza Habib	94,806	9,500	106,760	10,694
- Mr. Sajjad Hussain	74,753	7,500		
- Hasni Knitwear Pvt Limited	550,415	55,286	-	-
- Mrs. Fatima Ali Raza Habib	149,733	15,000	-	-
- Mr. Aon Muhammad Ali Raza Habib	348,631	34,999	-	-
Units held by:				
Management Company				
- Habib Asset Management Limited	1,811,456	181,408	1,555,332	156,702
Associated Companies				
- Bank AL Habib Limited	3,254,840	325,956	3,287,224	331,192
- Habib Insurance Company Limited	2,039,982	204,294	1,346,531	135,665
Other related parties				
- Directors of the Management Company	32,083	3,213	38,787	3,908
- Executives of the Management Company	9,852	987	3,419	344
- Habib Asset Management Limited - Employees Provident Fund	11,332	1,135	4,398	443
- Sukaina Educational & Welfare Trust	685,935	68,693	322,567	32,499
- Greenshield Insurance Brokers	15,273	1,530	258	26
- Ghulaman-e-Abbas Trust	128,467	12,865	175,300	17,662
- Hasni Textiles Pvt Limited	-	-	1,818,717	183,238
- Hasni Knitwear Pvt Limited	-	-	521,042	52,496
- Dawood Habib Memorial Trust	312,541	31,299	273,989	27,605
- Mr. Imran Ali Habib	30,657	3,070	18,991	1,913
- Mr. Murtaza Habib	30,644	3,069	18,978	1,912
- Mr. Asghar D. Habib	20,658	2,069	18,991	1,913
- Mr. Qumail Habib	30,637	3,068	18,972	1,911
- Mr. Abbas D Habib	30,635	3,068	9,046	911
- Mr. Ali Asad Habib	30,371	3,042	9,046	911
- Mrs Razia Ali Habib	31,913	3,196	169,209	17,048
- Mrs Batool Ali Raza Habib	5,667	568	97,178	9,791
- Mrs Fatima Ali Raza Habib	10,324	1,034	154,225	15,538
- Mr. Sajjad Hussain	22,884	2,292	84,924	8,556
- Mr Aon Muhammad Ali Raza Habib	5,214	522	346,888	34,949
- Mrs. Samina Imran	103	10	94	10
- Mr. Haider Azim	426	43	343	35
- Mrs. Hina Shoaib	27	3	25	2

Details of the transactions with connected persons are as follows:

	For the year ended 30 June 2014	For the year ended 30 June 2013
	(Rupees in '000)	
Habib Asset Management Limited - Management Company		
Management fee	42,639	29,606
First Habib Income Fund-Associated undertaking		
Government securities purchased	39,325	-
Central Depository Company of Pakistan Limited - Trustee		
Trustee fees	3,948	3,284

FIRST HABIB CASH FUND

Details of balances with connected persons at period end are as follows:	As at 30 June 2014	As at 30 June 2013
	(Rupees in '000)	
Bank Al Habib Limited		
Bank balances	55,069	147,743
Habib Asset Management Limited - Management Company		
Management fee payables	9,270	2,457
Central Depository Company of Pakistan Limited - Trustee		
Trustee Fee payables	306	207

25. RISK MANAGEMENT

Introduction and overview

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

Risk management framework

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

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

25.1 Credit risk

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

Management of credit risk

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

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

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

Exposure to credit risk

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

FIRST HABIB CASH FUND

	30 June 2014		30 June 2013	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
----- (Rupees in '000) -----				
Bank balances	707,907	707,907	403,542	403,542
Investments	3,024,303	-	1,913,031	-
Income receivable	4,295	4,295	3,116	3,116
	<u>3,736,505</u>	<u>712,202</u>	<u>2,319,689</u>	<u>406,658</u>

Differences in the balances as per the statement of assets & liabilities and maximum exposures were due to the fact that investments of Rs. 3,024.303 million (2013: Rs. 1,913.031 million) relates to investments in government securities which are not considered to carry credit risk.

Credit ratings and Collaterals

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

Bank	Rating
Bank Al Habib Ltd	AA+
Habib Bank Ltd	AAA

Concentration of credit risk

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

Past due and impaired assets

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

Settlement risk

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

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

25.2 Liquidity risk

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

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

Management of Liquidity Risk

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

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

FIRST HABIB CASH FUND

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

Maturity analysis of financial liabilities

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

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

	30 June 2014				
	Carrying amount	Gross nominal outflow	Less than one month	One month to three months	Three months to one year
	----- (Rupees in '000) -----				
<i>Non- derivative financial liabilities</i>					
Payable to Habib Asset Management Limited - Management Company	2,264	2,264	2,264	-	-
Provision for Federal Excise Duty on remuneration of management Co.	7,006	7,006	7,006		
Payable to Central Depository Company of Pakistan Limited - Trustee	306	306	306	-	-
Payable to Securities and Exchange Commission of Pakistan	3,198	3,198	3,198	-	-
Accrued expenses and other liabilities	4,112	4,112	3,869	243	-
	16,886	16,886	16,643	243	-

	30 June 2013				
	Carrying amount	Gross nominal outflow	Less than one month	One month to three months	Three months to one year
	----- (Rupees in '000) -----				
<i>Non- derivative financial liabilities</i>					
Payable to Habib Asset Management Limited - Management Company	2,273	2,273	2,273	-	-
Provision for Federal Excise Duty on remuneration of management Co.	184	184	184		
Payable to Central Depository Company of Pakistan Limited - Trustee	207	207	207	-	-
Payable to Securities and Exchange Commission of Pakistan	2,220	2,220	2,220	-	-
Accrued expenses and other liabilities	393	393	103	290	-
	5,277	5,277	4,987	290	-

25.3 Market risk

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

Management of Market Risk

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

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

FIRST HABIB CASH FUND

25.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on investment in Government Securities, sharing bank balances. Currently the exposure in fixed rate instruments is in Government securities Other risk management procedures are the same as those mentioned in the credit risk management.

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

	2014	2013
	(Rupees in '000)	
Fixed rate instruments		
Investment in government securities	3,024,303	1,913,031
Term deposit receipts (TDRs)	<u>600,000</u>	<u>200,000</u>
	<u>3,624,303</u>	<u>2,113,031</u>
Variable rate instruments		
Bank balance	<u>109,977</u>	<u>203,542</u>

a) Cash flow Sensitivity analysis for variable rate instruments

As at 30 June 2014, the Fund does not hold any variable rate instrument and is not exposed to any cash flow interest rate risk

b) Fair value Sensitivity analysis for fixed rate instruments

As at 30 June 2014, investment in Government Securities carries fixed interest rate that exposes the Fund to fair value interest rate risk. In case of change of 100 basis points in PKRV on 30 June 2014, the net assets of the Fund would have been lower/higher by Rs. 6.131 million (2013: Rs.1.3 million) with consequential effect on net income for the period. The analysis assumes that all other variables remain constant.

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

	Mark-up / profit rate	30 June 2014				Total
		Less than one month	One to three months	Three months to one year	More than one year	
----- (Rupees in '000) -----						
<i>Assets</i>						
Bank balances	8% - 10.30%	707,907	-	-	-	707,907
Investments	8.80%-9.59%	588,957	1,658,064	777,282	-	3,024,303
Placements	Nil	-	-	-	-	-
Total assets		<u>1,296,864</u>	<u>1,658,064</u>	<u>777,282</u>	<u>-</u>	<u>3,732,210</u>

	Mark-up / profit rate	30 June 2013				Total
		Less than one month	One to three months	Three months to one year	More than one year	
----- (Rupees in '000) -----						
<i>Assets</i>						
Bank balances	8% - 8.5%	403,542	-	-	-	403,542
Investments	8.16% to 11.76%	1,410,486	502,545	-	-	1,913,031
Placements	Nil	-	-	-	-	-
Total assets		<u>1,814,028</u>	<u>502,545</u>	<u>-</u>	<u>-</u>	<u>2,316,573</u>

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

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund's accounting policy on fair value measurements is discussed in note 4.2.

Fair Value Hierarchy

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

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

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

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

As at 30 June 2014, all the investments were categorised in level 2.

27. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30 June 2014 is as follows:

Category	Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
	<i>Note</i>			
Individuals	286	2,236,181	223,940	6.04%
Associated companies	27.1	3	7,106,277	711,658
Chief Executive	27.2	1	26,194	2,623
Executives		2	9,852	987
Bank Financial Institutions		3	3,756,265	376,171
Insurance companies		5	4,566,325	457,294
Non banking finance companies		1	1,071,373	107,293
Retirement funds		9	1,027,117	102,861
Others		26	17,200,878	1,722,580
		336	37,000,462	3,705,407
				100.00%

Unit holding pattern of the fund as at 30 June 2013 is as follows:

Category	Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
	<i>Note</i>			
Individuals	222	3,506,541	353,289	15.31%
Associated companies	27.1	3	6,189,087	623,559
Chief Executive	27.2	1	33,370	3,364
Executives		1	3,419	344
Bank Financial Institutions		2	1,158,328	116,703
Insurance companies		6	3,182,617	320,653
Non banking finance companies		2	1,434,031	144,481
Retirement funds		10	1,163,346	117,209
Others		23	6,233,614	628,045
		270	22,904,353	2,307,647
				100%

FIRST HABIB CASH FUND

27.1 Associated companies	30 June 2014			30 June 2013		
	Number of units	Investment amount (Rupees in '000)	Percentage of total investment	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Habib Asset Management Limited	1,811,456	181,408	4.90%	1,555,332	156,702	6.79%
Bank AL Habib Limited	3,254,840	325,956	8.80%	3,287,224	331,192	14.35%
Habib Insurance Company Limited	2,039,981	204,294	5.51%	1,346,531	135,665	5.88%
	7,106,277	711,658	19.21%	6,189,087	623,559	27.02%

27.2 Chief executive	30 June 2014			30 June 2013		
	Number of units	Investment amount (Rupees in '000)	Percentage of total investment	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Imran Azim	26,194	2,623	0.07%	33,373	3,362	0.15%

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

Broker name	2014 (Percentage)	2013 (Percentage)
Global Securities Pakistan Limited	15.20%	16.69%
Arif Habib Investments Limited	2.98%	0.59%
Elixir Securities (Private) Limited	5.05%	0.93%
JS Global Capital Limited	8.21%	21.61%
BMA Capital	0.00%	0.94%
KASB Securities Limited	17.13%	44.49%
Invest Capital Markets Limited	2.23%	4.86%
Summit Capital (Private) Limited	0.34%	9.90%
Next Capital Ltd	0.18%	0.00%
Invest and Finance Securities(Private)Ltd	21.67%	0.00%
Invest One Markets Ltd	14.42%	0.00%
Optimus Markets (Private)Ltd	11.54%	0.00%
Pearl Securities Ltd	1.05%	0.00%
	100.00%	100.00%

29. INVESTMENT COMMITTEE

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

Name	Designation	Qualification	Experience in years
Mr. Ali Raza D. Habib	Chairman	Graduate	58 Years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	37 Years
Mr. Mansoor Ali	Director	MBA	29 Years

29.1 Other Funds managed by the Fund Manager

Mr. Junaid Kasbati - Fund Manager

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

30. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 49th, 50th, 51st, 52nd, 53rd, 54th and 55th board meetings were held on 5 July 2013, 26 September 2013, 29 October 2013, 15 January 2014, 17 February 2014 and 24 April 2014 and 27 June 2014 respectively.

FIRST HABIB CASH FUND

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	7	4	3	49th, 54th and 55th meeting
Imran Azim	7	7	0	Nil
Mansoor Ali	7	7	0	Nil
Mohammad Ali Jameel	7	4	3	50th, 51st and 55th meeting
Vice Admiral(R) Khalid M Mir	7	6	1	55th meeting
Liaquat Habib Merchant	7	4	3	49th, 51st and 54th meeting

31. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 13, 2014.

32. GENERAL

Figures have been rounded off to the nearest thousand rupees.

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

Chief Executive

Director

**ANNUAL FUND MANAGER REPORT
FINANCIAL YEAR 2014**

FUND OBJECTIVE

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

FUND DESCRIPTION

Fund Type Category	Open end - Money Market Scheme	Auditors External	Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants
Launch Date	10-Mar-11	Management Fee	1.00% p.a.
Benchmark	50% average of 3 months bank deposit rate of three (3) AA and above rated banks and 50% 3 months PKRV	Sales Load	Nil
FHCF Return	8.12%	Minimum Subscription	Initial Investment of Rs. 1000/- Subsequently Rs. 100 per transaction
Net Assets	Rs. 3.71 billion (June 30, 2014)	Dealing Days/Timings	Monday to Friday/ 9:00 am to 04:30 pm
NAV per Unit	100.1449 (June 30, 2014)	Fund Stability Rating	AA(f) by JCR-VIS
Pricing Mechanism	Forward Pricing	AMC Rating	"AM3" by PACRA
Trustee	Central Depository Company of Pakistan Ltd.		

MARKET REVIEW

KEY MARKET STATISTICS

Description	2014	2013	Change	High	Low
Discount Rate (%)	10.00	9.00	1.00	10.00	9.00
1M-KIBOR (%)	9.81	9.95	-0.14	10.37	9.01
6M-KIBOR (%)	9.82	9.91	-0.09	10.19	9.08
3M-TBILL-Cut off yield (%)	9.69	9.65	0.04	9.96	8.96
6M-TBILL-Cut off yield (%)	9.68	9.68	0.00	9.98	8.99
12M-TBILL-Cut off yield (%)	9.85	9.72	0.13	9.99	8.98
3M-PKRV (%)	9.59	9.72	-0.13	9.98	8.87
6M-PKRV (%)	9.68	9.74	-0.06	10.00	8.93
1Y-PKRV (%)	9.81	9.80	0.01	10.06	9.05
PKR/US\$	102.42	96.86	5.56	108.50	96.02

One of the first major steps taken by the newly elected PML-N government to revive the country's economy was the resolution of circular debt which had swelled to Rs. 480 billion by June, 2013. The government cleared the aforementioned debt through a combination of redeemable government securities and direct cash injection. The resolution of circular debt in conjunction with reduction in subsidies to energy sector raised the inflation to new highs. Consequently, CPI swelled to 10.9% in November 2013 in comparison to the CPI figure of

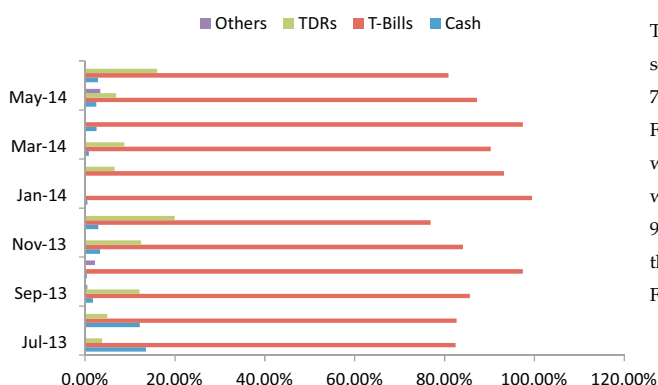
5.3% in June 2013. In order to curb rising fiscal deficit and soaring inflation, the State Bank of Pakistan reacted to increase the interest rate by 100 bps to 10% in two separate tranches of 50bps each in September 2013 and November 2013.

Pakistan also successfully entered into an Extended Fund Facility agreement with IMF worth US\$ 6.64 billion in September 2014. During the year under review, total payments of US\$ 3.13 billion were made to IMF as part of debt servicing. The debt repayments had a significant impact on already weakened foreign exchange reserves position as the reserves held by the State Bank fell to a low of US\$ 3.05 billion in November 2013.

The second half of financial year 2014 was a period of improving foreign exchange reserves position as they peaked at US\$ 14.14 million by June 2013. The successful issuance of Eurobonds worth US\$ 2 billion filled investors with great optimism as the issues were oversubscribed. In addition to the Eurobonds issuance, the privatization initiative of the government which included Secondary Public Offerings of United Bank Ltd. and Pakistan Petroleum Ltd. went a long way in supplementing the foreign exchange reserves base.

FIRST HABIB CASH FUND

FUND PERFORMANCE REVIEW

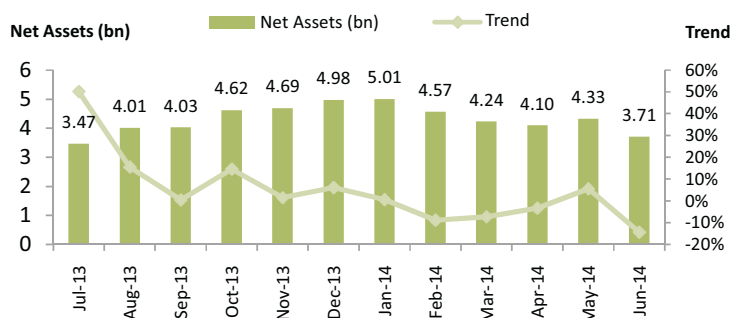


The average exposure maintained by the Fund in government securities and Term Deposit Receipts (TDRs) was 88.12% and 7.63% respectively for the year ended June 30, 2014. The Fund's highest level of exposure in government securities was witnessed in the third quarter of the year under review where its average investments in debt securities stood at 94.31%. As TDRs offering higher returns matured towards the turn of the year and T-Bills providing better returns, the Fund re-allocated its investment to T-Bills in favor of TDRs.

It must be noted that the Fund employs a combination of government securities and bank deposits as part of its investment strategy. The aforementioned investment strategy required an alternative means of benchmarking for the Fund to truly reflect its relative performance. It is for this reason; the Fund's benchmark was changed from "Average 3 months PKRV" to "50% average of 3 months bank deposit rate of three (3) AA and above rated banks and 50% 3 months PKRV". The 'bank deposit' element was introduced in the new benchmark to incorporate the performance of the Fund when its assets are placed in banks as TDRs and profits on bank deposits.

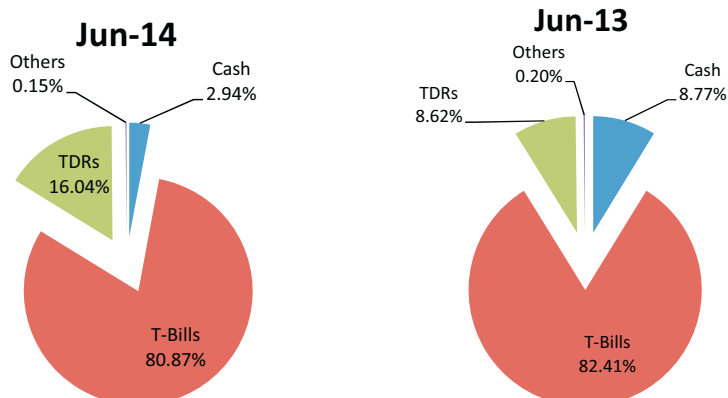
The Fund generated a return of 8.12% p.a. for the financial year 2014. As of June 30, 2014, the Fund was invested upto 80.87% in T-Bills and 16.04% of its investments were in TDRs. The weighted average time to maturity of net assets at year end stood at 64 days.

FUND SIZE



The net assets of FHCF stood at Rs. 3.71 billion as at June 30, 2014 witnessing a growth of 61% year on year basis as the Fund's net assets for the financial year 2013 were Rs. 2.31 billion.

ASSET ALLOCATION AS ON JUNE 30



INCOME DISTRIBUTION

The Fund made a total distribution of Rs.7.75 per unit for the year ended June 30, 2014 as per details given below

FIRST HABIB CASH FUND

2013-2014	Cum NAV Rs.	Ex NAV Rs.	Distribution Rs.
Jul-Sept	101.8486	100.0486	1.80
Oct-Dec	101.9428	100.0428	1.90
Jan-Mar	102.0618	100.0618	2.00
April	100.7108	100.0608	0.65
May	100.8442	100.0942	0.75
June	100.7277	100.0777	0.65

SALES AND REDEMPTIONS OF UNITS

During the year, 73,374,819 units of the value of Rs. 7,367.95 million were sold while 62,537,762 units of the value of Rs. 6,281.37 million were redeemed resulting in to a net sale of 10,837,057 units of the value of Rs. 1,086.58 million during the year.

Unit Holders Pattern

For the breakdown of unit holding by size as on June 30, 2014, please refer to note 27 to the Annual Accounts 2014.

FHCF Performance at a Glance

	2014	2013	2012
Net Assets as at June 30 (Rs. in millions)	3,710.00	2,310.00	2,027.00
NAV per unit June 30 (Rs.)	100.1449	100.7514	101.0693
Highest NAV	100.8442	101.2027	103.3100
Lowest NAV	100.0753	100.1020	100.1600
Total Distribution	7.7500	8.6500	10.8000
Annual Return	8.12%	9.03%	11.19%

FIRST HABIB ISLAMIC BALANCE FUND

Annual Report

For the year ended 30 June 2014

FIRST HABIB ISLAMIC BALANCED FUND

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FUND'S INFORMATION

Management Company

Habib Asset Management Limited

Board of Directors of the Management Company

Mr. Ali Raza D. Habib	Chairman
Mr. Imran Azim	Chief Executive
Mr. Mohammad Ali Jameel	Director
Mr. Mansoor Ali	Director
Vice Admiral (R) Khalid M.Mir	Director
Mr Liaquat Habib Merchant	Director

CFO and Company Secretary

Mr. Abbas Qurban	Chief Financial Officer / Company Secretary
------------------	--

Audit Committee

Vice Admiral (R) Khalid M.Mir	Chairman
Mr. Ali Raza D. Habib	Member
Mr. Mohammad Ali Jameel	Member

Human Resource Committee

Mr. Liaquat Habib Merchant	Chairman
Mr. Mansoor Ali	Member
Mr. Imran Azim	Member

Auditors

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Progressive Plaza,
Beaumont Road, Karachi.

Registrar

JWAFS Registrar Services
(Pvt.) Limited
Kashif Centre, Room No. 505,
5th Floor, near Hotel Mehran,
Shahrah-e-Faisal, Karachi.

Trustee

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

Legal Advisor

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

Bankers to the Fund

Bank AL Habib Limited
Habib Bank Limited

Shariah Advisor

Mufti Dr. Ismat Ullah

Rating

MFR 2 Star Performance Ranking By PACRA.
AM3 Management Company Quality Rating
Assigned by PACRA.

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shakra-e-Faisal
Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com



TRUSTEE REPORT TO THE UNIT HOLDERS

FIRST HABIB ISLAMIC BALANCED FUND

**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**

We Central Depository Company of Pakistan Limited, being the Trustee of First Habib Islamic Balanced Fund (the Fund) are of the opinion that Habib Asset Management Limited, being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2014 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 (NBFC Regulations) and the constitutive documents of the Fund.

We would like to draw unit holders attention towards the compliance of Regulation 63 of the NBFC Regulations which requires all Fund's to distribute by way of dividend not less than ninety percent of its accounting income received or derived from sources other than unrealized capital gain as reduced by such expenses as are chargeable to Fund's under NBFC Regulations. However, the Fund has not complied with the said requirement.



Aftab Ahmed Diwan
Officiating Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: October 16, 2014



REVIEW REPORT OF THE SHARIAH ADVISOR

As a Shariah Advisor of the **First Habib Islamic Balanced Fund (FHIBF)**, I am issuing this report in accordance with clause 8.2.9 of the Trust Deed of the fund . The scope of the report is to express an opinion on the Shariah compliance of the fund's activities.

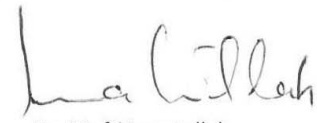
It is the responsibility of the management of aforesaid fund to establish and maintain a system of internal control to ensure compliance with day to day given Shariah guidelines . As a Shariah Advisor of the fund, it is my responsibility to express my opinion based on my review of representations made by the management to the extent where such compliance can be objectively verified.

As part of my mandate as the Shariah Advisor of the fund, I have reviewed the following during the year:

- The modes of investment of the fund's property and its compliance with the given Shariah guidelines
- The process of deployment of the fund's property and its compliance
- The process of purification of non compliant income and its compliance

In the light of the above scope, I hereby certify that all the provisions of the scheme and investments made by **First Habib Islamic Balanced Fund (FHIBF)**, for the year ended 30 June 2014 are in compliance with the Shariah principles. No T+2 violation is found. Dividends received by the investee companies are duly purified. A separate account for charity amount is instructed to be opened. All transactions in shares were undertaken according to the issued instructions, and not a single instance of non-compliance has been found. A paltry sum of amount will be given in charity to purify the dividends received on shares. Almost all such money for charity is promptly channeled towards a dedicated charity fund especially instituted for this purpose, from which the available charity funds are utilized under Shariah Advisor's approval.

Karachi 30 June 2014



Dr. Mufti Ismatullah
Shariah Advisor

FIRST HABIB ISLAMIC BALANCED FUND



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Independent assurance report to the unit holders of the Fund in respect of the Fund's compliance with the Shariah rules and principles

We have performed an independent assurance engagement of **First Habib Islamic Balanced Fund** (the Fund) to ensure that the Fund has complied with the Shariah rules and principles prescribed by the Shariah Advisor of the Fund during the year ended 30 June 2014, in accordance with clause 8.3.1 of the Trust Deed of the Fund.

2. Management's responsibility for Shariah compliance

It is the responsibility of the management of the Fund to ensure that the financial arrangements, contracts and transactions entered into by the Fund are, in substance and in their legal form, in compliance with the requirements of the Shariah rules and principles. The management is also responsible for design, implementation and maintenance of appropriate internal control procedures with respect to such compliance and maintenance of relevant accounting records.

3. Our responsibility

3.1. We planned and performed our evidence gathering procedures to obtain a basis for our conclusion in accordance with International Standard for Assurance Engagements 3000 (ISAE 3000) "Assurance Engagements other than Audits or Reviews of Historical Financial information". This Standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance regarding the subject-matter i.e. the Fund's compliance with the Shariah rules and principles as determined by the Shariah Advisor.

3.2. The "Assurance Procedures" selected by us for the engagement were dependent on our judgment, including the assessment of the risks of material non-compliance with the Shariah rules and principles. In making those risk assessments, we considered internal controls relevant to the Fund's compliance with the Shariah rules and principles in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal controls.

3.3. Our responsibility is to express an opinion, based on the procedures performed on the Fund's financial arrangements, contracts and transactions having Shariah implications, on a test basis whether such financial arrangements, contracts and transactions, having Shariah implications, are in line with the Shariah rules and principles as prescribed by Shariah Advisor of the Fund.

4. Our opinion

In our opinion, the Fund was, in all material respects, in compliance with the Shariah rules and principles as determined by Shariah Advisor of the Fund during the year ended 30 June 2014.

Karachi: 13 August 2014


Chartered Accountants

STATEMENT OF COMPLIANCE BY HABIB ASSET MANAGEMENT LIMITED WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2014

This statement is being presented by the Board of Directors of Habib Asset Management Limited, the management company of **First Habib Islamic Balanced Fund** (the Fund), to comply with the Code of Corporate Governance (the Code) contained in Chapter XI of the Listing Regulations of Lahore Stock Exchange (Guarantee) Limited where the Fund is listed, for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

Habib Asset Management Limited (HAML), the Management Company, is not listed and hence, the Code is not applicable to it. However, **First Habib Islamic Balanced Fund** (FHIBF) 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 and directors representing minority interests on its Board of directors. At present, the Board includes:

Category	Names
Independent Directors	Mr. Admiral (R) Khalid M. Mir, Mr. Liaquat Habib Merchant
Executive Director	Mr. Imran Azim
Non-Executive Directors	Mr. Ali Raza D. Habib, Mr. Mohammad Ali Jameel and Mr. Mansoor Ali

The independent directors meet the criteria of independence under clause i (b) of the Code.

2. The directors have confirmed that none of them are serving as a director in more than seven listed companies, including this company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, have been declared as a defaulter by that stock exchange.
4. No casual vacancy in the Board of the Management Company has occurred during the year.
5. The Management Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed a vision / mission statement, an overall corporate strategy and significant policies for the Fund. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive and non-executive directors 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 the purpose, and the Board met at least once in every quarter. 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.

FIRST HABIB ISLAMIC BALANCED FUND

9. The directors are conversant with the relevant laws applicable to the company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities. Two directors are exempt from directors training program due to qualification and experience, however, the remaining directors will comply with this requirement in due course.
10. The Board approved the appointments of Chief Financial Officer and Company Secretary including the remuneration and terms and conditions of employment as determined by the CEO.
11. The Directors' report relating to the Fund for the year ended June 30, 2014 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 the CEO and CFO of the Management Company before approval of the Board.
13. The Directors, CEO, and executives do not hold any interest in the units of the Fund other than disclosed in note 23 to the financial statements "Transactions with Connected Persons".
14. The Management Company has complied with all the applicable corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors of the Management Company including the Chairman of the Committee.
16. The meetings of the Audit Committee were held at least once in every quarter and prior to the approval of interim and final results of the Fund as required by the Code. The terms of reference have been approved in the meeting of the Board and the Committee has been advised to ensure compliance with those terms of reference.
17. The Board has formed an HR and Compensation Committee. It comprises of three members, of whom two are non-executive directors including the chairman of the Committee.
18. The Board has setup up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Fund.
19. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Fund's units, was determined and intimated to directors, employees and stock exchange(s).
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. There is no mechanism in place for an annual evaluation of the board's own performance.
24. We confirm that all other applicable material principles enshrined in the Code have been complied with.

Karachi, August 13, 2014

For and on behalf of the Board



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

We have reviewed the enclosed Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors (the Board) of Habib Asset Management Limited (the Management Company) of First Habib Islamic Balanced Fund (the Fund) for the year ended 30 June 2014 to comply with the requirements of Listing Regulation Number 35 of the Lahore Stock Exchange where the Fund is listed.

The responsibility for compliance with the Code is that of the Board 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 reflects the status of the Management Company's compliance with the provisions of the Code in respect of the Fund and report if it does not and to highlight any non-compliance with the requirements of the Code. 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board for their review and approval the Fund's related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Fund for the year ended 30 June 2014.

FIRST HABIB ISLAMIC BALANCED FUND



Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph references where these are stated in the Statement:

<u>Paragraph Reference</u>	<u>Description</u>
9	Directors have not attended any Directors' Training programme as envisaged by the Code of Corporate Governance.
23	An annual evaluation of the Board's performance as per the requirements of the Code of Corporate Governance is not in place.

Ernst & Young Farooqui Siddiqi & Co
Chartered Accountants

Karachi

Date: 13 August 2014



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INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **First Habib Islamic Balanced Fund (the Fund)**, which comprise the statement of assets and liabilities as at **30 June 2014**, and the related statements of income, comprehensive income, distribution, cash flows and movement in unit holders' fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of approved accounting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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



Opinion

In our opinion the financial statements give a true and fair view of the state of the Fund's affairs as at 30 June 2014 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.


Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: August 13, 2014

Karachi

FIRST HABIB ISLAMIC BALANCED FUND

STATEMENT OF ASSETS AND LIABILITIES

AS AT 30 JUNE 2014

	Note	2014 (Rupees in '000)	2013
Assets			
Bank balances	6	144,817	145,793
Investments	7	169,614	202,673
Income receivable	8	1,421	1,603
Deposits and other receivables	9	20,410	9,141
Preliminary expenses and floatation costs	10	693	899
Total assets		336,955	360,109
Liabilities			
Payable to Habib Asset Management Limited - Management Company		313	326
Provision for federal excise duty on remuneration of Habib Asset Management Limited - the Management Company	11	705	28
Payable to Central Depository Company of Pakistan Limited - Trustee	12	58	55
Payable to Securities and Exchange Commission of Pakistan	13	308	167
Provision for Workers' Welfare Fund	14	1,521	747
Accrued expenses and other liabilities	15	1,173	385
Total liabilities		4,078	1,708
Net assets		332,877	358,401
Unit holders' funds (as per statement attached)		332,877	358,401
		(Number of units)	
Number of units in issue	16	3,258,358	3,242,477
		(Rupees)	
Net asset value per unit		102.16	110.53

The annexed notes 1 to 31 form an integral part of these financial statements.

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

Chief Executive

Director

FIRST HABIB ISLAMIC BALANCED FUND

INCOME STATEMENT
AS AT 30 JUNE 2014

For the period
November 09, 2012
2014 to June 30, 2013

	Note	(Rupees in '000)	
Income			
Profit on bank deposits		11,665	7,547
Income from term deposit receipts		-	363
Income from ijara sukuk certificates		5,345	4,445
Income from clean placements		-	219
Dividend income		8,017	2,213
Net gain on investments at fair value through profit or loss			
- Net capital gain on sale of investments classified as held for trading		28,498	16,974
- Net unrealised gain / (loss) on revaluation of investments classified as held for trading	7.3	(1,625)	4,498
		26,873	21,472
Total income		51,900	36,259
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	17	4,232	1,966
Sales Tax on management fee	18	785	27
Federal Excise Duty on management fee	11.1	677	319
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12	739	393
Annual fee to Securities and Exchange Commission of Pakistan	13	308	167
Brokerage expense		1,464	633
Settlement and bank charges		329	193
Annual listing fee		30	95
Auditors' remuneration	19	219	180
Amortisation of preliminary expenses and floatation costs		206	133
Provision for Workers' Welfare Fund	14	774	747
Mutual fund rating fee		70	130
Printing charges		95	70
Charity Expense		253	-
Total expenses		10,181	5,053
Net income from operating activities		41,719	31,206
Net element of loss / gain and capital loss / gain included in prices of units issued less those in units redeemed		(3,841)	5,415
Net income for the year / period		37,878	36,621

The annexed notes 1 to 31 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB ISLAMIC BALANCED FUND

STATEMENT OF COMPREHENSIVE INCOME
AS AT 30 JUNE 2014

	2014	For the period November 09, 2012 to June 30, 2013 (Rupees in '000)
Net income for the year / period	37,878	36,621
Other comprehensive income for the year / period	-	-
Total comprehensive income for the year / period	<u><u>37,878</u></u>	<u><u>36,621</u></u>

The annexed notes 1 to 31 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB ISLAMIC BALANCED FUND**DISTRIBUTION STATEMENT***AS AT 30 JUNE 2014*

	2014	For the period November 09, 2012 to June 30, 2013
	(Rupees in '000)	
Undistributed income bought forward	34,124	-
Interim cash dividend for class 'C' unit holders @ Rs. 0.75/- per unit and bonus units @ 0.7468/- for class 'A' and 'B' unit holders for every 100 units held as at 28 December 2012	-	(2,497)
Final Cash Dividend distribution for Class 'C' unit holders @ Rs. 9.75/- per unit and bonus units @ 9.6742 units for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2013	(31,614)	-
Interim cash dividend for class 'C' unit holders @ Rs. 11/- per unit and bonus units @ 10.8208/- for class 'A' and 'B' unit holders for every 100 units held as at 27 June 2014	(33,383)	-
Net income for the year / period	37,878	36,621
Undistributed income carried forward	<u>7,005</u>	<u>34,124</u>

The annexed notes 1 to 31 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

FIRST HABIB ISLAMIC BALANCED FUND

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

AS AT 30 JUNE 2014

	2014		For the period From November 09, 2012 to June 30, 2013	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Net assets at the beginning of the year	3,242,477	358,401	-	-
Amount received on issue of units	588,627	63,234	4,343,800	442,563
Amount paid on redemption of units	(982,167)	(106,939)	(1,118,273)	(114,574)
	(393,540)	(43,705)	3,225,527	327,989
Net element of income / loss and capital gain / loss included in prices of units issued less those in units redeemed	-	3,841	-	(5,415)
Interim cash dividend for class 'C' unit holders on 28 December 2012 @ Re. 0.75/- per unit	-	-	-	(794)
Interim bonus units distribution @ 0.7468 /- for class 'A' and 'B' unit holders for every 100 units held as at 28 December 2012	-	-	16,950	-
Final dividend distribution declared on 5 July 2013 for the year ended 30 June 2013				
- Bonus units @9.6742 for class 'B' units	184,815	-	-	-
- Cash Dividend @ Rs. 9.75 per unit for class 'C' unit holders	-	(12,988)	-	-
Interim dividend distribution declared on 27 June 2014				
- Cash dividend for class 'C' unit holders @ Rs 11/- per unit	-	(10,550)	-	-
- Bonus units @ 10.8208/- for class 'B' units for every 100 units held	224,606	-	-	-
Net income for the year / period	-	37,878	-	36,621
Net assets at the end of the year / period	3,258,358	332,877	3,242,477	358,401

The annexed notes 1 to 31 form an integral part of these financial statements.

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

Chief Executive

Director

FIRST HABIB ISLAMIC BALANCED FUND

CASH FLOW STATEMENT
AS AT 30 JUNE 2014

	For the period from November 09, 2012 to June 30,	
	2014	2013
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year / period	37,878	36,621
Adjustments for non-cash items		
Unrealised appreciation / (diminution) on investments at fair value through profit or loss	1,625	(4,498)
Net element of loss and capital loss included in prices of units issued less those in units redeemed	3,841	(5,415)
Amortisation of preliminary expenses and floatation costs	206	133
	<u>43,550</u>	<u>26,841</u>
Increase / (decrease) in assets		
Investments	31,434	(204,716)
Income receivable	182	(1,603)
Deposits and other receivables	(11,269)	(2,600)
Preliminary expenses and floatation costs	-	(1,032)
	<u>20,347</u>	<u>(209,951)</u>
Increase / (decrease) in liabilities		
Payable to Habib Asset Management Limited - Management Company	(13)	354
Provision for federal excise duty on remuneration of Habib Asset Management Limited - the Management Company	677	
Payable to Central Depository Company of Pakistan Limited - Trustee	3	55
Payable to Securities and Exchange Commission of Pakistan -SECP	141	167
Provision for Workers' Welfare Fund	774	747
Accrued expenses and other liabilities	788	385
	<u>2,370</u>	<u>1,708</u>
Net cash generated from / (used in) operating activities	<u>66,267</u>	<u>(181,402)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Net receipts from sale and redemption of units	(43,705)	327,989
Distribution to unit holders in cash	(23,538)	(794)
	<u>(67,243)</u>	<u>327,195</u>
Net increase in cash and cash equivalents during the year / Period	<u>(976)</u>	<u>145,793</u>
Cash and cash equivalents at the beginning of the year / Period	<u>145,793</u>	<u>-</u>
Cash and cash equivalents as at 30 June 2014	<u>144,817</u>	<u>145,793</u>
Cash and cash equivalents comprise of :		
Cash at bank	<u>144,817</u>	<u>145,793</u>

The annexed notes 1 to 31 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

NOTES TO THE FINANCIAL STATEMENTS

AS AT 30 JUNE 2014

1. LEGAL STATUS AND NATURE OF BUSINESS

First Habib Islamic Balanced 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 24 November 2011 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 3 November 2011 under Regulation 44(3) of the Non-Banking Finance Companies & Notified Entities Regulation, 2008.

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

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

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

Pakistan Credit Rating Agency (PACRA) has assigned asset management rating of 'AM3 -' to the Management Company and a performance ranking of 'MFR 2-Star' to the Fund.

The Fund has been categorized as an Open -End Shariah Compliant (Islamic) Balanced Scheme as per the criteria laid down by the SECP for categorisation of Collective Investment Schemes(CIS).

The objective of the Fund is to provide long term capital growth and income by investing in shariah compliant equity and debt securities. The Fund, in line with its investment objective, invests primarily in shariah compliant equity and debt securities.

Title of the assets of the Fund are held in the name of Central Depository Company of Pakistan Limited as a Trustee of the Fund.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Trust Deed, the NBFC Rules, the Non Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the SECP. Wherever the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the requirements of the said directives prevail.

3. BASIS OF MEASUREMENT

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below.

4.1 New / Revised Standards, Interpretations and Amendments

The Fund has adopted the following revised standard, amendments and interpretation of IFRSs which became effective for the current year:

IAS 19 – Employee Benefits – (Revised)

IFRS 7 – Financial Instruments: Disclosures – (Amendments)

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

IFAS 3 – Profit and Loss Sharing on Deposits

FIRST HABIB ISLAMIC BALANCED FUND

Improvements to Accounting Standards Issued by the IASB

IAS 1 – Presentation of Financial Statements - Clarification of the requirements for comparative information

IAS 16 – Property, Plant and Equipment – Clarification of Servicing Equipment

IAS 32 – Financial Instruments: Presentation – Tax Effects of Distribution to Holders of Equity Instruments

IAS 34 – Interim Financial Reporting – Interim Financial Reporting and Segment Information for

Total Assets and Liabilities

The adoption of the above amendments, revisions, improvements to accounting standards and interpretations did not have any effect on the financial statements.

4.2 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading or a derivative.

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

b) Available-for-sale

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

c) Loans and receivables originated by the enterprise

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

d) Financial liabilities

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

Recognition

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

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

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

Measurement

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

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

Basis of Valuation of Listed Equity Securities

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

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

The Fund's investment in term finance certificates and sukuk certificates are revalued at the year end rates quoted by Mutual Fund Association of Pakistan (MUFAP) in accordance with the Circular no.1 dated 6 January 2009, read with Circular no. 33 of 2012. Further these circulars have provided the discretion to the asset management company to apply the mark up/ mark down (within the available limits as prescribed in the Circulars) to the non- traded debt securities for their valuation. Application of discretionary mark up/ mark down shall be approved by the Investment Committee (with proper written justification) and shall be reported on the same day to the Board of Directors (of AMC), MUFAP, SECP and the Trustees. The decision in relation to application of the discretionary mark up/ mark down shall be ratified by the Board of the AMC in the next meeting. Accordingly, the Fund has valued certain non-traded debt securities by applying the discretion which has been approved by the Board.

Basis of valuation of Government Securities

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

Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Impairment loss in respect of investments (other than debt securities) is recognised when there is objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is considered an objective evidence of impairment. Provision for diminution in the value of debt securities is recognised as per the requirements of Circular 1 of 2009 read with Circular 33 of 2012 issued by the SECP and based on management's assessment made in line with its provisioning policy approved by the Board of Directors of the Management Company pursuant to the requirements of the SECP's above referred circular. In case of impairment of available for sale investments, the cumulative loss that has been recognised directly in statement of comprehensive income is taken to the income statement.

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.

4.3 Unit holders' fund

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

4.4 Issue and redemption of units

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

Units redeemed are recorded at the redemption price, applicable on the units for which the Fund receives redemption applications during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less the allowable purchase load (if any). Redemption of units is recorded on acceptance of application for redemption.

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4.5 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 Element is arrived at by comparing the unit prices with opening Ex - NAV at the beginning of the financial year. The Element so computed is recognised in the income statement except to the extent that the amount represented by unrealized appreciation / diminution arising on available for sale securities is included in distribution statement.

4.6 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.

4.7 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 realized or unrealized, is distributed amongst the Fund's unit holders.

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

4.8 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date 'at which the transaction takes place.
- Unrealized gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss are included in the Income Statement in the period in which they arise.
- Income on government securities is recognised on an accrual basis using the effective interest rate method.
- Profit on bank deposit is recognised on time proportion basis taking in to account effective yield.
- Dividend income is recognised when the right to receive the dividend is established.
- Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed is included in the Income Statement on the date of issue and redemption of units.

4.9 Expenses

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

4.10 Provisions

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

4.11 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 09 November 2012 as per the Trust Deed of the Fund.

4.12 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.

4.13 Other assets

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

4.14 Dividend Distribution and Appropriations

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

4.15 Zakat

Zakat payment is the responsibility of each unit holder. Nevertheless, the Fund follows the provisions of Zakat and Ushr Ordinance 1980. Units held by individual resident Pakistani shareholders are subject to Zakat@ 2.5% of the par value of the unit under the said Ordinance, except those exempted from Zakat. Zakat is deducted at source from dividend or from redemption proceeds, if units are redeemed during the Zakat year before the payment of Zakat.

5. ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Classification and fair value of investments

The Management Company has determined fair value of investments classified as 'at fair value through profit or loss' by using quotations from active market. 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.

Other assets

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

Workers' welfare fund

For details refer note 14 to these financial statements.

5.1. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard, interpretation or amendment

IAS 16 & 38 - Clarification of Acceptable Method of Depreciation and Amortization	January 01, 2016
IAS 16 & 40 - Agriculture: Bearer Plants	January 01, 2016
IAS 19 - Employee Contributions	July 01, 2014
IAS 32 - Offsetting Financial Assets and Financial liabilities – (Amendment)	January 01, 2014
IAS 36 - Recoverable Amount for Non-Financial Assets – (Amendment)	January 01, 2014
IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting and Amortization	January 01, 2014
IFRIC 21 - Levies	January 01, 2014

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The Fund expects that the adoption of the above amendments and interpretation of the standards will not affect the Fund's financial statements in the period of initial application

In addition to the above standards and interpretations, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after July 01, 2014. The Fund expects that such improvements to the standards will not have any impact on the Fund's financial statements in the period of initial application.

Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard

IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2018
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 15 – Revenue from Contracts with Customers	January 01, 2017

6. BANK BALANCES

	Note	2014 (Rupees in '000)	2013 (Rupees in '000)
Current account		7,323	1,645
Savings account	6.1	<u>137,494</u>	<u>144,148</u>
		<u>144,817</u>	<u>145,793</u>

- 6.1 Savings account carry profit rate of 6.27% and 8.5% per annum (2013: 6.27% and 8.5% per annum); and includes a balance of Rs. 10.846 million (2013: Rs 1.766 million) having interest rate of 6.27% (2013 : 6.27%) with Bank Al-Habib, a related party.

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

		2014 (Rupees in 000)	2013 (Rupees in 000)
Equity securities	7.1	124,038	122,543
Government securities	7.2	<u>45,576</u>	<u>80,130</u>
		<u>169,614</u>	<u>202,673</u>

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7.1 Equity securities

Name of the Investee	Number of Shares					As at 30 June 2014		Market Value as a Percentage of:	
	As at 1 July 2013	Acquired during the year	Bonus / Right issue	Sold during the year	As at 30 June 2014	Carrying Value	Market Value	Net Assets	Total Investment
(Rupees in 000)									
AUTOMOBILE & PARTS									
Exide Pakistan Limited	1,000	2,000	100	3,100	-	-	-	-	-
Pak Suzuki Motor Company Limited	-	87,400	-	87,400	-	-	-	-	-
Atlas Honda Limited	-	48,700	-	16,200	32,500	9,636	7,472	2.24%	4.41%
Atlas Battery Limited	-	16,100	-	16,100	-	-	-	-	-
Indus Motor Company Limited	-	10,600	-	10,600	-	-	-	-	-
BANKS									
Meezan Bank Limited	-	104,500	-	104,500	-	-	-	-	-
CHEMICALS									
Clariant Pakistan Limited	2,500	11,700	-	14,200	-	-	-	-	-
Fauji Fertilizer Bin Qasim Limited	-	351,000	-	351,000	-	-	-	-	-
Fauji Fertilizer Company Limited	190,000	92,200	-	282,200	-	-	-	-	-
I.C.I Pakistan Limited	11,000	72,900	-	51,100	32,800	12,926	12,803	3.85%	7.55%
Archrome Pakistan Limited	-	4,000	-	4,000	-	-	-	-	-
Ghani Gases Limited	-	35,500	-	35,500	-	-	-	-	-
Sitara Chemical Industries	-	8,000	-	8,000	-	-	-	-	-
CONSTRUCTION AND MATERIALS (CEMENT)									
Lafarge Pakistan Cement Limited	75,000	575,000	-	550,000	100,000	1,556	1,598	0.48%	0.94%
Attock Cement Pakistan Limited	-	66,500	-	66,500	-	-	-	-	-
Fauji Cement Company Limited	-	300,000	-	150,000	150,000	2,922	2,886	0.87%	1.70%
Cherat Cement Company Limited	35,000	327,500	4,150	269,500	97,150	6,579	6,359	1.91%	3.75%
D. G. Khan Cement Company Limited	54,500	540,500	-	517,000	78,000	6,908	6,861	2.06%	4.05%
Kohat Cement Limited	-	285,000	-	270,000	15,000	1,972	1,917	0.58%	1.13%
Lucky Cement Limited	25,000	244,500	-	264,500	5,000	1,764	2,052	0.62%	1.21%
Maple Leaf Cement Factory Limited	-	795,000	-	599,000	196,000	6,137	5,890	1.77%	3.47%
ELECTRICITY									
The Hub Power Company Limited	300,000	280,000	-	457,500	122,500	7,959	7,196	2.16%	4.24%
Karachi Electric Supply Corporation	100,000	200,000	-	300,000	-	-	-	-	-
K-Electric Limited	-	100,000	-	50,000	50,000	407	425	0.13%	0.25%
ENGINEERING									
Millat Tractors Limited	400	7,750	-	8,150	-	-	-	-	-
HinoPak Motors	-	28,100	-	28,100	-	-	-	-	-
FIXED LINE TELECOMMUNICATION									
Pakistan Telecommunication Company Ltd	-	1,017,500	-	842,500	175,000	5,032	4,457	1.34%	2.63%
FOOD PRODUCERS									
Engro Foods Company Limited	9,000	207,700	-	195,700	21,000	2,526	2,153	0.65%	1.27%
Habib Sugar Mills Limited (Related Party)	-	110,000	-	110,000	-	-	-	-	-
National Foods Limited	-	15,800	325	16,125	-	-	-	-	-
GENERAL INDUSTRY									
Thal Limited	66,000	119,200	-	113,600	71,600	10,162	14,849	4.46%	8.75%
Siemens Pakistan Engineering Co. Ltd.	-	2,500	-	1,620	880	1,259	1,106	0.33%	0.65%
Cherat Packaging	-	50,000	-	50,000	-	-	-	-	-
Packages Limited	-	31,500	-	31,500	-	-	-	-	-
MULTIUTILITIES (GAS AND WATER)									
Sui Northern Gas Pakistan Limited	110,000	-	-	110,000	-	-	-	-	-
OIL & GAS									
Attock Petroleum Limited	-	44,000	-	44,000	-	-	-	-	-
Attock Refinery Limited	30,000	176,700	-	197,000	9,700	1,991	2,059	0.62%	1.21%
Mari Petroleum Company Limited	-	86,700	-	86,700	-	-	-	-	-
National Refinery Limited	27,000	22,900	-	49,900	-	-	-	-	-
Oil & Gas Development Company Limited	25,800	189,200	-	169,500	45,500	12,019	11,888	3.57%	7.01%
Pakistan Oilfields Limited	33,600	124,700	-	147,500	10,800	5,684	6,202	1.86%	3.66%
Pakistan Petroleum Limited	39,000	139,200	5,700	183,900	-	-	-	-	-
Pakistan State Oil Company Limited	35,460	243,800	1,560	252,160	28,660	11,554	11,144	3.35%	6.57%
Shell Pakistan Limited	-	21,000	-	10,000	11,000	3,081	3,039	0.91%	1.79%
PERSONAL GOODS (TEXTILE)									
Nishat Mills Limited	13,000	461,800	-	474,800	-	-	-	-	-
Service Industries Limited	-	23,600	-	-	23,600	14,133	11,682	3.51%	6.89%
Ellcot Spinning Limited	-	31,500	-	31,500	-	-	-	-	-
PHARMA AND BIO TECHNOLOGY									
Abbot Laboratories Pakistan Limited	-	600	-	600	-	-	-	-	-
GlaxoSmithKline Pakistan Limited	-	53,000	-	53,000	-	-	-	-	-
The Searle Company Limited	3,000	37,600	-	40,600	-	-	-	-	-
SOFTWARE AND COMPUTER SERVICES									
NetSol Technologies Limited	-	216,000	4,000	220,000	-	-	-	-	-
Total as at 30 June 2014						126,207	124,038		
Total as at 30 June 2013						117,808	122,543		

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7.2 Debt Securities

Name of the investee company	Note	Number of certificates				As at 30 June 2014		Market value as a percentage of	
		As at 1 July 2013	Acquired during the period	Sold/Redeemed during the period	As at 30 June 2014	Carrying value	Market Value	Net Assets	Total Investments
(Rupees in '000)									
GOP Ijara Sukuk-6		5,000	-	5,000	-	-	-	-	-
GOP Ijara Sukuk-9	7.2.1	9,000	-	-	9,000	45,032	45,576	13.69%	26.87%
TFC Aisha Steel Mills		2,000	-	2,000	-	-	-	-	-
Total as at 30 June 2014						45,032	45,576		
Total as at 30 June 2013						80,367	80,130		

7.2.1 The GOP Ijara Sukuk 9 carries a profit rate of 9.9763% (2013:9.2274%). The certificates mature on 26 December, 2014.

7.3 Unrealised (diminution) / appreciation on investments at fair value through profit or loss		2014	2013
		(Rupees in '000)	
Equity securities		(2,169)	4,735
Debt Securities		544	(237)
		<u>(1,625)</u>	<u>4,498</u>
8. INCOME RECEIVABLE		2014	2013
	Note	(Rupees in '000)	
Profit receivable on saving account		955	887
Profit receivable on debt securities		61	671
Dividend receivable		405	45
		<u>1,421</u>	<u>1,603</u>
9. DEPOSITS AND OTHER RECEIVABLES		2014	2013
		(Rupees in '000)	
Deposit with Central Depository Company of Pakistan Limited		100	100
Deposit with National Clearing Company of Pakistan Limited		2,500	2,500
Receivable against sale of investments		12,510	6,541
Advance against IPO Subscription		5,300	-
		<u>20,410</u>	<u>9,141</u>
10. PRELIMINARY EXPENSES AND FLOATATION COSTS		2014	2013
		(Rupees in '000)	
Opening balance	<i>10.1</i>	899	1,032
Less: Amortization for the year		(206)	(133)
		<u>693</u>	<u>899</u>

10.1 This represents expenses incurred on the formation of the Fund. The said expenses are being amortised over a period of five years effective from 09 November 2012, i.e. after the close of initial period of the Fund.

11. PROVISION FOR FEDERAL EXCISE DUTY ON REMUNERATION TO HABIB ASSET MANAGEMENT LIMITED-MANAGEMENT COMPANY

As per the requirement of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective from 13 June 2013. The Management Company is of the view that since the remuneration is already subject to the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law. A stay order against the collection has been granted by the Honourable High Court of Sindh on a petition filed by the Mutual Funds Association of Pakistan (MUFAP). As a matter of abundant caution, the Fund has made a provision for from the aforementioned effective date and transferred its liability to the management company. Subsequently, during the year, the management company decided to retain the liability with the fund hence the outstanding balance represents the amount of provision that has been recovered / adjusted from the Management Company and the remaining balance of Rs. 313,429 would be adjusted future management fees payable to the management company.

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11.1 During the current year, an amount of Rs.677,077 (June 2013: Rs. 318,977) was charged on account of Federal Excise Duty on management fee levied through Federal Excise Act 2005.

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

12.1 The Trustee is entitled to a remuneration for services rendered to the Fund under the provisions of the Trust Deed based on the daily Net Asset Value of the Fund. The remuneration of the Trustee has been calculated as per following applicable tariff;

Average net assets (Rs. in million)	Tariff
Upto Rs. 1,000	Rs. 0.7 million or 0.2% per annum of net asset value, whichever is higher.
Rs. 1,000 and above	Rs. 2 million plus 0.10% per annum of net asset value exceeding Rs. 1,000 million.

13. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

This represents annual fee payable to Securities and Exchange Commission of Pakistan (SECP) in accordance with the rule 62 of the NBFC Regulations 2008, whereby the Fund is required to pay SECP an amount at the rate of 0.085% of the average daily net assets of the Fund.

14. WORKER'S WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs.0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending for adjudication.

During the year 2011, a single bench of the Lahore High Court (LHC) in a constitutional petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. However, in the month of March 2013, a larger bench of the Sindh High Court (SHC) in various constitutional petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act 2008, do not suffer from any constitutional or legal infirmity and overruled a single-member Lahore High Court (LHC) bench judgment issued in August 2011.

However, as per the advice of legal counsel of MUFAP, the constitutional petitions filed by the CIS (as mentioned in the first paragraph) challenging the applicability of WWF contribution have not been affected by the SHC judgment.

Further, in May 2014, the Honorable Peshawar High Court (PHC) held that the impugned levy of contribution introduced in the ordinance through Finance Acts, 1996 and 2009 lacks the essential mandate to be introduced and passed through a Money bill under the constitution and, hence, the amendments made through the Finance Acts are declared as 'Ultra Vires'.

As the matter relating to levy of WWF is currently pending in the Court, the Management Company, as a matter of abundant caution, has decided to retain and continue with the provision for WWF amounting to Rs. 1,521,293 (30 June 2012: Rs. 747,189) in these financial statements. Had the provision not been made, the net asset value of the Fund would be higher by Rs 0.47 per unit (30 June 2013: Rs.0.23 per unit).

	Note	2014 (Rupees in '000)	2013
15. ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		178	180
Printing Charges		56	130
Withholding Tax Payable on Dividend		777	22
Payable against redemption of units		100	-
Charity Payable	15.1	36	-
Others		26	53
		<u>1,173</u>	<u>385</u>
15.1 CHARITY PAYABLE			
Charge for the year		253	-
Less: Paid during the year		(217)	-
		<u>36</u>	<u>-</u>

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

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

	2014	2013
	(Number of Units)	
Type 'A' Units	-	-
Type 'B' Units	2,299,312	1,910,382
Type 'C' Units	959,046	1,332,095
	<u>3,258,358</u>	<u>3,242,477</u>

17. REMUNERATION OF 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 percent per annum for the six months period ended June to December 2013. Effective from 1 January 2014 the management company charged remuneration at the rate of 1.35% of Net Assets of the Fund

18. SALES TAX ON MANAGEMENT FEE

During the current year, an amount of Rs.785,409 (June 2013: Rs.27493) was charged on account of sindh sales tax on management fee levied through Sindh Sales Tax Act,2011.

19. AUDITORS' REMUNERATION

	2014	2013
	(Rupees in '000)	
Statutory Audit Fee	104	90
Half Year Review Fee	36	30
Income Certification Fee	-	5
Reporting on compliance with the Code of Corporate Governance Fee	16	15
Shariah Compliance Audit Fee	42	40
Out of Pocket Expenses	21	-
	<u>219</u>	<u>180</u>

20. EARNINGS PER UNIT

Earnings per unit (EPU) for the year ended 30 June 2014 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

21. TAXATION

The income of the fund is exempt from income tax under Clause (99) of Part 1 of the Second Schedule to the Income Tax Ordinance, 2001 (Clause 99) subject to the condition that not less than 90 percent of the accounting income for the year, as reduced by capital gains, whether realized or unrealized, is distributed amongst the unit holders. The Management Company has distributed not less than 90 percent of its annual accounting income to avail the tax exemption. Accordingly, no provision for current and deferred tax has been made in this financial statements.

22. TRANSACTIONS WITH CONNECTED PERSONS

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

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

FIRST HABIB ISLAMIC BALANCED 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 Companies and Notified Entities Regulation 2008 and the Trust Deed respectively.

22.1 Sale of units

	2014		2013	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Units sold to:				
Units sold to:				
Management Company				
Habib Asset Management Limited	9,735	1,000	179,192	18,225
Associated Companies				
- Bank AL Habib Limited	-	-	252,322	25,232
- Habib Insurance Company Limited	-	-	706,724	70,701
Other related parties				
- Directors of the Management Company	9,857	1,110	26,893	2,869
- Executives of the Management Company	2,376	250		
- Habib Insurance Company Limited - Employees Provident Fund	4,745	500	9,620	1,000
- Habib Asset Management Limited - Employees Provident Fund	-	-	9,000	900
- Pioneer Cables Ltd	-	-	1,702,539	100,000
- Hamdard Laboratories Waqf Pakistan	241,516	25,000	573,050	61,308
Bonus units issued:				
Management Company				
Habib Asset Management Limited	22,256	2,247	1,137	114
Other related parties				
- Directors of the Management Company	7,277	737	75	8
- Habib Asset Management Limited - Employees Provident Fund	391	39	30	3
- Habib Insurance Company Limited - Employees Provident Fund	2,586	262	-	-
- Pioneer Cables Ltd	259,488	26,277	7,456	749
Units redeemed by:				
Management Company				
Habib Asset Management Limited	163,050	18,298	-	-
Other related parties				
- Directors of the Management Company	14,229	1,497	-	-
- Executives of the Management Company	2,376	241	-	-
- Habib Asset Management Limited - Employees Provident Fund	4,433	449	4,988	500
- Pioneer Cables Ltd	-	-	505,421	50,366
- Hamdard Laboratories Waqf Pakistan	614,566	66,609	200,000	21,278
Units held by:				
Management Company				
Habib Asset Management Limited	49,270	5,033	180,329	19,932

FIRST HABIB ISLAMIC BALANCED FUND

	2014		2013	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Associated Companies				
- Bank AL Habib Limited	252,322	25,777	252,322	27,890
- Habib Insurance Company Limited	706,724	72,200	706,724	78,116
Other related parties				
- Directors of the Management Company	38,884	3,972	35,979	3,977
- Habib Insurance Company Limited - Employees Provident Fund	16,952	1,732	9,620	1,063
- Habib Asset Management Limited - Employees Provident Fund	-	-	4,042	447
- Pioneer Cables Ltd	1,464,062	149,570	1,204,574	133,133
- Hamdard Laboratories Waqf Pakistan	-	-	373,050	41,231

	2014	2013
	(Rupees in '000)	
Details of transactions with connected persons are as follows:		
Habib Asset Management Limited - Management Company		
Management fee	4,232	1,966
Bank Al Habib Limited		
Profit on Bank Balances	122	38
Central Depository Company of Pakistan Limited - Trustee		
Remuneration to the trustee	739	393
Bank Al Habib Limited		
Bank Balance	10,846	1,766
Habib Bank Asset Management Limited - Management Company		
Management Company fee payable	1,018	354
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	58	55
Security deposit - Non interest bearing	100	100

23. RISK MANAGEMENT

Introduction and overview

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

Risk management framework

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

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

FIRST HABIB ISLAMIC BALANCED FUND

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

23.1 Credit risk

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

Management of credit risk

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

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

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

Exposure to credit risk

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

	2014		2013	
	Statement of assets and liabilities (Rupees in '000)	Maximum exposure (Rupees in '000)	Statement of assets and liabilities (Rupees in '000)	Maximum exposure (Rupees in '000)
Bank balances	144,817	144,817	145,793	145,793
Investments	169,614	-	202,673	10,000
Income receivable	1,421	1,360	1,603	1,476
Deposits and other receivables	20,410	20,410	2,600	2,600
	336,262	166,587	352,669	159,869

Differences in the balances as per the statement of assets & liabilities and maximum exposures in investments and income receivable were due to the fact that investments of Rs. 45.576 million (2013:Rs 70.130 million) relates to investments in Government securities which are not considered to carry credit risk; and therefore the pertaining income receivable amounting to Rs. 60,665 (2013:Rs 126,824) is also excluded; and investments amounting to Rs. 124.038 million (2013:Rs. 122.541 million) pertains to equity investments which are not considered to carry credit risk.

Credit ratings and Collaterals

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

Ratings	2014	2013
AAA	100%	87%
A	-	13%
	100%	100%

FIRST HABIB ISLAMIC BALANCED FUND

Details of securities against investments in debt securities are mentioned in notes 7.2.1

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

Ratings	2014	2013
AAA	93%	
A	7%	100%
	100%	100%

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

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. Around 51.68% of the Funds financial assets are in Government Securities and Equity investments which are not exposed to credit risk while the remaining portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

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

	2014	2013
Banks	92.51%	89.47%
Financial services	7.44%	3.99%
Industrials Metals and Mining	-	6.51%
Oil and Gas	0.05%	0.03%
	100%	100%

Past due and impaired assets

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

Settlement risk

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

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

23.2 Liquidity risk

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

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

Management of Liquidity Risk

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

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

FIRST HABIB ISLAMIC BALANCED FUND

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

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

Settlement risk

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Maturity analysis of financial liabilities

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

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

	30 June 2014				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	More than one month and up to three months	More than three months and up to one year
----- (Rupees in '000) -----					
<i>Non- derivative financial liabilities</i>					
Payable to Habib Asset Management Limited - Management Company	313	313	313	-	-
Payable to Central Depository Company of Pakistan Limited-Trustee	58	58	58	-	-
Payable to Securities and Exchange Commission of Pakistan	308	308	-	308	-
Accrued expenses and other liabilities	1,173	1,173	-	1,173	-
	<u>1,852</u>	<u>1,852</u>	<u>371</u>	<u>1,481</u>	<u>-</u>

FIRST HABIB ISLAMIC BALANCED FUND

	30 June 2013				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	More than one month and up to three months	More than three months and up to one year
----- (Rupees in '000) -----					
<i>Non- derivative financial liabilities</i>					
Payable to Habib Asset Management Limited - Management Company	354	354	354	-	-
Payable to Central Depository Company of Pakistan Limited-Trustee	55	55	55	-	-
Payable to Securities and Exchange Commission of Pakistan	167	167	-	167	-
Accrued expenses and other liabilities	385	385	205	180	-
	<u>961</u>	<u>961</u>	<u>614</u>	<u>347</u>	<u>-</u>

Above financial liabilities do not carry any mark-up.

23.3 Market risk

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

Management of Market Risk

The Management Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and investment guidelines approved by the Investment Committee and regulations laid down by the Securities and Exchange Commission of Pakistan (SECP). The maximum risk resulting from financial instruments equals their fair value.

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on investment in Government Securities, certain Term Finance Certificates, Term Deposit Receipts, Certificate of Investments, clean placements and profit and loss sharing bank balances. 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. Other risk management procedures are the same as those mentioned in the credit risk management

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

	2014	2013
	(Rupees in '000)	
Variable rate instruments		
Ijara Sukuk Certificates	45,576	80,130
Bank balance	144,817	145,793
	<u>190,393</u>	<u>225,923</u>

None of the financial liabilities carry any interest rate risk.

a) Cash flow Sensitivity analysis for variable rate instruments

In case of change of 100 basis points in KIBOR on 30 June 2014, the net assets of the Fund would have been lower/ higher by Rs 45,576 (2013: Rs 230,548) with consequential effect on net income for the year. The analysis assumes that all other variables remain constant.

The composition of the Fund's financial instruments, interest rates are expected to change overtime. Accordingly, the sensitivity analysis prepared as of 30 June 2014 is not necessarily indicative of the effect on the fund's net assets of future movements in interest rates.

FIRST HABIB ISLAMIC BALANCED FUND

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

Markup /Profit (%)	30 June 2014				Total
	Less than one month	One to three months	Three months to one year	More than one year	
----- (Rupees in '000) -----					
<i>Assets</i>					
Bank balances	6.27%-8.5%	144,817	-	-	144,817
Investments	9.98%	-	-	45,576	45,576
Total assets		144,817	-	45,576	190,393

Markup /Profit (%)	30 June 2013				Total
	Less than one month	One to three months	Three months to one year	More than one year	
----- (Rupees in '000) -----					
<i>Assets</i>					
Bank balances	6.27%-8.5%	145,793	-	-	145,793
Investments	9.22%-11.52%	10,000	-	70,130	80,130
Total assets		155,793	-	70,130	225,923

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

Other price risk

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

- The Fund manages this risk by limiting its investment exposure in the following ways:
- 10% of NAV or index weight of a single security, subject to a maximum limit of 15%, whichever is higher.
- higher of 30% of NAV or index weight of a single stock exchange sector, subject to a maximum limit of 35% of NAV.

A summary analysis of local investments by industry sector, the percentage in relation to Fund's assets is presented in note 8.1 to these financial statements. Further, the Fund's policy requires that the overall Fund position is monitored on a daily basis by the Fund Manager and is reviewed on bi-monthly basis by the Investment Committee and by the Board of Directors in every meeting of the Board. Non-compliance with the Fund's investment policies is reported to the Board of Directors.

As at 30 June, the fair value of equity securities exposed to price risk are disclosed in notes 7.1.

Sensitivity analysis

The following table illustrates the sensitivity of the Fund's net asset value attributable to unit holders and net profit for the year to change of 10% in the fair values of the Fund's investment in equity securities as at 30 June 2014. This level of change is considered to be reasonably possible and represents management's best estimate of a reasonable possible shift in respective market indices and resulting increase/decrease in fair value of the Fund's investment in equity securities.

	2014	2013
	(Rupees in '000)	
Effect on income statement, net assets attributable to unit holders of an increase in index		
Equity investments	<u>12,404</u>	<u>12,254</u>

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

FIRST HABIB ISLAMIC BALANCED FUND

23.4 Unit Holders' Fund risk management

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

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

24. Fair value of financial instruments

The Fund's accounting policy on fair value measurements is discussed in note 4.2.

Fair value hierarchy

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

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

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

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

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

	30 June 2014			
	Level 1	Level 2	Level 3	Total
Equity securities	124,038	-	-	124,038
Government securities	-	45,576	-	45,576
	124,038	45,576	-	169,614
	30 June 2013			
	Level 1	Level 2	Level 3	Total
Equity securities	122,543	-	-	122,543
Term finance certificates	-	10,000	-	10,000
Government securities	-	70,130	-	70,130
	122,543	80,130	-	202,673

25. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30 June 2014 is as follows:

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		78	371,529	37,956	11%
Associated Companies	25.1	3	1,008,316	103,010	31%
Chief Executive	25.2	1	18,200	1,859	1%
Executives					
Bank Financial Institutions					
Insurance Companies					
Non Banking Finance Companies					
Retirement Funds		4	202,275	20,665	6%
Mutual Funds					
Others		3	1,658,038	169,387	51%
Public Ltd Companies					
		89	3,258,358	332,877	100%

FIRST HABIB ISLAMIC BALANCED FUND

Category		Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		50	296,247	32,745	9.14%
Associated Companies	25.1	3	1,139,375	125,939	35.14%
Chief Executive	25.2	1	26,968	2,981	0.83%
Executives		-	-	-	-
Bank Financial Institutions		-	-	-	-
Insurance Companies		-	-	-	-
Non Banking Finance Companies		-	-	-	-
Retirement Funds		7	153,452	16,962	4.73%
Mutual Funds		-	-	-	-
Others		3	1,626,435	179,775	50.16%
Public Ltd Companies		-	-	-	-
		64	3,242,477	358,401	100%

25.1 Associated companies

	30 June 2014			30 June 2013		
	Number of units	Investment amount (Rupees in '000)	Percentage of total investment	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Habib Asset Management Limited	49,270	5,033	5%	180,329	19,933	16%
Habib Insurance Company Limited	706,724	72,200	70%	706,724	78,116	62%
Bank AL Habib Limited	252,322	25,777	25%	252,322	27,890	22%
	1,008,316	103,010	100%	1,139,375	125,939	100%

25.2 Chief executive

Imran Azim (CEO)	18,200	1,859	1%	26,968	2,981	0.83%
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26. BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Name of Broker	2014 (Percentage)	2013
AKD Securities Ltd	6.33%	10.33%
Al-Habib Capital Markets Private Limited	14.29%	10.05%
Elixir Securities Pakistan Private Limited	0.75%	11.99%
Habib Metropolitan Financial Services Limited	11.11%	13.87%
BMA Capital Management Limited	2.93%	5.50%
MMS Securities Pvt Ltd	8.90%	0.02%
Multiline Securities Private Limited	13.03%	13.33%
Pearl Securities Private Ltd	6.46%	12.35%
Summit Capital Private Ltd	11.39%	12.16%

FIRST HABIB ISLAMIC BALANCED FUND

	2014 (Percentage)	2013
Standard Capital Securities Private Limited	3.39%	0.00%
Ali Hussain Rajabali Limited	2.95%	0.00%
Invest Capital Markets Limited	5.35%	0.00%
Top Line Securities Private Ltd	8.19%	10.41%
IGI Finex Securities Limited	4.94%	0.00%
	<u>100.00%</u>	<u>100.00%</u>

27. INVESTMENT COMMITTEE

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

Name	Designation	Qualification	Experience in years
Mr. Ali Raza D.Habib	Chairman	Graduate	58 Years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	37 Years
Mr. Mansoor Ali	Director	MBA	29 Years

28. Other Funds managed by the Fund Manager

Mr. Junaid Kasbati - Fund Manager

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

29. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 49th, 50th, 51th, 52th, 53th and 54th and 55th board meetings were held on 5 July 2013, 26 September 2013, 29 October 2013, 15 January 2014, 17 February 2014 and 24 April 2014 and 27 June 2014 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	7	4	3	49th, 54th and 55th meeting
Imran Azim	7	7	-	
Mansoor Ali	7	7	-	
Mohammad Ali Jameel	7	4	3	50th, 51st meeting and 55th meeting
Vice Admiral('R) Khalid M Mir	7	6	1	55th meeting
Liaquat Habib Merchant	7	4	3	49th, 51st and 54th meeting

30. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 13, 2014.

31. GENERAL

Figures have been rounded off to the nearest thousand rupees.

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

Chief Executive

Director

**ANNUAL FUND MANAGER REPORT
FINANCIAL YEAR 2014**

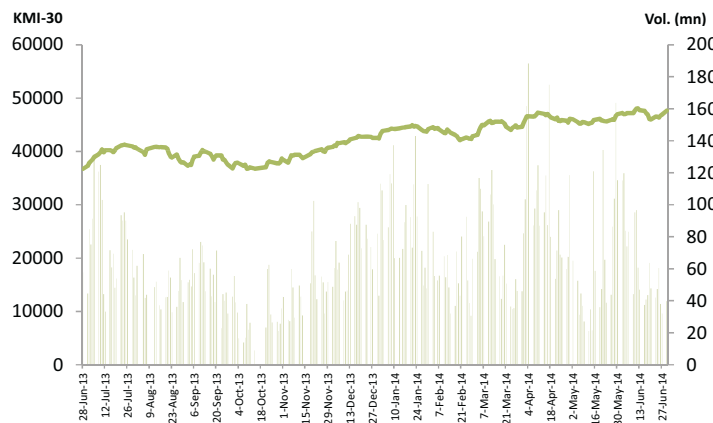
FUND OBJECTIVE:

First Habib Islamic Balanced Fund is an Open ended Islamic Balanced fund. The objective of the Fund is to provide investors with long term capital growth from an actively managed portfolio invested primarily in diversified pool of listed Shariah Compliant equities and money market instruments.

FUND DESCRIPTION

Fund Type Category	Open end - Islamic Balanced Scheme	Auditors External	Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants
Launch Date	9-Nov-12	Management Fee	1.35% p.a.
Benchmark	KMI - 30 Index and most recently published 3 month deposit rates offered by 3 Islamic banks and these based on weighted average allocation of equity and other instrument during the period - 15.61%	Sales Load	Nil
FHIBF Return	12.34%	Minimum Subscription	Initial Investment of Rs. 1000/-Subsequently Rs. 100 per transaction
Net Assets	Rs. 332.88 million (June 30, 2014)	Dealing Days/Timings	Monday to Friday/ 9:00 am to 04:30 pm
NAV per Unit	102.1609 (June 30, 2014)	Fund Stability Rating	MFR 2 - Star by PACRA
Pricing Mechanism	Forward Pricing	AMC Rating	"AM3" by PACRA
Trustee	Central Depository Company of Pakistan Ltd.		

MARKET REVIEW

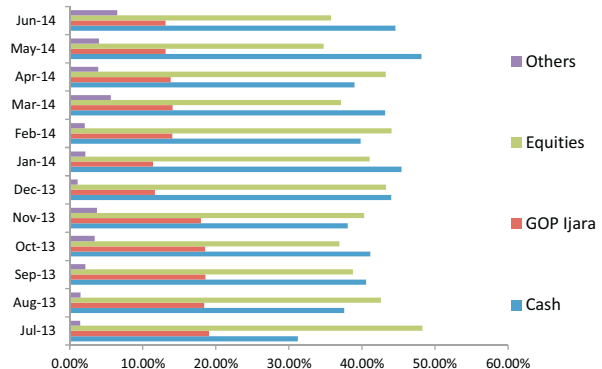


The KMI-30 Index; the country's most recognizable index for Shariah-compliant equity securities, posted a return of 29.89% for the Financial Year 2014. The benchmark KMI-30 Index reached its peak of 48,235 points and fell to its low of 36,392 points during the year under review. The average daily traded volume of shares reached 65.41 million during the year.

During the year State Bank of Pakistan conducted a solitary auction of GOP IjaraSukuk with a maturity of three years. The auction attracted bids worth Rs. 113.72 billion, whilst

Rs. 49.54 worth of bids was accepted against the aggregate target of Rs. 49.50 billion. The rental rates for the instrument were recorded at 7.9763%. The profit rates offered by the Islamic banks witnessed an upsurge of 34 bps during the year under review as discount rate rose by 100 bps.

The Fund's average exposure in Shariah compliant equity securities and GOP Ijara was maintained at 40.51% and 15.31% respectively for the year under review. The Fund generated a return of 12.34% for the financial year 2014 with net assets of Rs. 332.88 million at year end. As of June, 30 2014, the Fund was invested up to 35.77% in equities, 13.14% in GOP Ijara and 44.59% of the Fund's assets were held as cash in banks. The average time to maturity of debt instruments as at June 30, 2014 was 25 days.



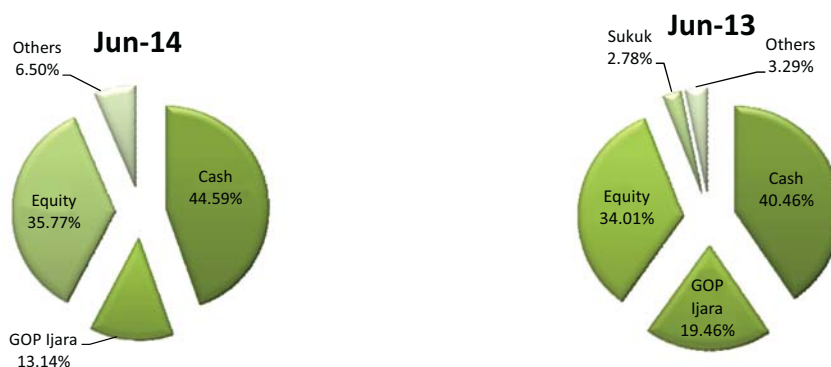
During the year under review, the Fund earned gross income of Rs. 51.90 million of which Rs. 28.50 million was attributed to net realized gain from sale of equity securities, whereas and Rs. 8.02 million was earned as dividend income. Almost 22% of the Fund's earnings emanated from the Cash which was held in banks for profit amounting to Rs. 11.66 million.

FIRST HABIB ISLAMIC BALANCED FUND

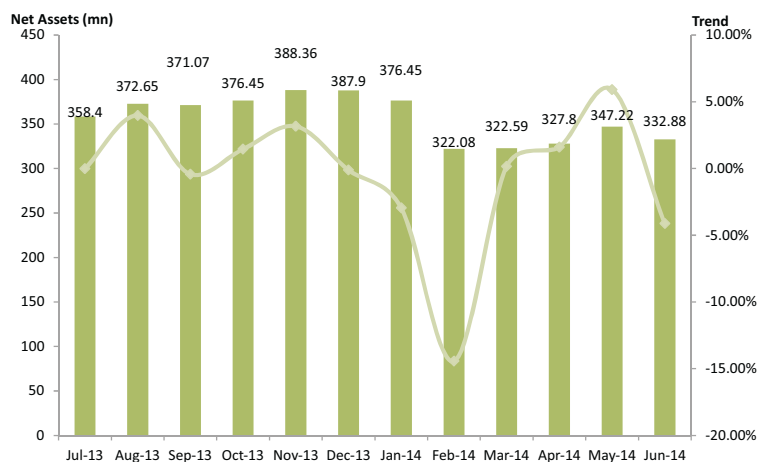
Details of Fund's Gross Income are provided below:

	Rs. In millions	
Profit on Bank Deposits	11.66	22%
Income from Ijara Sukuk Certificates	5.35	10%
Dividend Income	8.02	15%
Net Gain on sale of investments	28.50	55%
Net Unrealized loss in value of investments	-1.63	-3%
Total Gross Income	51.90	100%

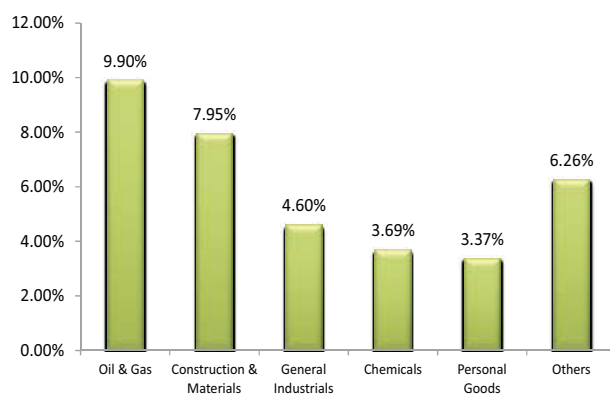
Asset Allocation as on June 30, 2014



Fund Size



Net Assets of FHIBF stood at Rs. 332.88 million as at June 30, 2014 against the net assets of Rs. 358.40 million as on June 30, 2013.



S. No.	Holdings	Asset Class	% of Total Assets
1	(GOP) IJARA - SUKUK 9	Sukuk	13.14%
2	Thal Ltd.	Equity	4.28%
3	ICI Pakistan Ltd.	Equity	3.69%
4	Oil & Gas Development Corp.	Equity	3.43%
5	Service Industries Ltd.	Equity	3.37%
6	Pakistan State Oil	Equity	3.21%
7	Atlas Honda Ltd.	Equity	2.16%
8	Hub Power Corporation Ltd.	Equity	2.08%
9	D.G.Khan Cement	Equity	1.98%
10	Cherat Cement Ltd.	Equity	1.83%

FIRST HABIB ISLAMIC BALANCED FUND

Income Distribution

FHIBF distributed Rs. 11.00 per unit as dividend for the Financial Year 2014 for class 'C' unit holders. For other unit holders, the fund distributed 10.8208 bonus units per 100 units as final dividend.

2013-2014	Cum NAV Rs.	Ex NAV Rs.	Distribution Rs.
July-June	112.6561	101.6561	11.00

Sales and Redemptions of Units

During the year, 588,627 units of the value of Rs. 63.23 million were sold while 982,167 units of the value of Rs. 106.94 million were redeemed resulting in to a net redemption of 393,540 units of the value of Rs. 43.71 million during the year.



Habib Asset Management Limited

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