

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



Annual Report

June 2017



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 (HAML) have pleasure to present the Annual Report along with the audited financial statements of the Funds under its management for the year ended June 30, 2017.

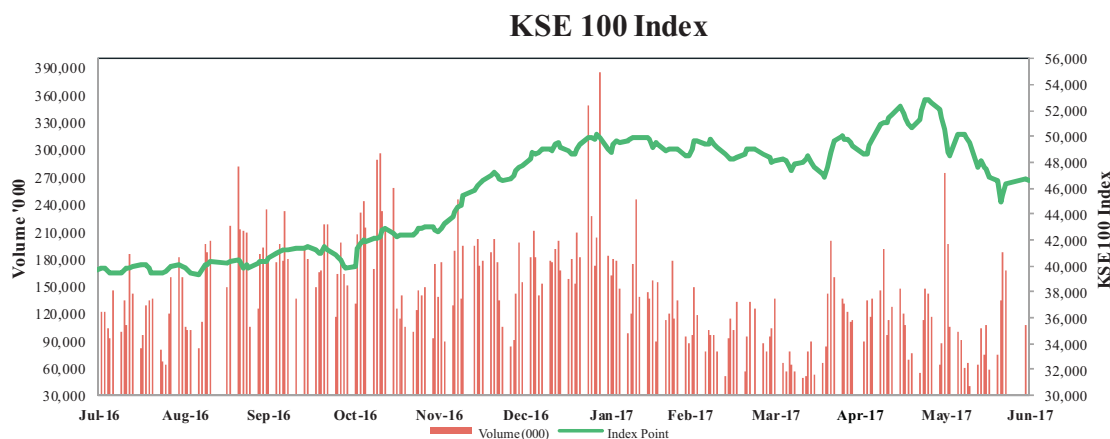
ECONOMY AND MONEY MARKET

Pakistan's economy has shown significant improvements with GDP growth of 5.3% during the Financial Year 2017 as compared to growth of 4.7% in the year 2016. However the average annual CPI Inflation increased by 4.15% as against 2.85% last year. The Foreign Direct Investment and Workers' Remittances for the year under review stood at US\$2,401 million and US\$19,303 million respectively as compared to US\$2,305 million and US\$19,916 million respectively in 2016. The State bank of Pakistan maintained the policy rate at 5.75% during the year under review. The details of T-bills and PIBs cut off yields at the end financial year 2017 are as follows:

T-Bills Cut off Yields			PIBs Cut off Yields		
Tenor	June 2016	June 2017	Tenor	June 2015	June 2017
3M	5.90%	5.99%	3Y	6.41%	6.40%
6M	5.93%	6.01%	5Y	6.91%	6.88%
12M	5.96%	6.04%	10Y	8.02%	7.94%

STOCK MARKET

During the year under review the KSE 100 index increased from 37,783.54 points on 30 June 2016 to 46,565.29 points on June 30, 2017 i.e. an increase of 8,781.75 points or 23.24%.



During the year under review the market was mostly bullish and the KSE 100 index touched its highest level on May 25, 2017 at 53,127 points, however, political uncertainty in the last quarter of the financial year adversely affected the stock market resulting drop in KSE 100 index by 5677 points i.e. 11.22% in just 16 trading session from 31 May 2017 to 20 June 2017. Even reclassification of Pakistan into MSCI Emerging market failed to arrest the declining trend in May / June 2017.

MUTUAL FUNDS INDUSTRY

The Assets Under Management (AUMs) of Open-ended Funds Industry grew by 31% to Rs.574 billion as at June 30, 2017 from Rs.438 billion on June 30, 2016. Conventional Money Market Funds grew by 42% whereas Conventional income and Sharia Income funds decreased by 28% and 2.32% respectively. Sharia Equity funds

increased by 39%; whereas, a rise of 3.74% was seen in Equity funds. As at June 30, 2017, there were 20 Companies engaged in Asset Management Business.

Habib Asset Funds' Performance

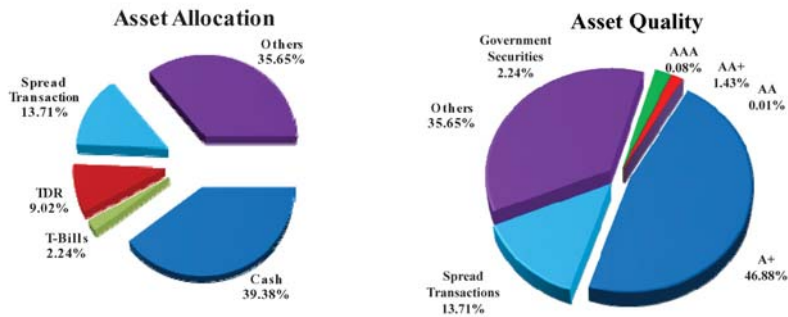
First Habib Income Fund (FHIF)

The Fund generated a return of 6.29% for the year ended June 30, 2017. The Fund's gross income for the Financial Year 2017 was Rs.92.227 million. The fund distributed Rs. 5.00 per unit (FY2016: Rs.7.00 per unit) as cash dividend and Rs.0.50 per unit as bonus unit to the unit holders during the year ended June 30, 2017.

Details of Holding Income:

	(Rs. In 000s)
Profit on bank deposits	47,886.00
Dividend Income	11,987.00
Income from Government Securities	4,083.00
Income from Margin Trading	3,516.00
Income from Placements	294.00
Gain on sale of investment	36,234.00
Unrealized appreciation on derivative financial instruments	831.00
Unrealized Gain/ (Loss) on sale of investments	(12,604.00)
	<u>92,227.00</u>

The Net Assets of the Fund stood at Rs.1.087 billion, with 10,680,529 units outstanding as on 30 June 2017. The Pakistan Credit Rating Agency Limited (PACRA) has assigned fund stability rating of "AA-(f)" to the fund. The asset allocation and asset quality of FHIF as on June 30, 2017, can be viewed as under:



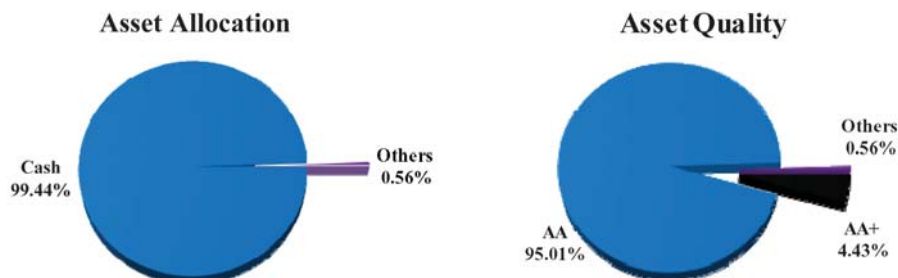
First Habib Cash Fund (FHCF)

The Fund earned gross income of Rs.74.141 million, with a return of 6.56% p.a. as detailed below:

	(Rs. In 000s)
Profit on bank deposits	61,314.00
Income from Government Securities	4,322.00
Markup income on Placements	8,512.00
Gain on sale of investment	(7.00)
	<u>74,141.00</u>

The fund distributed Rs. 6.50 per unit (FY2016: Rs. 5.75 per unit) as dividend for the year ended June 30, 2017. The Net Assets of the Fund stood at Rs 1.04 billion as on June 30, 2017. The fund size reached a high of Rs.1.37 billion in Feb 2017.

The asset allocation and asset quality of FHCF as on June 30, 2017, can be viewed as under:



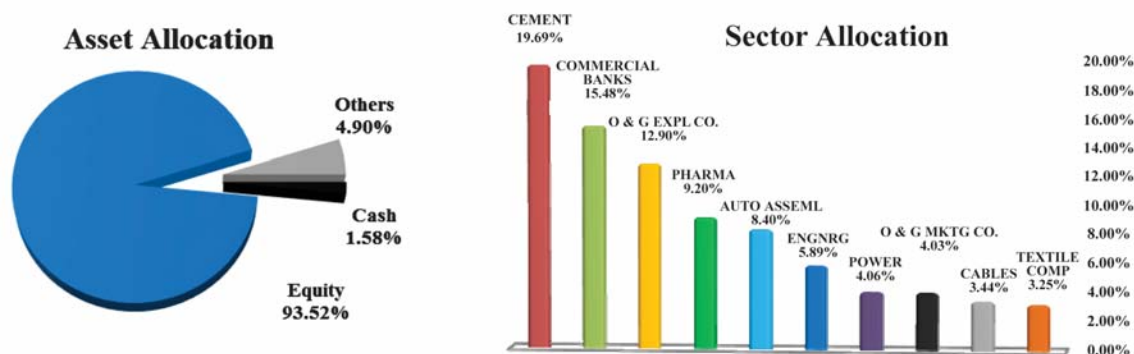
JCR-VIS has assigned a rating of "AA (f)" to the fund. This rating denotes high degree of stability in Net Asset Value.

First Habib Stock Fund (FHSF)

The Net Assets as on June 30, 2017 stood at Rs.207.50 million. The fund earned gross income of Rs.18.648 million as detailed below:

	(Rs. In 000s)
Profit on bank deposits	709.00
Dividend Income	6,265.00
Gain on sale of investment	21,988.00
Unrealized Gain/ (Loss) on sale of investments	(10,314.00)
	<u>18,648.00</u>

The Fund distributed Rs. 16.00 per unit (FY2016: Rs.4.10 per unit) as dividend for the Financial Year ended June 30, 2017. The asset allocation and sector allocation of FHSF as on June 30, 2017, can be viewed as follows.



JCR-VIS has assigned a ranking of 3 Star to the Fund, which reaffirms its performance in the financial year 2017.

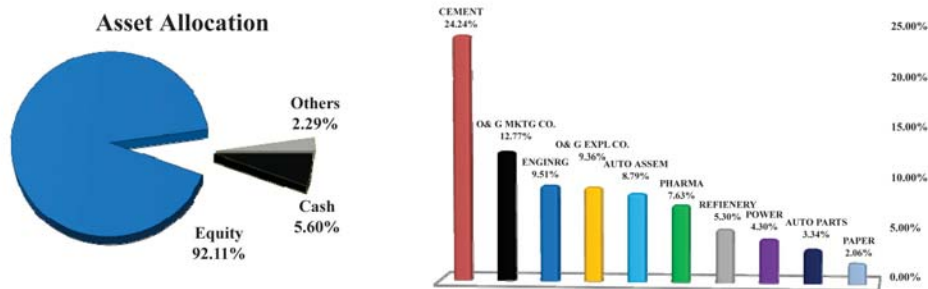
First Habib Islamic Stock Fund (FHISF) ***(Formerly First Habib Islamic Balanced Fund)***

During the Financial Year under review, the Fund was transformed from Sharia Compliant Balanced Fund to Sharia Compliant Equity Fund (April 01, 2017). The Net Asset of the Fund stood at Rs.153.67 million as on June 30, 2017. The fund distributed Rs.11.00 per unit (FY2016: Rs.3.35 per unit) as dividend for the year. The growth income for year of the Fund was Rs. 12.762 million as detail below.

(Rs. In 000s)

Profit on bank deposits	1,838.00
Dividend Income	3,298.00
Gain on sale of investment	17,458.00
Unrealized Gain/ (Loss) on sale of investments	(9,832.00)
	12,762.00

The asset allocation and sector allocation of FHISF as on June 30, 2017, can be viewed as under:



First Habib Islamic Income Fund (FHIIF)

The Fund was launched in January 2017 and generated a return of 3.30% p.a for the year ended June 30, 2017. The Fund's gross income for the Financial Year 2017 was Rs.4.063million.

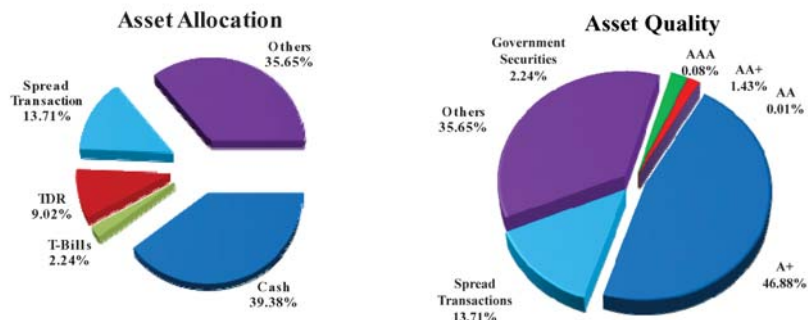
Details of Holding Income:

(Rs. In 000s)

Profit on bank deposits	2,678.00
Income from certificates of Musharaka	579.00
Income from Government Securities	98.00
Dividend Income	188.00
Gain on sale of investment	1,006.00
Unrealized appreciation on derivative financial instrument	383.00
Unrealized Gain/ (Loss) on sale of investments	(869.00)
	4,063.00

The fund distributed Rs. 1.40 per unit as dividend to the unit holders. The fund's net assets as on June 30, 2017 were Rs.101.94 million, touching a high of Rs.235.77 million, in Jan 2017.

The asset allocation and asset quality of FHIIF as of June 30, 2017, can be viewed as under:



CORPORATE GOVERNANCE

A prescribed under clause 5.19.23 of the Listing Regulations of Pakistan Stock Exchange Limited, Statement of Compliance with the Code of Corporate Governance along with the auditors' report thereon for the year ended June 30, 2017 forms part of this annual report.

1. Statements under clause 5.19.11 of the Code:
 - a) The financial statements, prepared by the management of the listed Fund, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
 - b) Proper books of account of the listed Fund have been maintained;
 - c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
 - d) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of
 - e) Financial statements and any departures therefrom has been adequately disclosed and explained;
 - f) The system of internal control is sound in design and has been effectively implemented and monitored;
 - g) There are no significant doubts upon the listed Fund's ability to continue as a going concern;
 - h) The details of taxes, duties, levies and charges outstanding, are disclosed in the financial statements;
 - i) The number of board and committees' meetings held during the year and attendance by each director forms part of this Annual Report; and
 - j) The prescribed pattern of shareholding is given as part of this Annual Report.
 - k) The sale and repurchase of units of the Fund carried out by the directors, CEO, COO, CFO, Head of Internal Audit,
 - l) Company Secretary, their spouses and minor children, and the Management Company are disclosed in Financial Statements:

Future Outlook

Pakistan's Economy has shown considerable growth during the last two fiscal years. The GDP target for the FY17-18 has been set at 6.00%. This GDP has been projected to grow due to i) ongoing CPEC related projects ii) considerable increase in PSDP iii) inclusion of additional power in national grid and other ongoing power projects. Along with these positive developments the economy faces concerns, regarding balance of payment pressure, rupees revaluation and political uncertainties.

We pray to Allah for continued Peace and Stability in the Country and success of the Company.

Acknowledgement

The Board is indeed thankful to all the stakeholders particularly its valued Unit-holders, Central Depository Company of Pakistan Limited as Trustee, the Securities and Exchange Commission of Pakistan and the management of Pakistan Stock Exchange for their support and cooperation. The Board also appreciates the employees of the Management Company for their commitment, loyalty and hard work.

On behalf of the Board of the Directors

CEO

Habib Asset Management Limited

September 07, 2017

ڈائریکٹرز رپورٹ:

حبیب ایسیٹ مینجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز 30 جون 2017ء کو ختم ہونے والے مالیاتی سال کیلئے کمپنی کی انتظامیہ کے تحت حبیب فنڈز کی آڈٹ شدہ مالیاتی رپورٹ پیش کرتے ہیں۔

اقتصادی اور مالیاتی مارکیٹ:

مالی سال 2017ء پاکستان کی معیشت کیلئے مثبت رہا اور مجموعی ملکی پیداوار (GDP) 5.3% رہی جبکہ گزشتہ سال یہ شرح 4.7% تھی سارفین کی قیمت کا گراف (CPI) بڑھ کر 4.15% رہا جبکہ گزشتہ سال یہ شرح 2.85% تھی موجودہ سال کے دوران غیر ملکی سرمایہ کاری اور محنت کش ملازمین کی طرف سے ملک میں US\$ 2,401 ملین اور US\$ 19,303 ملین کی سرمایہ کاری کی گئی جبکہ گزشتہ سال 2016ء میں US\$ 2,305 ملین اور US\$ 19,916 ملین تھی اسٹیٹ بینک آف پاکستان نے موجودہ سال کے دوران شرح سود 5.75% پر برقرار رکھی، اسٹیٹ بینک آف پاکستان کی سکیورٹیز کے ریٹس میں پائی جانے والی کمی کی تفصیلات درج ذیل ہے۔

اسٹاک مارکیٹ:

ذریعہ سال کے دوران پاکستان اسٹاک ایکسچینج (PSX) کے 100 انڈیکس میں 8,781.75 پوائنٹس کا اضافہ ہوا اور مارکیٹ کا اختتام 30 جون 2017ء کو 46,565.29 پوائنٹس پر ہوا جبکہ پچھلے سال 30 جون 2016ء کو مارکیٹ کا اختتام 37,783.54 پوائنٹس پر ہوا تھا یعنی کے 23.24% کا اضافہ ہوا۔

موجودہ سال کے دوران اسٹاک مارکیٹ میں تیزی کا رجحان رہا اور PSX 100 انڈیکس 25 مئی 2017 کو تاریخ کی بلند ترین سطح 53,127 پوائنٹس تک جا پہنچی ملکی سیاست میں پائی جانے والی غیر یقینی صورت حال کے سبب اسٹاک ایکسچینج میں زبردست تنزلی پائی گئی اور 31 مئی 2017 سے 30 جون 2017 کے دوران اسٹاک مارکیٹ میں 5,677 پوائنٹس یعنی 11.22% کی کمی پائی گئی۔ پاکستان اسٹاک ایکسچینج کا MSCI ایمرجنگ مارکیٹ میں شمولیت کے باوجود مارکیٹ کے گرتے ہوئے رجحان میں تبدیلی نہ آ سکی۔

میچول فنڈز انڈسٹری:

اپرین اینڈ فیڈرز انڈسٹری کے زیر انتظام اثاثہ جات 30 جون 2016ء پر 438 ارب روپے سے بمطابق 30 جون 2017ء 33% اضافہ سے بڑھ کر 583 ارب روپے ہو گئے۔ کنونیٹیل منی مارکیٹ فنڈز میں 42% کا اضافہ ہوا جب کہ کنونیٹیل آئٹم فنڈز میں 28% کی کمی واقع ہوئی۔ پچھلے سال کے مطابق اس سال بھی شریعہ اکرم اور ایکویٹی فنڈز تقریباً اسی طرح رہے۔ ایکویٹی فنڈز میں 39% کا زبردست اُبھار دیکھا گیا۔ 30 جون 2017ء پر 20 کمپنیاں ایسیٹ مینجمنٹ کے کاروبار میں سرگرم رہیں۔

حبیب ایسیٹ فنڈز کی کارکردگی:

فرسٹ حبیب آئٹم فنڈ (FHIF):

30 جون 2017ء کے اختتام پر فرسٹ حبیب آئٹم فنڈ کا منافع 6.29% رہا اور مالیاتی سال 2017ء کے دوران کل آمدنی 92.22 ملین روپے رہی (جنکی تفصیل درج ذیل ہے) رواں سال کے دوران فنڈ نے 5.00 روپے فی یونٹ کے حساب اپنے یونٹ ہولڈرز کو منافع تقسیم کیا (جبکہ پچھلے سال 2016ء میں 7.00 روپے فی یونٹ دیا تھا) اور نومبر 2016ء میں 0.50 روپے بطور بونس یونٹ تقسیم کئے۔

-/000 روپے

47,886.00

بینک ڈپازٹ پر منافع

11,987.00

ڈیوڈنڈ کی آمدنی

4,083.00

گورنمنٹ سکیورٹیز سے آمدنی

3,516.00

مارجن ٹریڈنگ سے آمدنی

294.00

پلیسیمیٹ سے آمدنی

36,234.00

سرمایہ کاری کی فروخت پر منافع

831.00

سرمایہ کاری کی فروخت پر نفع نقصان

(12,604.00)

غیر حاصل شدہ منافع

92,227.00

30 جون 2017ء کے بمطابق فنڈ کے خالص اثاثہ جات 1.087 ارب روپے تھے پاکستان کریڈٹ ریٹنگ ایجنسی المیٹرا (PACRA) نے فنڈ کی پائیداری کے لیے ریٹنگ AA-F تفویض کیا ہے 30 جون 2017ء میں اثاثہ جات کی سرمایہ کاری اور کوالٹی کا جائزہ درج ذیل ہے۔

فرسٹ حبیب کیش فنڈ (FHCF):

30 جون 2017ء کے اختتام پر فرسٹ حبیب کیش فنڈ کا منافع 6.56% رہا اور مالیاتی سال 2017ء کے دوران کل آمدنی 74.14 ملین روپے رہی (جنکی تفصیل درج ذیل ہے) رواں سال کے دوران فنڈ نے 6.50 روپے فی یونٹ کے حساب اپنے یونٹ ہولڈرز کو منافع تقسیم کیا (جبکہ پچھلے سال 2016ء میں 5.75 روپے فی یونٹ دیا تھا) 30 جون 2017ء کو فنڈ کے خالص اثاثہ جات 1.04 ملین روپے تھے جبکہ فروری 2017ء میں خالص اثاثہ جات 1.37 ملین روپے تک جا پہنچے تھے۔

30 جون 2017ء میں اثاثہ جات کی سرمایہ کاری اور کوالٹی کا جائزہ درج ذیل ہے۔

000/- روپے	
61,314.00	بینک ڈپازٹ پر منافع
4,322.00	گورنمنٹ سکیورٹیز سے آمدنی
8,512.00	پلیسیٹ سے آمدنی
(7.00)	سرمایہ کاری کی فروخت پر نقصان
<u>74,141.00</u>	

جے سی آ (JCR-VIS) نے فنڈ کی پائیداری کے لیے ریٹنگ AA-(f) تفویض کیا ہے 30 جون 2017ء میں اثاثہ جات کی سرمایہ کاری اور کوالٹی کا جائزہ درج ذیل ہے۔

فرسٹ حبیب اسٹاک فنڈ (FHSF):

30 جون 2017ء کے اختتام پر فرسٹ حبیب اسٹاک فنڈ کے خالص اثاثہ جات 207.5 ملین روپے تھے مالیاتی سال 2017ء کے دوران کل آمدنی 18.648 ملین روپے رہی (جنکی تفصیل درج ذیل ہے) رواں سال کے دوران فنڈ نے 16.00 روپے فی یونٹ کے حساب اپنے یونٹ ہولڈرز کو منافع تقسیم کیا (جبکہ پچھلے سال 2016ء میں 4.10 روپے فی یونٹ دیا تھا)

000/- روپے	
709.00	بینک ڈپازٹ پر منافع
6265.00	ڈیوڈنڈ کی آمدنی
21,988.00	سرمایہ کاری کی فروخت پر منافع
(10,314.00)	غیر حاصل شدہ نقصان
<u>18,648.00</u>	

جے سی آ (JCR-VIS) نے فنڈ کی پائیداری کے لیے ریٹنگ 3Star تفویض کیا ہے 30 جون 2017ء میں اثاثہ جات کی سرمایہ کاری اور کوالٹی کا جائزہ درج ذیل ہے۔

فرسٹ حبیب اسلامک اسٹاک فنڈ (FHISF):

(سابقہ فرسٹ حبیب اسلامک ہیلیٹنڈ فنڈ)

زیر جائزہ مالی سال کے دوران مورخہ یکم اپریل 2017ء سے اس فنڈ کو شریعہ موافق ہیلیٹنڈ فنڈ سے شریعہ موافق ایکویٹی اسکیم میں تبدیل کر دیا گیا ہے۔ 30 جون 2017ء کے بمطابق اس فنڈ کے خالص اثاثہ جات 153.67 ملین روپے تھے۔ فنڈ نے 30 جون 2017ء کو ختم ہونے والے سال کے دوران 11.00 روپے فی یونٹ کے حساب سے اپنے یونٹ ہولڈرز کو منافع تقسیم کیا جبکہ (مالی سال 2016ء میں: 3.35 روپے فی یونٹ کے حساب سے منافع منقسم تقسیم کیا تھا)۔ مالیاتی سال 2017ء کے دوران کل آمدنی 12.762 ملین روپے رہی (جنکی تفصیل درج ذیل ہے)

000/- روپے	
1,838.00	بینک ڈپازٹ پر منافع
3,298.00	ڈیوڈنڈ کی آمدنی
17,458.00	سرمایہ کاری کی فروخت پر منافع
(9832.00)	غیر حاصل شدہ نقصان
<u>12,762.00</u>	

30 جون 2017ء میں اثاثہ جات کی سرمایہ کاری اور کوالٹی کا جائزہ درج ذیل ہے۔

فرسٹ حبیب اسلامک آفم فنڈ (FHIIF):

یہ فنڈ جنوری 2017ء میں پیش کیا گیا تھا اور 30 جون 2017ء کو ختم ہونے والے مالی سال کے دوران %3.30 کا اضافہ ہوا۔ مالی سال 2017ء کے دوران فنڈ کی کل آمدنی 4.063 ملین روپے تھی (جس کی تفصیل درج ذیل ہے)۔ فنڈ نے 30 جون 2017ء کو ختم ہونے والے سال کے دوران 1.40 روپے فی یونٹ کے حساب سے اپنے یونٹ ہولڈرز کو منافع تقسیم کیا۔

000/- روپے	
2,678.00	بینک ڈپازٹ پر منافع
579.00	مشارکہ کے سرٹیفکیٹس سے منافع
98.00	گورنمنٹ سکیورٹیز سے آمدنی
188.00	ڈیوڈنڈ کی آمدنی
1,006.00	سرمایہ کاری کی فروخت پر منافع
383.00	سرمایہ کاری کی فروخت پر نفع نقصان
(869.00)	غیر حاصل شدہ منافع
<u>4,063.00</u>	

جون 2017ء میں اثاثہ جات کی سرمایہ کاری اور کوالٹی کا جائزہ درج ذیل ہے۔

ادارہ جاتی نظم کے ضابطے کے ساتھ موافقت میں ڈائریکٹرز کا بیان:

- یونٹ ہولڈرز کی طرف ڈائریکٹرز رپورٹ اس کے عرصے کو جیسا کہ پاکستان اسٹاک ایکسچینج کی شق نمبر 5.19.23 کے تحت درکار ہے ذیل میں پیش کیا جاتا ہے۔
- فنڈز کے حسابات کی مناسب کتب برقرار رکھی گئی ہیں۔
- مالیاتی گوشوارہ جات کی تیاری میں مناسب حساباتی پالیسیز کو مسلسل بروئے کار لاتا جاتا رہا ہے۔ حساباتی تخمینہ معقول اور محتاط آراء [دینی ہیں۔
- انٹرنیشنل کاؤنٹنگ اسٹینڈرڈز، جیسے پاکستان میں لاگو ہیں، مالیاتی گوشوارہ جات کی تیاری میں بیرونی کی جاتی رہی ہے۔
- انٹرنل کنٹرول کا نظام ترتیب و تشکیل میں اچھا ہے اور اسے موثر طریقے سے نافذ کیا گیا اور اسکی نگرانی کی گئی ہے۔
- فنڈز کی بطور ایک جاری کاروبار تسلسل کی صلاحیت پر کوئی معنی خیز شک و شبہ نہیں ہے۔
- ادارہ جاتی نظم کے بہترین طور طریقوں سے جیسا کہ مندرجہ ذیل ضوابط میں تفصیل دی گئی ہے ذرہ برابر بھی اعتراف نہیں ہے۔
- کلیدی مالیاتی معلومات کا خلاصہ متعلقہ فنڈ کے کارکردگی جدول میں مہیا کر دیا گیا ہے۔
- دوران سال فنڈ کے پینٹس میں ڈائریکٹرز سی ای اور، سی ایف او، ہیڈ آف انٹرنل آڈٹ اینڈ کمپنی سکرینی اور ان کے زوجین نے کوئی لین دین نہیں کیا۔

مستقبل کی توقعات :

- گزشتہ دو مالی سالوں کے دوران پاکستانی معیشت نے قابل ذکر شرح نمو ظاہر کی ہے۔ مالی سال 2017ء اور 2018ء کیلئے مجموعی ملکی پیداوار (GDP) 6.0% تک مختص کی گئی ہے۔ یہ شرح نمو زیادہ تر
- (الف) سی پیک سے متعلق جاری منصوبوں
- (ب) پی ایس ڈی پی میں قابل ذکر اضافے
- (ج) قومی گڑ میں اضافی بجلی کی شمولیت اور دیگر جاری بجلی کے منصوبوں
- (د) براہ راست غیر ملکی سرمایہ کاری اور رینیل سیکٹر میں بنی سرمایہ کاری اور قومی معیشت سے منسوب کیا جاتا ہے۔ ان مثبت خبروں کے ساتھ ساتھ پاکستانی معیشت نے کافی تشویش بھی دکھائی ہے جسکی وجہ توازن ادائیگی کا دباؤ روپے کی قدر میں غیر یقینی اور سیاسی غیر یقینی اور عدم استحکام ہیں۔

ہم اللہ سے دعا کرتے ہیں کہ اللہ تعالیٰ 2017ء اور 2018ء بھی ہمارے ملک میں امن اور پائیداری رکھے جس سے کمپنی اور عام آدمی کو فائدہ ہو۔

اقرار نامہ:

بورڈ یقینی طور پر تمام اسٹیک ہولڈرز خصوصاً اسکے گرانفدریوٹ ہولڈرز، منٹل ڈپازٹری کمپنی آف پاکستان بطور ٹرسٹی یعنی امین، سیکریٹریز اینڈ ایگزیکٹو کمیشن آف پاکستان اور پاکستان اسٹاک ایکسچینج کی انتظامیہ کی انکے مدد و اعانت کے لئے شکر گزار رہے، بورڈ مینجمنٹ کمپنی کے ملازمین کی بھی اگلی لگن و فاشعاری اور مشقت کے لئے تہہ دل سے ممنون ہے۔

بورڈ آف ڈائریکٹرز کی طرف سے

علی رضا ڈی - حبیب

چیئر مین

حبیب ایسٹ مینجمنٹ لمیٹڈ مورخہ 7 ستمبر 2017ء

CHAIRMAN REVIEW

On behalf of the Board of Directors, I wish to present the Annual Report of the Funds under the management of Habib Assets Management Limited for the year ended June 30, 2017.

The year under Review unfortunately had more than its usual share of uncertainties with wide Fluctuations in the stock market specially in the last quarter of the year. As a consequence, the performance of our Stock Funds have also been affected.

The details of each Fund are provided in the Directors Report.

During the financial year the structure of the Board remained unchanged. All the Board committees have worked well during the year.

However, Mr. Sajjad Hussain Habib resigned from the Board on July 04, 2017. The Board appreciates his contribution and active participation during his tenure.

On the positive side, we expect a Brighter Picture for the current year and hopefully with Inshallah continued.

Improved Results.

I would like to thank the Securities and Exchange Commission of Pakistan and the member of Board of Directors for their contribution, support and guidance. I also thank the Unit holders for their support and the confidence reposed on us and the employees of the Management company for their hard work, dedication and sincerity.

ALI RAZA D. HABIB

Chairman

Habib Asset Management Ltd.

FIRST HABIB INCOME FUND
Annual Report
For the year ended 30 June 2017

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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 Officer
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

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

Registrar

JWAFPS Registrar Services
(Pvt.) Limited
407-408, 4th Floor,
Al- Ameer Centre, Shahrah-e-Iraq,
Saddar, 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
Bank Alfalah Limited
Habib Metropolitan Bank Limited
JS Bank Limited
Khusshali Microfinance Bank

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.cdc-pakistan.com
Email: info@cdc-pak.com



TRUSTEE REPORT TO THE UNIT HOLDERS

FIRST HABIB INCOME FUND

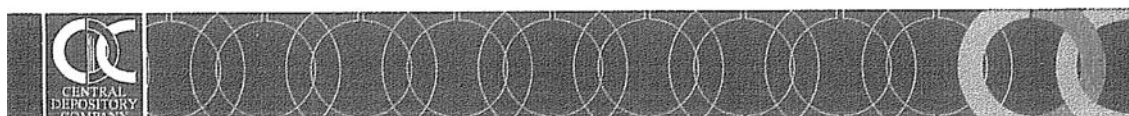
**Report of the Trustee pursuant to Regulation 41(h) and clause 9 of Schedule V of
the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

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, 2017 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 Executive Officer
Central Depository Company of Pakistan Limited

Karachi: September 19, 2017



STATEMENT OF COMPLIANCE BY HABIB ASSET MANAGEMENT LIMITED WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2017

This statement is being presented to comply with the Code of Corporate Governance (the "Code"), contained in Regulation No. 5.19.24 of the Rule book of Pakistan Stock Exchange Limited, 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.

The Board of Directors (the "Board") of Habib Asset Management Limited (the "Management Company"), which is an unlisted public company, manages the affairs of **First Habib Income Fund** (the "Fund"). The Fund being a unit trust open end scheme does not have its own Board of Directors. The units of the Fund are listed as a security on the Pakistan Stock Exchange Limited; therefore, the Management Company has applied the principles contained in the Code to the Fund in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes:

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

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 Broker 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. However, subsequent to the year, Mr. Sajjad Hussain Habib resigned on July 04, 2017.
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 vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of 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 this 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 have attended director's training program and one director is exempt from directors training program due to qualification and experience.
10. There was no appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year.
11. The Directors' report relating to the Fund for the year ended June 30, 2017 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

FIRST HABIB INCOME FUND

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 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 who is also an independent non-executive director.
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 Remuneration Committee. It comprises of three members, of whom two are non-executive directors including the chairman of the Committee who is also an independent non-executive director.
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.
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange.
23. The Management Company has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
24. We confirm that all other applicable material principles enshrined in the Code have been duly complied with by the Management Company except those that are not yet applicable

For and on behalf of the Board

Karachi.
Dated: September 07, 2017



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

**REVIEW REPORT TO THE MEMBERS 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 contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of Habib Asset Management Limited ("the Management Company") of HAML – First Habib Income Fund ("the Fund") for the year ended 30 June 2017 to comply with the requirements of rule book Regulation No. 5.19.24 of Pakistan Stock Exchange Limited, where the Fund is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code 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 the 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 of Directors' 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 of Directors for their review and approval of 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 of Directors 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 of Compliance does not appropriately reflect the Fund'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 2017.

Date: 7 September 2017

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan
and a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.



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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 2017, and the related income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of 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

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as the Management determines is necessary to enable the preparation of the 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 about 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 our 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, we consider internal control relevant to the Fund'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 Fund'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 2017, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity



KPMG Taseer Hadi & Co.

Other Matters

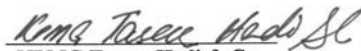
The financial statements of the Funds for the year ended 30 June 2016 were audited by another firm of Chartered Accountants, who vide their report dated 10 September 2016, addressed to the Unit holders, had expressed an unmodified opinion thereon.

Report on Other Legal and Regulatory Requirements

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

Date: 7 September 2017

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

FIRST HABIB INCOME FUND

STATEMENT OF ASSETS AND LIABILITIES

As at 30 June 2017

	Note	30 June 2017 (Rupees in '000)	30 June 2016
Assets			
Bank balances	6	402,919	437,182
Term deposit receipts	7	100,000	-
Placements		-	125,000
Investments	8	176,885	714,958
Fair value of derivatives		831	9,868
Receivable against Margin Trading System (MTS)	9	108,983	-
Income receivable	10	10,309	9,079
Receivable against sale of units		-	43,898
Receivable against sale of investment		216,080	-
Deposits and prepayments	11	94,405	33,148
Total assets		1,110,412	1,373,133
Liabilities			
Payable to Habib Asset Management Limited - Management Company		2,047	2,200
Provision for Federal excise duty on remuneration of the Management Company	12	8,746	8,746
Payable to Central Depository Company of Pakistan Limited - Trustee	13	169	394
Payable to Securities and Exchange Commission of Pakistan (SECP)	14	918	1,224
Provision for Workers' Welfare Fund	15	-	15,687
Provision for Sindh Workers' Welfare Fund	15	1,985	-
Payable against purchase of investments		-	3,873
Accrued expenses and other liabilities	16	9,356	10,626
Total liabilities		23,221	42,750
Net assets		1,087,191	1,330,383
Unit holders' funds (as per statement attached)		1,087,191	1,330,383
(Number of Units)			
Number of units in issue (Face value of units is 100 each)	17	10,680,529	13,175,894
(Rupees)			
Net asset value per unit		101.79	100.97

The annexed notes 1 to 34 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 2017

	30 June	30 June
<i>Note</i>	2017	2016
	(Rupees in '000)	
Income		
Profit on bank deposits	18 38,977	18,660
Profit on term deposit receipt	7,719	5,079
Income from government securities	4,083	44,173
Income from Margin Trading System	3,516	22,522
Income on margin deposit with National Clearing Company of Pakistan Limited	1,190	1,016
Income from placements	294	365
Dividend income	11,987	8,540
Net gain on investments designated at fair value through profit or loss		
- Net capital gain on sale of investments	36,234	52,279
- Net unrealised loss on revaluation of investments	8.1 (12,604)	(9,011)
- Unrealised appreciation on derivative financial instruments	831	9,868
	24,461	53,136
Total income	92,227	153,491
Expenses		
Remuneration of Habib Asset Management Limited - Management Company	19 14,404	24,475
Expenses allocated by the Management Company	20 877	388
Sales tax on management remuneration	21 1,873	3,975
Federal excise duty on management remuneration	-	3,916
Remuneration of Central Depository Company of Pakistan Limited - Trustee	13 1,890	2,234
Sindh sales tax on trustee remuneration	21 246	313
Annual fee to Securities and Exchange Commission of Pakistan (SECP)	14 918	1,224
Brokerage expense	9,127	11,239
Settlement and bank charges	1,403	2,606
Annual listing fee	50	40
Auditors' remuneration	22 397	397
Mutual fund rating fee	314	288
Printing charges	94	86
Provision of Sindh warker's Welfare Fund	15 1,985	-
Reversal of provision for Workers Welfare Fund	15 (15,688)	-
Fees and subscription	249	292
Total expenses	18,139	51,473
Net income from operating activities	74,088	102,018
Net element of loss and capital losses included in prices of units issued less those in units redeemed	(20,757)	(55,870)
Net income for the year before taxation	53,331	46,148
Taxation	23 -	-
Net income for the year after taxation	53,331	46,148

The annexed notes 1 to 34 form an integral part of these financial statements.

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

Chief Executive

Director

FIRST HABIB INCOME FUND

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
Net income for the year	53,331	46,148
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u>53,331</u>	<u>46,148</u>

The annexed notes 1 to 34 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 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
Undistributed income brought forward comprises of:		
- Realised income	10,636	13,998
- Unrealised income	612	464
Undistributed income brought forward	11,248	14,462
Net income for the year	53,331	46,148
Distribution to unit holders' of the Fund		
Interim cash dividend for class 'C' unit holders @ Rs. 7.00 per unit declared on June 21, 2016	-	(49,362)
Interim bonus units @ of Rs. 0.4896/- per bonus unit declared on 01 November 2016	(5,931)	-
Interim cash dividend for class 'C' unit holders @ Rs. 5.00 per unit declared on June 15, 2017	(38,761)	-
Undistributed income carried forward	19,887	11,248
Undistributed income carried forward comprises of:		
- Realised income	19,423	10,636
- Unrealised income	464	612
Undistributed income carried forward	19,887	11,248

The annexed notes 1 to 34 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 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
Net assets at the beginning of the year	1,330,383	1,203,225
Issuance of 15,620,513 units (2016: 42,098,207 units)*	1,610,538	4,383,446
Redemption of 18,115,878 units (2016: 40,806,448 units)	(1,883,126)	(4,308,944)
	(272,588)	74,502
	1,057,795	1,277,727
Net element of loss and capital loss included in prices of units issued less those in units redeemed	20,757	55,870
Net capital gain on sale and redemption of investments	36,234	52,279
Net unrealised gain on revaluation of investments classified as 'at fair 'at fair value through profit or loss'	(11,773)	857
Total comprehensive income for the year (excluding net unrealized gain on revaluation of investments classified as 'at fair value through profit or loss' and capital gain)	28,870	(6,988)
Distribution to unit holders	(44,692)	(49,362)
Net income for the year less distribution	8,639	(3,214)
Net assets at the end of the year	1,087,191	1,330,383

* Including 221,927 (2016: 260,835) units issued as re-investment and 55,174 units issued as Bonus units (2016: Nil) during the year.

The annexed notes 1 to 34 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 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year before taxation	53,331	46,148
Adjustments for non-cash items		
Net unrealised loss on revaluation of investments classified as fair value through profit and loss	12,604	9,011
Unrealised appreciation on derivatives financial instruments	(831)	(9,868)
Net element of loss and capital losses included in prices of units issued less those in units redeemed	20,757	55,870
	85,861	101,161
(Increase) / decrease in assets		
Investments	526,300	(42,600)
Term deposit receipts	(100,000)	-
Placements	125,000	-
Fair value of derivatives	9,037	-
Receivable against margin trading system	(108,983)	415,592
Income receivable	(1,230)	14,692
Receivable against sale of units	43,898	(41,951)
Receivable against sale of Investment	(216,080)	-
Deposits and prepayments	(61,257)	(30,195)
	216,685	315,538
Increase / (decrease) in liabilities		
Payable to Habib Asset Management Limited - Management Company	(153)	(5)
Provision for Federal excise duty on remuneration of Management Company	-	3,916
Payable to Central Depository Company of Pakistan Limited - Trustee	(225)	158
Payable to Securities and Exchange Commission of Pakistan (SECP)	(306)	210
Payable against purchase of investment	(3,873)	3,873
Provision for Workers' Welfare Fund	(15,687)	-
Provision for Sindh Workers' Welfare Fund	1,985	-
Accrued expenses and other liabilities	(1,270)	(32,838)
	(19,529)	(24,686)
Net cash generated from operating activities	283,017	392,013
CASH FLOW FROM FINANCING ACTIVITIES		
Net (payments) / receipts from issuance and redemption of units	(272,588)	74,502
Dividend paid during the year	(44,692)	(49,362)
Net cash (used in) / generated from financing activities	(317,280)	25,140
Net (decrease) / increase in cash and cash equivalents during the year	(34,263)	417,153
Cash and cash equivalents at beginning of the year	437,182	20,029
Cash and cash equivalents at the end of the year	402,919	437,182
Cash and cash equivalents at the end of the year comprise of :		
Cash at bank - saving accounts	400,212	328,005
Cash at bank - current accounts	2,707	109,177
	402,919	437,182

The annexed notes 1 to 34 form an integral part of these financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

FIRST HABIB INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

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 Pakistan 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 Central Depository Company (CDC) as a trustee of the Fund.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

- 2.1.1** These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, and the requirements of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008, (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever, the requirement of the NBFC Rules, the NBFC Regulations and the said directives differ with the requirements of these standards, the requirements of the NBFC Rules, the NBFC Regulations, and the said directives shall prevail.
- 2.1.2** The Companies Act, 2017 was enacted on 30 May 2017 and is applicable with immediate effect. The Securities and Exchange Commission of Pakistan through press release and vide circular no. 17 of 2017 dated 20 July 2017 has decided that all the companies whose financial year, including quarterly and other interim period, closes on or before 30 June 2017, shall prepare their financial statements, including interim financial statements, in accordance with the provisions of the repealed Companies Ordinance, 1984. The new requirements of the Companies Act, 2017 shall be applicable to the companies having their financial year closure after 30 June 2017.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2017:

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-

based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Fund's financial statements.

- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Fund's financial statements.
- Annual improvements to IFRS standards 2014-2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:
- Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 1 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 – 'Non-current Assets Held for Sale and Discontinued Operations'. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Fund's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax.
- SECP through SRO 756(I)/2017 dated 03 August 2017 has made certain amendments in NBFCs and Notified Entities Regulations, 2008. The amendments require additional disclosures and recording of element of income / loss included in price of unit issued or redeemed in Statement of Movements in Reserves or Unit holders' Fund instead of Income Statement. The SRO also deleted 'Distribution Statement' and its contents along with certain additional break-ups and disclosures to be included on the face of 'Income Statement' and 'Statement of Movements in Reserves or Unit holders' Fund'.

The aforementioned changes will be applied from 1 July 2017 and will effect the charge for Sindh Workers' Welfare Fund (SWWF) and consequently, the Net Asset Value per unit of the Fund.

The above amendments are not likely to have an impact on Fund's financial statements.

As disclosed in note 2.1.2, the new requirements of the Companies Act, 2017, shall be applicable to the financial statements issued on or after 30 June 2017. The Act included mutual funds in Third Schedule, accordingly certain additional requirements / disclosures in Fifth Schedule to the Companies Act, 2017 are also applicable to the financial statements of mutual funds. Significant disclosures / requirements, which are relevant to the funds includes but not limited to: name of associated companies or related parties or undertakings along with the basis of relationship describing common directorship and/or percentage of shareholding; summary of significant transactions and events that have affected the financial position and performance during the year, etc.

SECP through SRO 756(I)/2017 dated 03 August 2017 has made certain amendments in NBFCs and Notified Entities Regulations, 2008. The amendments require additional disclosures and recording of element of income / loss included in price of unit issued or redeemed in Statement of Movements in Reserves or Unit holders' Fund instead of Income Statement. The SRO also deleted 'Distribution Statement' and its contents along with certain additional break-ups and disclosures to be included on the face of 'Income Statement' and 'Statement of Movements in Reserves or Unit holders' Fund'.

Further, new amendments changed the definition of accounting income in regulation (63) sub-regulation (I) which is now to be determined after taking into account the element of income / loss relating to the redemption of units. This change will be applied prospectively and may affect the charge for Sindh Workers' Welfare Fund (SWWF) and consequently, the Net Asset Value per unit of the Fund in future.

FIRST HABIB INCOME FUND

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for investments which are accounted for as stated in notes 5.1.

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.

4.1 Use of judgments and estimates

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the application of accounting 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 judgements 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 recognized in the period in which the estimates are 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. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in the application of accounting policies are given below:

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in note 5.1 regarding the Classification of investments.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ending 30 June 2017 is included in the following notes:

- Note 5.1 - Valuation of investments
- Notes 15 and 12 - Recognition of provision for Sindh Workers' Welfare Fund and Federal Excise Duty respectively

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

5.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

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

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

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

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

b) Available-for-sale

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

c) Loans and receivables

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 recognized in the Income Statement. Changes in the fair value of financial instruments classified as 'available-for-sale' are recognized in Statement of Comprehensive Income until derecognized or impaired, when the accumulated adjustments recognized 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.

5.2 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.

FIRST HABIB INCOME FUND

5.3 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.

5.4 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.

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unitholder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unitholders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

5.6 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.

5.7 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.

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.

5.8 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.
- 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.

5.9 Expenses

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

5.10 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.

5.11 Cash and cash equivalents

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

5.12 Dividend distributions and appropriations

Dividend 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.

5.13 Earnings per unit (EPU)

Earnings Per Unit (EPU) has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

6. BANK BALANCES		30 June	30 June
		2017	2016
		(Rupees in '000)	
Current accounts	6.1	2,707	109,177
Saving accounts	6.2	400,212	328,005
		402,919	437,182

6.1 It represents Rs 2,707 million (30 June 2016: Rs 109,177 million) in current account with Bank Al Habib Limited, a related party.

6.2 Savings account carries profit rate ranging from 4.0% to 8% (2016: 4.0% to 6.4%) per annum. It includes balance of Rs. 13,118 million (30 June 2016: Rs 40,670 million) in savings account with Bank Al Habib Limited, a related party.

7. TERM DEPOSIT RECEIPTS (TDR)

TDR has a tenure of 1 year. It will mature on 2 November 2017 and carries markup at the rate of 8% (30 June 2016: Nil) per annum.

8. INVESTMENTS - at fair value through profit or loss	<i>Note</i>	30 June	30 June
		2017	2016
		(Rupees in '000)	
Government securities	8.2	24,865	204,324
Equity securities	8.3	152,020	510,634
		176,885	714,958

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

Market Treasury Bills	8.2.1	(1)	(1)
Pakistan Investment Bonds	8.2.2	-	13
Equity securities	8.3	(12,603)	(9,023)
		(12,604)	(9,011)

8.2 Government Securities

Market Treasury Bills	8.2.1	24,865	99,678
Pakistan Investment Bonds	8.2.2	-	104,646
		24,865	204,324

FIRST HABIB INCOME FUND

8.2.1 Market Treasury Bills

Description	Face Value				As at 30 June 2017			Market value as percentage of	
	As at 01 July 2016	Purchases during the year	Sold / Matured during the year	As at 30 June 2017	Carrying value	Market value	Unrealised (loss)	net assets	total investments
------(Rupees in '000)-----									
Treasury Bills - 3 months	-	75,000	75,000	-	-	-	-	0.00%	0.00%
Treasury Bills - 6 months	100,000	25,000	125,000	-	-	-	-	0.00%	0.00%
Treasury Bills - 1 year *	-	125,000	100,000	25,000	24,866	24,865	(1)	2.29%	14.06%
Total as at 30 June 2017					24,866	24,865	(1)		
Total as at 30 June 2016					<u>99,679</u>	<u>99,678</u>	<u>(1)</u>		

* This represents Market Treasury Bill having a market value of Rs. 24.865 million pledged with National Clearing Company of Pakistan Limited.

8.2.1.1 Rate of return on Market Treasury Bills is 5.92% (30 June 2016: 5.90%) per annum.

8.2.2 Pakistan Investment Bonds

Description	Face Value				As at 30 June 2017			Market value as percentage of	
	As at 01 July 2016	Purchases during the year	Sold / matured during the year	As at 30 June 2017	Carrying value	Market value	Unrealised gain	net assets	total investments
------(Rupees in '000)-----									
Pakistan Investment Bond - 3 years	104,400	-	104,400	-	-	-	-	0.00%	0.00%
Pakistan Investment Bond - 5 years	-	500,000	500,000	-	-	-	-	0.00%	0.00%
Pakistan Investment Bond - 10 years	-	100,000	100,000	-	-	-	-	0.00%	0.00%
Total as at 30 June 2017					-	-	-		
Total as at 30 June 2016					<u>104,633</u>	<u>104,646</u>	<u>13</u>		

8.3 Equity securities

Name of the Investee	As at 01 July 2016	Purchases during the year	Sold during the year	As at 30 June 2017	Carrying value as at 30 June 2017	Market value as at 30 June 2017	Unrealised gain / (loss)	Market value as percentage of		Paid up capital of investee company (with face value of investment)
								Net assets	Total investments	
<div>(Number of Shares)</div> <div>(Rupees in '000)</div>										
COMMERCIAL BANKS										
Askari Bank Limited	-	98,500	98,500	-	-	-	-	0.00%	0.00%	0.00%
Bank of Punjab Limited	150,000	8,721,000	7,498,000	1,373,000	17,308	16,174	(1,134)	1.49%	9.14%	0.09%
Habib Bank Limited	15,000	4,000	19,000	-	-	-	-	0.00%	0.00%	0.00%
National Bank of Pakistan Limited	-	267,000	167,000	100,000	5,791	5,901	110	0.54%	3.34%	0.005%
					23,099	22,075	(1,024)			
CABLE & ELECTRICAL GOODS										
Pak Elektion Limited	1,434,000	2,834,500	3,803,000	465,500	51,634	51,354	(280)	4.72%	29.03%	0.094%
Trakker Limited	563,000	778,500	1,316,500	25,000	338	247	(91)	0.02%	0.14%	0.012%
					51,972	51,601	(371)			
CEMENT										
Cherat Cement Limited	-	43,500	43,500	-	-	-	-	0.00%	0.00%	0.00%
Dewan Cement Limited	1,330,500	-	1,330,500	-	-	-	-	0.00%	0.00%	0.00%
D.G Khan Cement Limited	9,000	42,000	51,000	-	-	-	-	0.00%	0.00%	0.00%
Fauji Cement Company Limited	-	212,500	202,500	10,000	426	410	(16)	0.04%	0.23%	0.001%
Maple Leaf Cement Limited	-	143,500	143,500	-	-	-	-	0.00%	0.00%	0.00%
Pakcem Limited	-	383,000	383,000	-	-	-	-	0.00%	0.00%	0.00%
Pioner Cement Limited	-	50,000	50,000	-	-	-	-	0.00%	0.00%	0.00%
Power Cement Limited	-	101,000	101,000	-	-	-	-	0.00%	0.00%	0.00%
					426	410	(16)			

FIRST HABIB INCOME FUND

Name of the Investee	As at 01 July 2016	Purchases during the year	Sold during the year	As at 30 June 2017	Carrying value as at 30 June 2017	Market value as at 30 June 2017	Unrealised gain / (loss)	Market value as percentage of		Paid up capital of investee company (with face value of investment)
								Net assets	Total investments	
<div><div>(Number of Shares)</div><div>(Rupees in '000)</div></div>										
CHEMICALS										
Fatima Fertilizer Company Limited	50,000	221,500	271,500	-	-	-	-	0.00%	0.00%	0.00%
ENGINEERING										
Amreli Steel Limited	-	53,000	53,000	-	-	-	-	0.00%	0.00%	0.00%
International Steel Limited	-	1,925,500	1,798,500	127,000	18,498	16,242	(2,256)	1.49%	9.18%	0.029%
FERTILIZER										
Engro Fertilizers Limited	958,000	1,174,500	2,057,000	75,500	4,333	4,171	(162)	0.38%	2.36%	0.006%
Engro Corporation Limited	45,000	59,000	102,000	2,000	697	652	(45)	0.06%	0.37%	0.0004%
Fauji Fertilizer Bin Qasim Limited	-	33,500	33,500	-	-	-	-	0.00%	0.00%	0.00%
Fauji Fertilizer Company Limited	-	71,000	500	70,500	6,137	5,826	(311)	0.54%	3.29%	0.01%
FOOD AND PERSONAL CARE PRODUCTS										
Engro Foods Limited	-	35,500	35,500	-	-	-	-	0.00%	0.00%	0.00%
Treet Corporation Limited	-	431,000	430,000	1,000	70	57	(13)	0.01%	0.03%	0.001%
INSURANCE										
Adamjee Insurance Company Limited	78,500	-	78,500	-	-	-	-	0.00%	0.00%	0.00%
OIL & GAS EXPLORATION COMPANY										
Oil And Gas Development Company Limited	-	132,500	46,000	86,500	13,479	12,170	(1,309)	1.12%	6.88%	0.002%
OIL & GAS MARKETING COMPANIES										
Hascol Petroleum Limited	-	5,500	5,500	-	-	-	-	0.00%	0.00%	0.00%
Pakistan State Oil Company Limited	37,500	102,500	129,000	11,000	4,615	4,261	(354)	0.39%	2.41%	0.004%
Sui Northern Gas Company Limited	3,209,000	856,500	4,065,500	-	-	-	-	0.00%	0.00%	0.00%
Sui Southern Gas Company Limited	100,000	592,500	692,500	-	-	-	-	0.00%	0.00%	0.00%
PERSONAL GOODS										
Nishat (Chunian) Limited	285,000	1,157,500	1,422,500	20,000	1,153	1,026	(127)	0.09%	0.58%	0.008%
PHARMACEUTICALS										
The Searle Company	10,000	2,000	12,000	-	-	-	-	0.00%	0.00%	0.00%
POWER GENERATION & DISTRIBUTION										
Hub Power Company Limited	15,000	-	15,000	-	-	-	-	0.00%	0.00%	0.00%
K-Electric Limited	366,000	2,433,000	2,799,000	-	-	-	-	0.00%	0.00%	0.00%
REFINERY										
Attock Refinery Limited	104,000	164,500	254,500	14,000	5,668	5,356	(312)	0.49%	3.03%	0.016%
SUPPORT SERVICES										
TRG Pakistan Limited	2,577,000	3,137,500	5,130,500	584,000	29,841	23,413	(6,428)	2.15%	13.24%	0.107%
TECHNOLOGY AND COMMUNICATION										
Pakistan Telecommuniation Company Limited "A"	195,000	80,000	275,000	-	-	-	-	0.00%	0.00%	0.00%
TEXTILE COMPOSITE										
Nishat Mills Limited	290,000	126,000	386,000	30,000	4,635	4,760	125	0.44%	2.69%	0.009%
Total as at 30 June 2017					164,623	152,020	(12,603)			
Total as at 30 June 2016					519,657	510,634	(9,023)			

8.3.1 Following shares were pledged with National Clearing Company Pakistan Limited (NCCPL) as collateral against margin and MTM losses for settlement of the Fund's trades as allowed in circular no 11 dated 23 October 2007 issued by SECP:

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	30 June 2017	30 June 2016
	----- (Number of Shares) -----	
Adamjee Insurance Company Limited	-	78,500
Dewan Cement Limited	-	1,000,000
Engro Fertiliser Limited	-	500,000
Fatima Fertiliser Company Limited	-	50,000
Nishat (Chunian) Limited	-	285,000
Nishat Mills Limited	-	100,000
Pak Elektron Limited	-	1,000,000
Pakistan Telecommunication Company Limited	-	195,000
Sui Northern Gas Pipeline Limited	-	1,500,000
TPL Trakker Limited	-	250,000
TRG Pakistan Limited - Class 'A'	-	1,500,000
	-	6,458,500

9. RECEIVABLE AGAINST MARGIN TRADING SYSTEM (MTS)

This represents the amount receivable under the margin trading of eligible listed equity securities which are to be settled within maximum 60 days. The balance carries mark-up ranging from 8.00% to 14.28% (2016: Nil).

	Note	30 June 2017	30 June 2016
		(Rupees in '000)	
10. INCOME RECEIVABLE			
Government securities		-	5,398
Bank deposits		3,043	2,458
Term deposit receipts (TDRs)		5,282	-
Margin Trading System (MTS)		311	-
Placements		-	23
Dividend receivable		1,673	1,200
		<u>10,309</u>	<u>9,079</u>

11. DEPOSITS AND PREPAYMENTS

Security Deposit with National Clearing Company of Pakistan Limited (NCCPL)		2,500	2,500
Cash Margin To NCCPL against equity	11.1	39,000	30,000
Deliverables future contract margin with NCCPL		51,118	-
Deposit with Central Depository Company of Pakistan Limited		100	100
Deposit with NCCPL against Margin trading system (MTS)		250	250
Prepayment against MTS account maintenance fee		101	84
Advance tax		1,336	214
		<u>94,405</u>	<u>33,148</u>

11.1 This deposit carries return at the rate of 4% (30 June 2016: 4%) per annum.

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

As per the requirements of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16 percent 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, hence, a petition was collectively filed by the Mutual Fund Association of Pakistan with the Sindh High Court (SHC) on 4 September 2013.

While disposing the above petition through order dated 16 July 2016, the SHC declared the said provisions to be ultra vires and as a result no FED is payable with effect from 01 July 2016. However, the tax authorities subsequently filed appeal against the decision of the SHC in the Supreme Court of Pakistan, which is pending for the decision.

Furthermore, the Finance Act 2016 also introduced an amendment to the Federal Excise Act, 2005 whereby FED was withdrawn on services of different industries including Non-Banking Financial Institutions, which are already subject to provisional sales tax.

However, since the appeal is pending in the Supreme Court of Pakistan, the Management Company, as a matter of abundant caution, is carrying provision for FED for the period from 13 June 2013 to 30 June 2016 aggregating to Rs. 8.746 million. Had the provision on FED

FIRST HABIB INCOME FUND

not been made, Net Asset Value per unit of the Fund as at 30 June 2017 would have been higher by Rs. 0.82 per unit (30 June 2016: Rs. 0.66 per unit).

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

Trustee fee	13.1	165	177
CDS charges		4	217
		<u>169</u>	<u>394</u>

13.1 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.

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 0.075% (30 June 2016: 0.075%) of the average daily net assets of the Fund.

15. PROVISION / (REVERSAL) FOR SINDH WORKERS' WELFARE FUND / WORKERS' WELFARE FUND

The Finance Act, 2008 had introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance) as a result of which it was construed that all Collective Investment Schemes (CISs) / mutual funds whose income exceeded Rs 0.5 million in a tax year were 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 was higher. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honourable Sindh High Court (SHC) challenging the applicability of WWF on CISs which is pending adjudication. Similar cases were disposed of by the Peshawar and the Lahore High Courts in which these amendments were declared unlawful and unconstitutional. However, these decisions were challenged in the Supreme Court of Pakistan.

Subsequently, the Finance Act, 2015 introduced an amendment under which CISs / mutual funds have been excluded from the definition of "industrial establishment" subject to WWF under the WWF Ordinance. Consequently, mutual funds are not subject to this levy after the introduction of this amendment which is applicable from tax year 2016. Accordingly, no further provision in respect of WWF was made with effect from 1 July 2015.

On 10 November 2016 the Supreme Court of Pakistan (SCP) has passed a judgment declaring the amendments made in the Finance Acts 2006 and 2008 pertaining to WWF as illegal citing that WWF was not in the nature of tax and could, therefore, not have been introduced through money bills. Accordingly, the aforesaid amendments have been struck down by the SCP. The Federal Board of Revenue has filed a petition in the SCP against the said judgment, which is pending hearing. While the petitions filed by the CISs on the matter are still pending before the SHC, the Mutual Funds Association of Pakistan (MUFAP) (collectively on behalf of the asset management companies and their CISs) has taken legal and tax opinions on the impact of the SCP judgement on the CISs petition before the SHC. Both legal and tax advisors consulted were of the view that the judgment has removed the very basis on which the demands were raised against the CISs. Therefore, there was no longer any liability against the CISs under the WWF Ordinance and that all cases pending in the SHC or lower appellate forums will now be disposed of in light of the earlier judgement of the SCP.

Furthermore, as a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) had been passed by the government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.50 million, is required to pay Sindh Workers' Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income. The matter was taken up by the MUFAP with the Sindh Revenue Board (SRB) collectively on behalf of various asset management companies (including the Management Company of the Fund) whereby it was contested that mutual funds should be excluded from the ambit of the SWWF Act as these were not industrial establishments but were pass through investment vehicles and did not employ workers. The SRB held that mutual funds were included in the definition of financial institutions as per the Financial Institution (Recovery of Finances) Ordinance, 2001 and were, hence, required to register and pay SWWF under the SWWF Act. Thereafter, MUFAP has taken up the matter with the Sindh Finance Ministry to have CISs / mutual funds excluded from the applicability of SWWF.

In view of the above developments regarding the applicability of WWF and SWWF on CISs / mutual funds, MUFAP has recommended the following to all its members on 12 January 2017:

- based on legal opinion, the entire provision against WWF held by the CISs till 30 June 2015, to be reversed on 12 January 2017; and
- the provision in respect of SWWF should be made on a prudent basis with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from 21 May 2015) on 12 January 2017.

Accordingly, the provision for SWWF is being made on a daily basis going forward.

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The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on 12 January 2017 and the SECP vide its letter dated 1 February 2017 has advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosures in the financial statements of the CISs/ mutual funds. Accordingly, the Fund has recorded these adjustments in its books on 12 January 2017.

The Management Company has recognised SWWF charge for the period from 21 May 2015 to 30 June 2017, amounting to Rs. 1.985 million. Had the 'SWWF not been provided, the NAV per unit of the Fund would have been higher by Rs. 0.19.

	30 June 2017	30 June 2016
16. ACCRUED EXPENSES AND OTHER LIABILITIES		
	(Rupees in '000)	
Auditors' remuneration	292	346
Brokerage	1,315	48
Payable against redemption of units	54	-
Others	7,695	10,232
	<u>9,356</u>	<u>10,626</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.

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

	(Number of Units)	
Type 'A' Units	553,913	520,826
Type 'B' Units	7,645,939	9,633,507
Type 'C' Units	2,480,677	3,021,561
	<u>10,680,529</u>	<u>13,175,894</u>

18. PROFIT ON BANK DEPOSITS	<i>Note</i>	(Rupees in '000)
Saving accounts	18.1	<u>38,977</u> <u>18,660</u>

18.1 This includes profit on deposits with Bank Al Habib Limited (a related party) of Rs. 1.878 million (2016: Rs. 0.137 million).

19. REMUNERATION OF HABIB ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY

Under the provision of Non-Banking Finance Companies and Notified Entities Regulations, 2008, the management company is entitled to a remuneration equal to an amount not exceeding 1.5% per annum of average annual net assets of the fund, as the fund is categorised as Income scheme. The management has charged its remuneration at the rate of 1.5% per annum of the average annual net assets from 1 July 2016 to 14 August 2016. Whereas, it has charged management fee at the rate of 10% of gross income (with minimum fee of 1% per annum and maximum fee of 1.5% per annum of average annual net assets.) from 15 August 2016 onwards.

20. ALLOCATED EXPENSES

Securities and Exchange Commission of Pakistan through its SRO 1160(I)/2015 dated 25 November 2015 has revised the Non-Banking Finance Companies and Notified Entities Regulations, 2008. In the revised regulations a new clause 60(s) has been introduced allowing the Management Company to charge "fees and expenses related to registrar services, accounting, operation and valuation services related to CIS maximum up to 0.1% of average annual net assets of the Scheme or actual whichever is less" from the mutual funds managed by it.

During the year, Management Company has charged actual expense related to registrar service and software cost to the Fund.

21. SINDH SALES TAX ON MANAGEMENT COMPANY'S AND TRUSTEE REMUNERATION

Sindh Sales Tax has been charged at 13% (30 June 2016: 14%) on the management company's and trustee remuneration charged during the year.

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22. AUDITORS' REMUNERATION	30 June 2017	30 June 2016
	(Rupees in '000)	
Annual audit fee	270	270
Half yearly review fee	89	89
Review of compliance with the Code of Corporate Governance fee	27	27
Out of pocket expenses	11	10
	<u>397</u>	<u>397</u>

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. DERIVATIVE INSTRUMENTS

The fund has been involved in derivatives transactions involving equity futures.

Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions, these controls include appropriate segregation of duties, regular reconciliation of accounts, and the valuation of assets and positions.

25. 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, First Habib Cash Fund, First Habib Islamic Income Fund and First Habib Islamic Stock 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.

	30 June 2017		30 June 2016	
<u>Units sold to:</u>	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Management Company				
Habib Asset Management Limited	<u>1,588,111</u>	<u>161,531</u>	<u>4,937,514</u>	<u>511,769</u>
Associated Companies				
- Bank AL Habib Limited	<u>332</u>	<u>34</u>	<u>-</u>	<u>-</u>
- Habib Insurance Company Limited	<u>2,176,343</u>	<u>225,000</u>	<u>5,160,516</u>	<u>546,286</u>

	30 June 2017		30 June 2016	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Other related parties:				
- Directors and executives of the Management Company	<u>71,648</u>	<u>7,173</u>	<u>33,618</u>	<u>3,456</u>
- Habib Asset Management Limited Employees Provident Fund	<u>84,742</u>	<u>8,774</u>	<u>26,105</u>	<u>2,741</u>
- Sukaina Education And Welfare Trust	<u>447,303</u>	<u>46,039</u>	<u>47,833</u>	<u>4,806</u>
- Habib Insurance Company Limited - Employees Provident Fund	<u>4,863</u>	<u>494</u>	<u>6,407</u>	<u>644</u>
- Habib Sugar Mills Limited	<u>-</u>	<u>-</u>	<u>12,085,037</u>	<u>1,250,000</u>
- Ghulamman-E-Abbas Educational & Medical Trust Endowment Fund	<u>364,668</u>	<u>38,191</u>	<u>84,422</u>	<u>8,740</u>
- Dawood Habib Memorial Trust	<u>15,530</u>	<u>1,578</u>	<u>20,798</u>	<u>2,089</u>
- Mrs. Shama Sajjad Habib	<u>9,085</u>	<u>923</u>	<u>12,756</u>	<u>1,282</u>
- Mr Sajjad Hussain	<u>7,053</u>	<u>717</u>	<u>10,215</u>	<u>1,029</u>

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	30 June 2017		30 June 2016	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
- Mr. Qumail Habib	756	77	15,842	1,596
- Mr. Abbas D Habib	1,386	141	15,836	1,596
- Mr. Ali Asad Habib	16,042	1,633	15,738	1,587
- Mrs. Hina Shoaib	7	1	10	1
- Mr Munawar Ali Habib	801	81	13,341	1,344
- Mr. Ali Raza D Habib	14,749	1,500	70,897	7,366
- Mr Imran Ali Habib	-	-	26,094	2,630
- Mr Murtaza Habib	15,412	1,567	14,884	1,500

Bonus Units Issued:

Management Company

Habib Asset Management Limited	58	6	-	-
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Associated Companies

Bank Al Habib Limited	6,313	645	-	-
Habib Insurance Company Limited	3,072	314	-	-

Other related parties

Executives of the Management Company	252	26	-	-
Greenshield Insurance Brokers (Pvt) Ltd	97	10	-	-
Habib Insurance Company Limited Employees Provident Fund	458	47	-	-
Habib Asset Management Limited - Employees Provident Fund	-	-	-	-
Sukaina Education And Welfare Trust	5,632	575	-	-
Apwa Ra'ana Liaquat Craftsmen Colony	282	29	-	-
Ghulaman-E-Abbas Educational & Medical Trust Endowment Fund	283	29	-	-
Dawood Habib Memorial Trust	1,948	199	-	-
Mr Ali Raza D. Habib	109	11	-	-
Mr Abbas D. Habib	145	15	-	-
Mrs. Shama S Habib	1,006	103	-	-
Mrs. Hina Shoaib	1	-	-	-
Mr. Murtaza Habib	69	7	-	-
Mr. Sajjad Hussain	69	7	-	-
Mr. Qumail Habib	145	15	-	-
Mr Munawar Ali Habib	84	9	-	-
Mr. Ali Asad Habib	137	14	-	-

Units redeemed by:

Management Company

Habib Asset Management Limited	3,307,279	336,823	3,930,817	416,129
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Associated Companies

- Habib Insurance Company Limited	2,880,513	298,849	6,154,388	603,937
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Other related parties

- Directors and executives of the Management Company	58,053	6,086	31,299	3,251
- Habib Asset Management Limited - Employees Provident Fund	52,321	5,307	25,236	2,636
- Greenshield Insurance Brokers	22,114	2,293	15,369	1,600
- Sukaina Education And Welfare Trust	299,366	30,821	-	-
- Habib Sugar Mills Limited	-	-	12,085,037	1,257,932
- Ghulaman-E-Abbas Educational & Medical Trust Endowment Fund	74,170	7,705	90,436	9,461
- Dawood Habib Memorial Trust	-	-	180,977	18,827
- Mr Ali Raza D. Habib	-	-	47,486	4,997
- Mr Imran Ali Habib	26,094	2,639	-	-
- Mr. Qumail Habib	14,230	1,499	-	-

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Units held by:	As at 30 June 2017		As at 30 June 2016	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Management Company				
Habib Asset Management Limited	5,579	568	1,724,542	174,128
Associated Companies				
- Bank AL Habib Limited	1,363,808	138,825	1,357,163	137,034
- Habib Insurance Company Limited	-	-	701,098	70,791
Other related parties				
- Directors and executives of the Management Company	45,843	4,666	31,993	3,230
- Habib Insurance Company Limited - Employees Provident Fund	103,686	10,554	98,365	9,932
- Habib Asset Management Limited - Employees Provident Fund	41,392	4,213	7,030	710
- Sukaina Education And Welfare Trust	1,116,809	113,682	963,240	97,259
- Greenshield Insurance Brokers	3,318	338	25,216	2,546
- Apwa Ra'ana Liaquat Craftsmen Colony	63,191	6,432	60,660	6,125
- Ghulaman-E-Abbas Educational & Medical Trust Endowment Fund	301,514	30,692	-	-
- Dawood Habib Memorial Trust	436,304	44,412	418,826	42,289
- Mrs. Shama Sajjad Habib	226,285	23,034	216,194	21,829
- Mr. Murtaza Habib	30,366	3,091	14,884	1,503
- Mr. Qumail Habib	17,824	1,814	31,153	3,146
- Mr. Abbas D Habib	32,678	3,326	31,146	3,145
- Mr. Ali Asad Habib	45,673	4,649	29,494	2,978
- Mrs. Hina Shoaib	183	19	175	18
- Mr. Sajjad Hussain	22,002	2,240	14,879	1,502
- Mr Munawar Ali Habib	18,891	1,923	18,006	1,818
- Mr Ali Raza D. Habib	38,270	3,896	23,411	2,364
- Mr Imran Ali Habib	-	-	26,094	2,635

Details of transactions with connected persons are as follows:

	2017	2016
	(Rupees in '000')	
Habib Asset Management Limited - Management Company		
- Management fee	14,404	24,475
- Sales tax	1,873	3,975
- Federal Excise Duty	-	3,916
- Allocated Expenses	877	388
Bank AL Habib Limited		
- Profit on bank deposits	998	2,652
Central Depository Company of Pakistan Limited - Trustee		
- Remuneration to the Trustee	1,890	2,547
- Sales Tax	246	313
Dividend paid		
- Bank AL Habib Limited	6,819	9,500

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

Bank AL Habib Limited		
- Bank balance	13,118	40,670
Habib Asset Management Limited - Management Company		
- Management Company fee payable	2,047	2,200
- Federal Excise duty payable	8,746	4,830
Central Depository Company of Pakistan Limited - Trustee		
- Remuneration payable	165	177
- Other CDC Charges payable	4	117
- Security deposit - Non interest bearing	100	100

FIRST HABIB INCOME FUND

26. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

Risk management framework

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

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

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

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, 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:

FIRST HABIB INCOME FUND

	30 June 2017		30 June 2016	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
	----- (Rupees in '000) -----			
Bank balances	402,919	402,919	562,182	562,182
Investments	176,885	176,885	714,958	-
Receivable against Margin Trading System	108,983	108,983	-	-
Income receivable	10,309	3,043	9,079	2,458
Receivable against sale of units	-	-	43,898	43,898
Deposits & prepayments	94,405	94,405	33,148	33,148
	<u>793,501</u>	<u>786,235</u>	<u>1,363,265</u>	<u>641,686</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. 176.885 million (2016: Rs. 714.958 million) include investments in equity securities amounting to Rs. 152.019 million (2016: 510.634 million) and investments in Government securities which are not considered to carry credit risk, and therefore pertaining income receivable amounting to Rs. Nil million (2016: Rs. 5.398 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). The Fund did not have any debt securities (including profit receivable on debt securities) as at 30 June 2017.

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

Ratings	30 June 2017	30 June 2016
A+	96.17%	2.00%
AA+	3.60%	35.00%
AA	0.23%	63.00%
	<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 14.06% (2016: 14.99%) 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:

Banks	79.09%	91.79%
Financial services	20.91%	8.21%
	<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.

FIRST HABIB INCOME FUND

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).

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 with in 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.

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

	30 June 2017				
	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	2,047	2,047	2,047	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	169	169	169	-	-
Payable to Securities and Exchange Commission of Pakistan (SECP)	918	918	-	918	-
Accrued expenses and other liabilities	9,356	9,356	7,749	340	-
	12,490	12,490	9,965	1,258	-
	30 June 2016				
	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	2,200	2,200	2,200	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	394	394	394	-	-
Payable to Securities and Exchange Commission of Pakistan	1,224	1,224	-	1,224	-
Accrued expenses and other liabilities	10,626	10,626	10,232	394	-
	14,444	14,444	12,826	1,618	-

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 risks

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

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on investment in Government Securities, certain Term Finance Certificates, Term Deposit Receipts, Certificate of Investments, clean placements and profit and loss sharing bank balances. The Fund carries a mix of fixed and floating rate financial instruments. Currently the exposure in fixed rate instruments is in Government securities 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:

	30 June 2017	30 June 2016
	(Rupees in '000)	
Fixed rate instruments		
Government securities	24,865	204,324
Term Deposit Receipts	100,000	-
Placements	-	125,000
	124,865	329,324
Variable rate instruments		
Bank balance	400,212	328,005
	400,212	328,005

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 2017, the net assets of the Fund would have been lower / higher by Rs 4.37 million (2016: Rs. 4.37 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 2017, investment in Government Securities and term deposit receipts exposes the Fund to fair value interest rate risk. In case of 100 basis points increase / decrease in PKRV on 30 June 2017, the net assets of the Fund would have been lower/ higher by Rs. 1.25 million (2016: Rs. 3.29 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 2016 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:

FIRST HABIB INCOME FUND

<u>30 June 2017</u>	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	4.00% - 8%	402,919	-	-	402,919
Investments	5.92%	176,885	-	-	176,885
Total assets		579,804	-	-	579,804
<hr/>					
<u>30 June 2016</u>	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	4.00% - 6.40%	562,182	-	-	562,182
Investments	5.90% to 6.39%	714,958	-	-	714,958
Total assets		1,277,140	-	-	1,277,140

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

26.4 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' fund structure depends on the issuance and redemption of units.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the Fund is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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 traded.
- 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).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

FIRST HABIB INCOME FUND

	Carrying amount				Fair value			
	Fair value through profit and loss	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
30 June 2017	<i>Note</i> ----- (Rupees in '000) -----							
Financial assets - measured at fair value								
Government securities	24,865	-	-	24,865	-	24,865	-	24,865
Quoted equity securities	152,020	-	-	152,020	152,020	-	-	152,020
Derivative asset	831	-	-	831	831	-	-	831
Financial assets - not measured at fair value								
Balances with banks	-	402,919	-	402,919	-	-	-	-
Receivable on issuance and conversion of units	-	-	-	-	-	-	-	-
Receivable against Margin Trading System	-	108,983	-	108,983	-	-	-	-
Dividend and profit receivable	-	10,309	-	10,309	-	-	-	-
Receivable against investments	-	216,080	-	216,080	-	-	-	-
Deposits and other receivables	-	94,405	-	94,405	-	-	-	-
	<u>177,716</u>	<u>832,696</u>	<u>-</u>	<u>1,010,412</u>				
Financial liabilities - measured at fair value								
Derivative liability	-	-	-	-	-	-	-	-
Financial liabilities - not measured at fair value								
Payable to Habib Asset Management Limited - Management Company	-	-	1,912	1,912	-	-	-	-
Payable to Central Depository Company of Pakistan Limited (CDC) - Trustee	-	-	150	150	-	-	-	-
Payable against purchase of investment	-	-	-	-	-	-	-	-
Accrued expenses and other liabilities	-	-	1,756	1,756	-	-	-	-
	<u>-</u>	<u>-</u>	<u>3,818</u>	<u>3,818</u>				
	Carrying amount				Fair value			
	Fair value through profit and loss	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
30 June 2016	<i>Note</i> ----- (Rupees in '000) -----							
Financial assets - measured at fair value								
Government securities	204,324	-	-	204,324	-	204,324	-	204,324
Quoted equity securities	510,634	-	-	510,634	510,634	-	-	510,634
Derivative asset	9,868	-	-	9,868	9,868	-	-	9,868
Financial assets - not measured at fair value								
Balances with banks	-	562,182	-	562,182	-	-	-	-
Receivable on issuance and conversion of units	-	43,898	-	43,898	-	-	-	-
Receivable against Margin Trading System	-	-	-	-	-	-	-	-
Dividend and profit receivable	-	9,079	-	9,079	-	-	-	-
Receivable against investments	-	-	-	-	-	-	-	-
Deposits and other receivables	-	33,148	-	33,148	-	-	-	-
	<u>724,826</u>	<u>648,307</u>	<u>-</u>	<u>1,373,133</u>				
Financial liabilities - not measured at fair value								
Payable to Habib Asset Management Limited - Management Company	-	-	1,947	1,947	-	-	-	-
Payable to Central Depository Company of Pakistan Limited (CDC) - Trustee	-	-	372	372	-	-	-	-
Payable against purchase of investment	-	-	3,873	3,873	-	-	-	-
Accrued expenses and other liabilities	-	-	470	470	-	-	-	-
	<u>-</u>	<u>-</u>	<u>6,662</u>	<u>6,662</u>				

FIRST HABIB INCOME FUND

- 27.1 The Fund has not disclosed the fair values for these financial assets and financial liabilities, as these are either short term in nature or repriced periodically. Therefore, their carrying amounts are reasonable approximation of fair value.

28. PATTERN OF UNIT HOLDING

Unit holding pattern of the fund as at 30 June 2017 is as follows:

Category	Note	Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		323	2,648,589	269,605	24.80%
Associated companies	28.1	9	3,694,106	376,030	34.59%
Chief executive	28.2	1	23,630	2,405	0.22%
Insurance companies		3	986,630	100,431	9.24%
Retirement funds		10	706,166	71,882	6.61%
Others		14	2,621,408	266,838	24.54%
		360	10,680,529	1,087,191	100.00%

Unit holding pattern of the Fund as at 30 June 2016 was as follows:

Category	Note	Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		354	3,814,605	385,165	28.95%
Associated companies	28.1	3	4,160,480	420,088	31.58%
Chief executive	28.2	1	17,090	1,726	0.13%
Insurance companies		3	1,128,802	113,976	8.57%
Retirement funds		9	833,958	84,206	6.33%
Others		15	3,220,959	325,222	24.45%
		385	13,175,894	1,330,383	100.00%

28.1 Associated companies

	30 June 2017			30 June 2016		
	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	5,579	568	0.05%	1,724,542	174,129	13.09%
Habib Insurance Company Limited	384,108	39,099	3.60%	1,078,775	108,925	8.19%
Bank AL Habib Limited	1,363,808	138,825	12.77%	1,357,163	137,034	10.30%
Ghulaman-e-Abbas School	6,905	703	0.06%	-	-	0.00%
Bait-ul-Sukoon Trust	71,320	7,260	0.67%	-	-	0.00%
Dawood Habib Memorial Trust	436,304	44,412	4.09%	-	-	0.00%
Ghulaman-e-Abbas Educational & Medical Trust Endowment Fund	302,643	30,807	2.83%	-	-	0.00%
Sukaina Education & Welfare Trust	1,116,808	113,682	10.46%	-	-	0.00%
The Habib Foundation	6,629	675	0.06%	-	-	0.00%
	3,694,106	376,030	34.59%	4,160,480	420,088	31.58%

28.2 Chief executive

Imran Azim	23,630	2,405	0.22%	17,090	1,726	0.13%
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FIRST HABIB INCOME FUND

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

Broker name	30 June 2017	30 June 2016
	(Percentage)	
Intermarket Securities Limited	17.00	18.39
Munir Khanani Securities Limited	15.23	50.64
Multiline Securities Pvt Limited	13.32	4.26
Reliance Securities (Pvt) Limited	12.89	-
Asda Securities (Pvt) Limited	9.88	-
Pearl Securities Limited	8.23	0.18
Top Line Securities (Pvt) Limited	8.14	9.40
Vector Securities (Pvt) Limited	4.18	-
Arif Habib Limited	3.52	0.33
AKD Securities Limited	3.45	6.93
	95.84	90.12

30. 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	61 years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	40 years
Mr. Mansoor Ali	Director	MBA	32 years

30.1 Fund Manager

Mr. Junaid Kasbati - Fund Manager

Mr. Junaid Kasbati is an MBA and possesses over nine 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 Islamic Stock Fund, First Habib Stock Fund and First Habib Islamic Income Fund.

31. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 68th, 69th, 70th, 71th and 72nd board meetings were held on 11 July 2016, 10 September 2016, 24 October 2016, 14 February 2017 and 25 April 2017 respectively.

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

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave Granted	
Ali Raza D. Habib	5	3	2	68th and 72nd meeting
Imran Azim	5	5	-	-
Mansoor Ali	5	4	1	72nd meeting
Mohammad Ali Jameel	5	4	1	68th meeting
Vice Admiral(R) Khalid M Mir	5	4	1	70th meeting
Liaquat Habib Merchant	5	0	5	68th, 69th, 70th, 71th and 72nd meeting
Sajjad Hussain	5	4	-	68th meeting

FIRST HABIB INCOME FUND

32. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the Management Company on **07 September, 2017**.

33. TOTAL EXPENSE RATIO (TER)

In the current period, Securities and Exchange Commission of Pakistan (SECP) vide directive no. SCD/PRDD/Direction/18/2016 dated July 20, 2016, requires that Collective Investment Scheme (CIS) shall disclose Total Expense Ratio (TER) in the periodic financial statements of CIS / the Fund. TER of the Fund for the year ended June 30, 2017 is 1.35% which include 0.50% representing government levy, Worker Welfare Fund and SECP fee. Total expenses include 1.48% effect of WWF reverseal of Rs.15.69 million for the calculaion of TER.

34. GENERAL

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

34.2 Comparative information has been re-classified, re-arranged or additonally incorporated in these financial statements, wherever necessary, to facilitate comparative and to conform with changes in presentation in the current year.

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

Chief Executive

Director

FUND OBJECTIVE

ANNUAL FUND MANAGER REPORT

FINANCIAL YEAR 2017

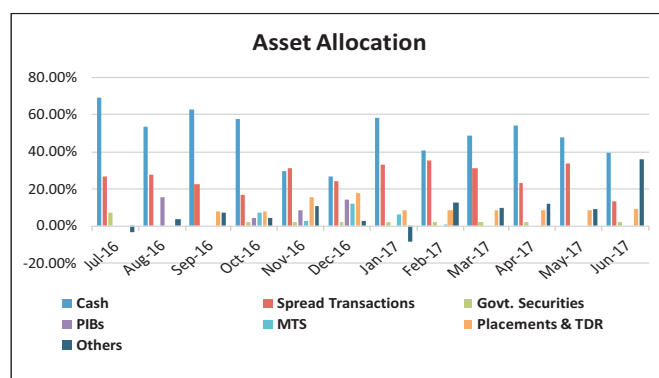
First Habib Income Fund is an open ended income fund. The objective of the fund is to achieve the best possible rate of return in comparison to the other available investment avenues by maintaining diversified investment portfolio with easy entry and exit for the investors.

Fund Description

Fund Type Category	Open end - Income Scheme	Auditors External	KPMG Taseer Hadi & Co. Chartered Accountants.
Launch Date	June 2, 2007	Management Fee	10% of gross earnings of the Fund (min 1% p.a. & max 1.50%p.a.)
Benchmark	6.03% Six (6) months KIBOR rates.	Sales Load	Front End Load 1.00%
FHIF Return	6.29%	Minimum Subscription	Initial Investment of Rs. 1000/- Subsequently Rs. 100 per transaction
Net Assets	Rs.1,087 million (June 30, 2017)	AMC Rating	"AM3+" by PACRA
NAV per Unit	101.7919 (June 30, 2017)	Dealing Days/Timings	Monday to Friday/ 9:00 am to 04:30 pm
Pricing Mechanism	Forward Pricing	Fund Stability Rating	AA-(f) by PACRA
		Trustee	Ltd.

Market Review

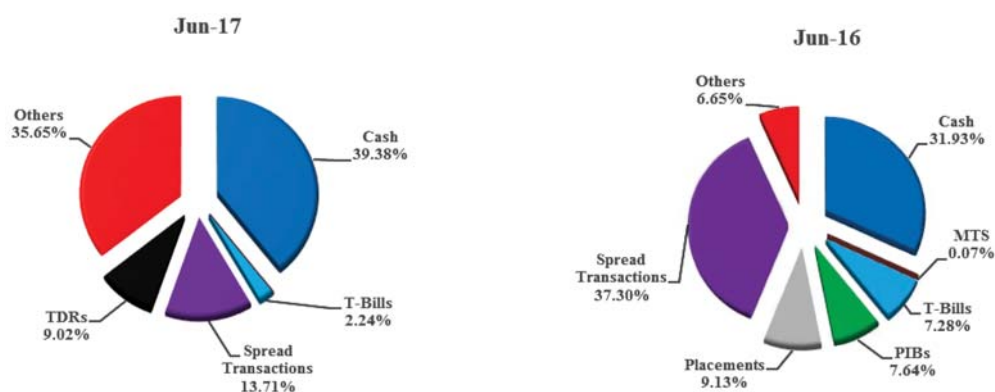
We foresee a delay in rate hike of 25-50bps by 2HCY17 where this upsurge might further be delayed beyond 2HCY17 due to upcoming elections in 2018. The country posted a higher than expected external Current Account Deficit (CAD) of US\$12.1bn (4.0% of Gross Domestic Product (GDP)), which is up 1.5 times over last year's CAD of US\$4.9bn (1.7% of GDP) and is a 9-year high. The higher the CAD was primarily on account of 39.4% increase in trade deficit over last year to US\$26.9bn due to higher than expected rise in imports of 17.5% to US\$48.5bn. Further, exports remained more or less flat at US\$21.7bn, contrary to expectations of growth. With GDP growing incessantly over the years, rising current account deficits appear low in comparison to the size of the economy due to mathematical reasons. However, logically speaking, FX reserves represent the external buffer to current account deficits in the absence of foreign direct investment and/or external borrowings. We believe FX Reserves / CAD Ratio or Current Account Coverage Ratio portrays a better reflection of external adequacy in case of Pakistan as FDI remains dismal amid structural issues and persistent borrowings pose solvency risks. While CAD / GDP remains well below the levels witnessed at outset of previous downturn, our measure of external adequacy.



Fund Performance Review

The Fund managed to achieve its objective by investing in allowed avenues, and over performed its benchmark by 26 bps. As of June 30, 2017, the major portion i.e. 39.38% was available as cash in banks, while 13.71% was invested in spread transaction, which as per our policy helped us to increase return. Whereas, investments in TDR & T-Bills were 9.02% & 2.24% respectively, which help us stabilize performance. The Fund generated a return of 6.29% p.a. for the financial year 2017. The weighted average time to maturity of net assets at year end stood at 12 days.

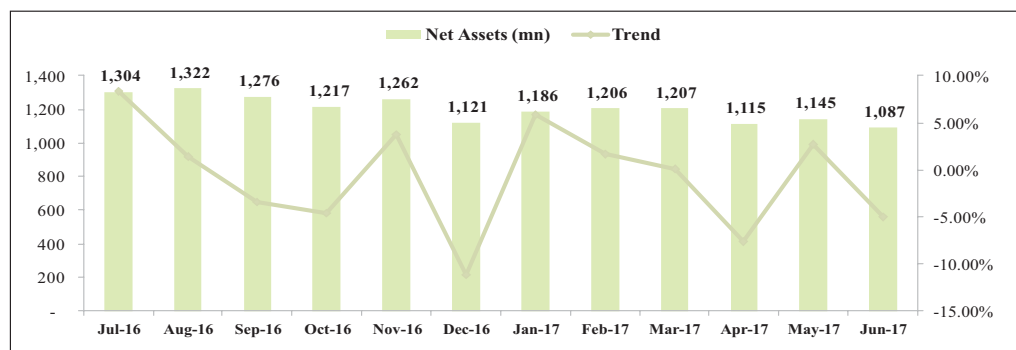
Asset Quality as on June 30, 2017



FIRST HABIB INCOME FUND

Fund Size

The net assets of FHIF were recorded at Rs. 1,087 million as at June 30, 2017 in comparison to the last year's net assets of Rs. 1,330 million.



Income Distribution

FHIF distributed bonus unit for the 1st quarter of FY17 and an amount of Rs.5.00 per unit as dividend on June 16th, 2017, for the year Financial Year ended June 30, 2017, as detailed below:

2016-2017	Cum NAV Rs.	EX-NAV Rs.	Distribution Rs.
July-Sep	102.6145	102.1145	0.50
July-June	106.6013	101.6013	5.00

Sales and Redemptions of Units

During the year, 15,620,513 units of the value of Rs. 1,610.538 million were sold while 18,115,878 units of the value of Rs. 1,883.126 million were redeemed resulting in to a net Redemption of 2,495,365 units of the value of Rs. 272.588 million during the year.

Unit Holder Pattern

For the breakdown of unit holding by size as on June 30, 2017, please refer to note 28 to the Annual Accounts.

FHIF Performance at a Glance

	2017	2016	2015
Net Asset as on June 30, 2017 (Million)	1087.191	1,330.00	1,203.00
Nav per unit June 30, 2017	101.7919	100.97	101.24
Highest NAV	106.6013	107.67	111.14
Lowest NAV	100.9722	100.78	100.18
Total Distribution	5.5	7.00	9.00
Annual Return	6.29%	6.66%	10.09%

Responsibilities towards Corporate Governance and Proxy Voting as per Regulation 38A

Habib Asset Management Limited (HAML) on behalf of First Habib Income Fund (FHIF) a collective investment scheme (CIS) under its management did not participate in shareholders' meetings. Further, the proxy voting policy of the FHIF is available on the website of the HAML and detailed information regarding actual proxies voted by the HAML (if any) in respect of the CIS is also available without charge, upon request, to all unit holders.

FIRST HABIB STOCK FUND
Annual Report
For the year ended 30 June 2017

FIRST HABIB STOCK FUND

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FUND'S INFORMATION

Management Company

Habib Asset Management Limited

Board of Directors of the Management Company

Mr. Ali Raza D. Habib	Chairman
Mr. Imran Azim	Chief Executive Officer
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

KPMG Taseer Hadi & C0.
Chartered Accountants
Sheikh Sultan Trust Building No.2,
Beaumont Road, Karachi.

Registrar

JWAFFS Registrar Services
(Pvt.) Limited
407-408, 4th Floor,
Al- Aameera Centre, Shahrah-e-Iraq,
Saddar, 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 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 STOCK FUND

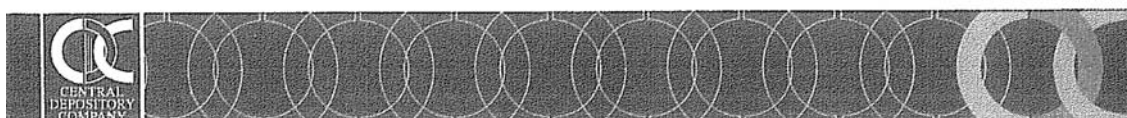
**Report of the Trustee pursuant to Regulation 41(h) and clause 9 of Schedule V of
the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

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, 2017 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 Executive Officer
Central Depository Company of Pakistan Limited

Karachi: September 19, 2017



**STATEMENT OF COMPLIANCE BY HABIB ASSET MANAGEMENT LIMITED WITH THE CODE
OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2017**

This statement is being presented to comply with the Code of Corporate Governance (the "Code"), contained in Regulation No. 5.19.24 of the Rule book of Pakistan Stock Exchange Limited, 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.

The Board of Directors (the "Board") of Habib Asset Management Limited (the "Management Company"), which is an unlisted public company, manages the affairs of **First Habib Stock Fund** (the "Fund"). The Fund being a unit trust open end scheme does not have its own Board of Directors. The units of the Fund are listed as a security on the Pakistan Stock Exchange Limited; therefore, the Management Company has applied the principles contained in the Code to the Fund in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes:

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

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 Broker 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. However, subsequent to the year, Mr. Sajjad Hussain Habib resigned on July 04, 2017.
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 vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of 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 this 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 have attended director's training program and one director is exempt from directors training program due to qualification and experience.
10. There was no appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year.
11. The Directors' report relating to the Fund for the year ended June 30, 2017 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

FIRST HABIB STOCK FUND

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 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 who is also an independent non-executive director.
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 Remuneration Committee. It comprises of three members, of whom two are non-executive directors including the chairman of the Committee who is also an independent non-executive director.
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.
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange.
23. The Management Company has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
24. We confirm that all other applicable material principles enshrined in the Code have been duly complied with by the Management Company except those that are not yet applicable

For and on behalf of the Board

Karachi.
Dated: September 07, 2017



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

**REVIEW REPORT TO THE MEMBERS 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 contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of Habib Asset Management Limited ("the Management Company") of HAML – First Habib Stock Fund ("the Fund") for the year ended 30 June 2017 to comply with the requirements of rule book Regulation No. 5.19.24 of Pakistan Stock Exchange Limited, where the Fund is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code 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 the 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 of Directors' 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 of Directors for their review and approval of 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 of Directors 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 of Compliance does not appropriately reflect the Fund'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 2017.

Date: 7 September 2017

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan
and a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
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Internet www.kpmg.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 2017, and the related income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of 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

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as the Management determines is necessary to enable the preparation of the 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 about 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 our 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, we consider internal control relevant to the Fund'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 Fund'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 2017, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



KPMG Taseer Hadi & Co.

Other Matters

The financial statements of the Funds for the year ended 30 June 2016 were audited by another firm of Chartered Accountants, who vide their report dated 10 September 2016, addressed to the Unit holders, had expressed an unmodified opinion thereon.

Report on Other Legal and Regulatory Requirements

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

Date: 7 September 2017

Karachi

A handwritten signature in black ink, appearing to read 'Mazhar Saleem', written over a horizontal line.

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

FIRST HABIB STOCK FUND

STATEMENT OF ASSETS AND LIABILITIES

As at 30 June 2017

		30 June 2017	30 June 2016
	Note	(Rupees in '000)	
Assets			
Bank balance	6	3,395	8,820
Investments	7	200,921	119,161
Dividend and profit receivable	8	919	256
Deposits, advances, prepayments and other receivable	9	3,927	3,769
Receivable against sale of investments		6,009	36,128
Total assets		215,171	168,134
Liabilities			
Payable to Habib Asset Management Limited - Management Company		570	282
Provision for Federal Excise Duty on remuneration of the Management Company	10	2,043	2,043
Payable to Central Depository Company of Pakistan Limited - Trustee	11	80	74
Payable to Securities and Exchange Commission of Pakistan (SECP)	12	160	157
Provision for Workers' Welfare Fund	13	-	2,332
Provision for Sindh Workers' Welfare Fund	13	945	-
Accrued expenses and other liabilities	14	3,867	30,581
Total liabilities		7,665	35,469
Net assets		207,506	132,665
Unit holders' funds (as per statement attached)		207,506	132,665
		(Number of units)	
Number of units in issue (face value of units in Rs. 100 each)	15	1,971,495	1,273,063
		(Rupees)	
Net asset value per unit		105.25	104.21

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

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

INCOME STATEMENT

For the year ended 30 June 2017

	Note	30 June 2017	30 June 2016
(Rupees in '000)			
Income			
Profit on bank deposits	16	709	1,791
Dividend income		6,265	7,385
Net gain on investments classified as 'at fair value through profit or loss'			
- Net capital gain on sale of investments		21,988	3,168
- Net unrealised (loss)/gain on revaluation of investments	7.1	(10,314)	4,258
		11,674	7,426
Total income		18,648	16,602
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	17	3,295	3,297
Sindh sales tax on Management Company's remuneration	18	428	535
Federal Excise Duty on Management Company's remuneration	10	-	527
Allocated expenses	19	94	38
Remuneration of Central Depository Company of Pakistan Limited - Trustee	11.1	700	700
Sindh sales tax on trustee remuneration	18	91	99
Annual fee to the Securities and Exchange Commission of Pakistan (SECP)	12	160	157
Brokerage expense		889	2,221
Settlement and bank charges		350	421
Annual listing fee		20	20
Auditors' remuneration	20	321	296
Mutual fund rating fee		181	165
Provision for Sindh Worker's Welfare Fund	13	945	-
Reversal of provision for Workers Welfare Fund		(2,332)	-
Printing charges		94	86
Total expenses		5,236	8,562
Net income from operating activities		13,412	8,040
Net Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		23,605	(4,952)
Net income for the year before taxation		37,017	3,088
Taxation	21	-	-
Net income for the year after taxation		37,017	3,088

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 STOCK FUND

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
Net income for the year	37,017	3,088
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u>37,017</u>	<u>3,088</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 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
Undistributed income brought forward comprises of:		
- Realised income	3,111	2,324
- Unrealised income	4,258	1,957
Undistributed income brought forward	7,369	4,281
Distribution to unit holders' of the Fund:		
Final cash distribution at the rate of Rs. 4.10/- per unit for Class "C" declared on 11 July 2016	(5,220)	-
Interim cash distribution at the rate of Rs.16.00/- per unit for class "C" declared on 23 June 2017	(29,637)	-
Net income for the year	37,017	3,088
Undistributed income carried forward	9,529	7,369
Undistributed income carried forward comprises of:		
- Realised income	19,843	3,111
- Unrealised (loss) / income	(10,314)	4,258
Undistributed income carried forward	9,529	7,369

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 STOCK FUND

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the year ended 30 June 2017

	30 June 2017 (Rupees in '000)	30 June 2016
Net assets at the beginning of the period	132,665	114,072
Issuance of 3,850,567 units (2016: 2,743,143 units)*	492,458	275,158
Redemption of 3,152,135 units (2016: 2,578,507 units)	(396,172)	(264,605)
	96,286	10,553
Net element of (income)/loss and capital (gain)/loss included in prices of units issued less those in units redeemed	(23,605)	4,952
Net capital gain on sale of investment	21,988	3,168
Net unrealised gain on revaluation of investments classified as 'at fair value through profit or loss'	(10,314)	4,258
Total comprehensive income / (loss) for the year excluding net unrealized gain on revaluation of investments classified as 'at fair value through profit or loss'	25,343	(4,338)
Distribution for the year	(34,857)	-
Net income for the year less distribution	2,160	3,088
Net assets at the end of the year	207,506	132,665
	(Rupees)	
Net assets value per unit at beginning of the year	104.21	102.91
Net assets value per unit at end of the year	105.25	104.21

*Including 142,475 units issued as re-investment during the year (2016: Nil).

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 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year before taxation	37,017	3,088
Adjustments for non-cash items		
Unrealised appreciation on investments at fair value through profit or loss - net	10,314	(4,258)
Net element of (loss)/income and capital (losses)/gains included in prices of units issued less those in units redeemed	(23,605)	4,952
Net cash used in operations before working capital changes	23,726	3,782
Increase / (decrease) in assets		
Investments	(92,074)	(24,389)
Dividend and profit receivable	(663)	173
Deposits, advances, prepayments and other receivable	(158)	9,855
Receivable against sale of investments	30,119	(22,804)
	(62,776)	(37,165)
Increase / (decrease) in liabilities		
Payable to Habib Asset Management Limited - Management Company	288	38
Provision for Federal Excise Duty on remuneration of the Management Company	-	526
Payable to Central Depository Company of Pakistan Limited - Trustee	6	(14)
Payable to Securities and Exchange Commission of Pakistan (SECP)	3	14
Provision for Workers' Welfare Fund	(1,387)	-
Accrued expenses and other liabilities	(26,714)	29,193
	(27,804)	29,758
Net cash used in operating activities	(66,854)	(3,625)
CASH FLOW FROM FINANCING ACTIVITIES		
Net receipts from sale and redemption of units	96,286	10,553
Dividend paid	(34,857)	-
Net cash flows generated from financing activities	61,429	10,553
Net (decrease)/increase in cash and cash equivalents during the year	(5,425)	6,928
Cash and cash equivalents at the beginning of the year	8,820	1,892
Cash and cash equivalents at the end of year	3,395	8,820
Cash and cash equivalents comprise of :		
Bank Balance	3,395	8,820

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 STOCK FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

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 Pakistan 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 JCR-VIS has assigned fund stability ranking of 'MFR 3-Star' for one year, 'MFR 4-Star' for three years and 'MFR 1-Star' for five years.

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 Central Depository Company (CDC) as a trustee of the Fund.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

2.1.1 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.

2.1.2 The Companies Act, 2017 was enacted on 30 May 2017 and is applicable with immediate effect. The Securities and Exchange Commission of Pakistan through press release and vide circular no. 17 of 2017 dated 20 July 2017 has decided that all the companies whose financial year, including quarterly and other interim period, closes on or before 30 June 2017, shall prepare their financial statements, including interim financial statements, in accordance with the provisions of the repealed Companies Ordinance, 1984. The new requirements of the Companies Act, 2017 shall be applicable to the companies having their financial year closure after 30 June 2017.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2017:

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset or liability with its tax base. Amendments to IAS 12 (2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flow and non-cash changes.
- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and / or measurement

of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Fund's financial statements.

- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' -effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Company's financial statements.

Annual improvements to IFRS standards 2014-2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:

- Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 1 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 - 'Non-current Assets Held for Sale and Discontinued Operations'. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Fund's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax.

The above amendments are not likely to have an impact on the Fund's financial statements.

As disclosed in note 2.1.2, the new requirements of the Companies Act, 2017, shall be applicable to the financial statements issued on or after 30 June 2017. The Act included mutual funds in Third Schedule, accordingly certain additional requirements / disclosures in Fifth Schedule to the Companies Act, 2017 are also applicable to the financial statements of mutual funds. Significant disclosures / requirements, which are relevant to the funds includes but not limited to: name of associated companies or related parties or undertakings along with the basis of relationship describing common directorship and/or percentage of shareholding; summary of significant transactions and events that have affected the financial position and performance during the year, etc.

SECP through SRO 756(I)/2017 dated 03 August 2017 has made certain amendments in NBFCs and Notified Entities Regulations, 2008. The amendments require additional disclosures and recording of element of income / loss included in price of unit issued or redeemed in Statement of Movements in Reserves or Unit holders' Fund instead of Income Statement. The SRO also deleted 'Distribution Statement' and its contents along with certain additional break-ups and disclosures to be included on the face of 'Income Statement' and 'Statement of Movements in Reserves or Unit holders' Fund'.

Further, new amendments changed the definition of accounting income in regulation (63) sub-regulation (I) which is now to be determined after taking into account the element of income / loss relating to the redemption of units. This change will be applied prospectively and may affect the charge for Sindh Workers' Welfare Fund (SWWF) and consequently, the Net Asset Value per unit of the Fund in future.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for investments which are accounted for as stated in notes 5.1.

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.

4.1 Use of judgments and estimates

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management

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to make judgements, estimates and assumptions that affect the application of accounting 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 judgements 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 recognized in the period in which the estimates are 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. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in the application of accounting policies are given below:

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in note 5.1 regarding the Classification of investments.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ending 30 June 2017 is included in the following notes:

- Note 5.1 - Valuation of investments
- Notes 13 and 10 - Recognition of provision for Sindh Workers' Welfare Fund and Federal Excise Duty respectively

5. 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.

5.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments at fair value through profit or loss

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

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

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.

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.

5.2 Unit holders' fund

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

5.3 Issue and redemption of units

Units issued are recorded at the net asset 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.

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

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unitholder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unitholders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

5.5 Net asset value - per unit

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

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5.6 Taxation

The income of fund is exempt from taxation under clause 99 of the Part I of the 2nd Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders, provided that for the purpose of determining distribution of not less than 90% of its accounting income for the year, the income distributed through bonus units shall not be taken into account.

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.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

5.7 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date 'at which the transaction takes place.
- 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.
- 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.

5.8 Expenses

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

5.9 Provisions

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

5.10 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.

5.11 Other assets

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

5.12 Dividend Distribution and Appropriations

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.

5.13 Earnings per unit (EPU)

Earnings Per Unit (EPU) has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

6. BANK BALANCE

This represents balance with Bank Al Habib Limited, a related party. The balance is held in saving account and carries profit rate of 5.25% (30 June 2016: 5.25%) per annum.

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7. INVESTMENTS- at the fair value through profit or loss

30 June 30 June
Note 2017 2016
(Rupees in '000)

Quoted Equity securities

7.1 **200,921** **119,161**

7.1 Quoted equity securities

Name of Investee	As at 1 July 2016	Acquired during the year	Bonus / right issue	Sold during the year	As at 30 June 2017	As at 30 June 2017			Market Value as a Percentage of		Paid up capital of investee company (with face value of investment)
						Cost / Carrying Value	Market value	Unrealized gain/(loss)	Net Assets	Total Investment	
(Number of shares)						(Rupees in '000)					
Commercial Banks											
MCB Bank Limited	33,370	42,000	-	33,500	41,870	9,500	8,811	(690)	4%	4%	0.004%
United Bank Limited	41,000	49,000	-	48,000	42,000	9,177	9,892	715	5%	5%	0.003%
Bank of Punjab Limited	-	400,000	-	400,000	-	-	-	-	0%	0%	0.000%
Habib Metro Bank Limited	-	35,000	-	35,000	-	-	-	-	0%	0%	0.000%
Habib Bank Limited	27,900	73,300	-	51,200	50,000	13,162	13,457	295	6%	7%	0.003%
Bank Alfalah Limited	-	120,500	-	93,000	27,500	1,204	1,106	(99)	1%	1%	0.002%
Oil & Gas Marketing Companies											
Sui Southern Gas Company Limited	-	155,000	-	155,000	-	-	-	-	0%	0%	0.000%
Sui Northern Gas Pipelines Limited	-	314,500	-	304,500	10,000	1,596	1,489	(107)	1%	1%	0.002%
Pakistan State Oil Company Limited	17,500	30,000	-	29,000	18,500	7,824	7,166	(658)	3%	4%	0.007%
Hascol Petroleum Limited	-	5,000	-	5,000	-	-	-	-	0%	0%	0.000%
Engineering											
Amerli Steel Limited	39,500	80,500	-	105,000	15,000	1,419	1,844	425	1%	1%	0.005%
Mughal Iron and Steel Industries Limited	34,000	31,000	19,500	45,000	39,500	1,514	2,936	1,421	1%	1%	0.016%
International Steels Limited	-	150,500	-	110,500	40,000	5,586	5,116	(470)	2%	3%	0.009%
Aisha Steel Limited	-	320,000	-	320,000	-	-	-	-	0%	0%	0.000%
Crescent Steel and Allied Product Limited	-	22,500	-	11,000	11,500	2,835	2,744	(91)	1%	1%	0.015%
Cable & Electrical Goods											
Pak Elektron Limited	34,500	335,000	-	302,500	67,000	7,584	7,391	(193)	4%	4%	0.013%
Singer Pakistan Limited	-	30,500	-	30,500	-	-	-	-	0%	0%	0.000%
TPL Trakker Limited	-	285,000	-	285,000	-	-	-	-	0%	0%	0.000%
Chemicals											
Fauji Fertilizer Company Limited	32,000	10,500	-	42,500	-	-	-	-	0%	0%	0.000%
Fauji Fertilizer Bin Qasim Limited	74,500	244,500	-	254,000	65,000	3,254	2,785	(469)	1%	1%	0.007%
Engro Polymer and Chemicals Limited	-	170,000	-	170,000	-	-	-	-	0%	0%	0.000%
Engro Fertilizers Limited	80,000	121,000	-	201,000	-	-	-	-	0%	0%	0.000%
Engro Corporation Limited	25,000	53,500	-	78,500	-	-	-	-	0%	0%	0.000%
I.C.I. Pakistan Limited	5,000	-	-	5,000	-	-	-	-	0%	0%	0.000%
Oil & Gas Exploration Companies											
Oil and Gas Development Company Limited	61,500	131,500	-	109,000	84,000	13,714	11,818	(1,896)	6%	6%	0.002%
Pakistan Oilfields Limited	15,000	22,100	-	20,600	16,500	7,468	7,559	91	4%	4%	0.007%
Pakistan Petroleum Limited	18,000	44,900	-	40,900	22,000	3,754	3,259	(495)	2%	2%	0.001%
Attock Refinery Limited	-	43,800	-	26,800	17,000	7,196	6,504	(692)	3%	3%	0.020%
Mari Petroleum Company Limited	2,500	11,260	-	10,540	3,220	5,131	5,074	(57)	2%	3%	0.003%
Attock Petroleum Limited	-	2,000	-	2,000	-	-	-	-	0%	0%	0.000%
Construction and Materials (Cement)											
Cherat Cement Company Limited	18,000	2,500	-	20,500	-	-	-	-	0%	0%	-
D.G. Khan Cement Company limited	29,700	74,000	-	41,700	62,000	13,577	13,216	(361)	6%	7%	0.014%
Fauji Cement Company Limited	-	327,000	-	252,000	75,000	3,131	3,077	(54)	1%	2%	0.005%
Kohat Cement Limited	-	13,500	-	4,500	9,000	2,535	2,063	(472)	1%	1%	0.006%
Lucky Cement Limited	7,200	28,600	-	16,300	19,500	17,015	16,307	(707)	8%	8%	0.006%
Maple Leaf Cement Factory Limited	48,000	179,000	-	166,500	60,500	7,366	6,737	(628)	3%	3%	0.011%
Pioneer Cement Limited	17,500	22,000	-	32,500	7,000	968	910	(58)	0%	0%	0.003%
Automobiles and Parts											
Honda Atlas Cars (Pakistan) Limited	6,000	19,500	-	18,150	7,350	5,006	6,378	1,371	3%	3%	0.005%
Indus Motors Company Limited	-	6,900	-	5,400	1,500	2,361	2,690	330	1%	1%	0.002%
Pak Suzuki Motor Company Limited	5,500	10,750	-	13,400	2,850	2,095	2,224	129	1%	1%	0.003%
Al-Ghazi Tractor Limited	-	1,000	-	1,000	-	-	-	-	0%	0%	0.000%
Millat Tractor Limited	-	2,000	-	-	2,000	2,925	2,749	(176)	1%	1%	0.005%
Devan Farooque Motors Limited	-	30,000	-	30,000	-	-	-	-	0%	0%	0.000%
Sazgar Engineering Works Limited	-	8,500	-	8,500	-	-	-	-	0%	0%	0.000%
Ghandara Industries Limited	-	16,800	-	10,650	6,150	5,157	3,998	(1,159)	2%	2%	0.029%

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Name of Investee	As at 1 July 2016	Acquired during the year	Bonus / right issue	Sold during the year	As at 30 June 2017	As at 30 June 2017			Market Value as a Percentage of		Paid up capital of investee company (with face value of investment)
						Cost / Carrying Value	Market value	Unrealized gain/(loss)	Net Assets	Total Investment	
<div>(Number of shares) (Rupees in '000)</div>											
Automobiles Parts and Accessories											
General Tyre & Rubber Company Limited	-	23,500	-	15,100	8,400	2,415	2,549	-	134	1%	0.014%
Thal Limited	-	8,500	-	8,500	-	-	-	-	0%	0%	0.000%
Loads Limited	-	10,000	-	10,000	-	-	-	-	0%	0%	0.000%
Personal Goods (Textiles)											
Nishat Mills Limited	25,000	92,000	-	73,000	44,000	6,915	6,982	67	3%	3%	0.013%
Nishat Chunian Limited	-	107,500	-	107,500	-	-	-	-	0%	0%	0.000%
Food and Personal Care Products											
Treet Corporation Limited	45,000	62,000	-	82,000	25,000	1,476	1,422	(54)	1%	1%	0.018%
Engro Foods Limited	-	48,500	-	48,500	-	-	-	-	0%	0%	0.000%
Pharmaceutical											
Glaxo Smith Kline Pakistan Limited	8,000	16,000	-	18,000	6,000	1,421	1,182	(239)	1%	1%	0.002%
The Searl Company Limited	5,500	37,342	1,524	35,342	9,024	5,392	4,620	(771)	2%	2%	0.006%
Ferozsons Laboratories Limited	-	15,500	-	1,000	14,500	8,937	5,604	(3,333)	3%	3%	0.048%
Abbot Labortories Limited	-	10,000	-	1,050	8,950	8,702	8,365	(338)	4%	4%	0.009%
Power Generation and Distribution											
Hub Power Company Limited	36,500	123,700	-	95,200	65,000	8,290	7,633	(657)	4%	4%	0.006%
Kot Addu Power Company Limited	15,000	109,000	-	109,000	15,000	1,237	1,080	(157)	1%	1%	0.002%
K-Electric Limited	-	330,000	-	330,000	-	-	-	-	0%	0%	0.000%
Technology & Communications											
Systems Limited	-	10,000	-	10,000	-	-	-	-	0%	0%	0.000%
Avanceon Limited	-	80,000	17,500	80,000	17,500	765	793	28	0%	0%	0.013%
Paper and Board											
Packages Limited	8,000	5,500	-	11,500	2,000	1,628	1,391	(237)	1%	1%	0.002%
Transport											
Pakistan National Shipping Corporation Limited	-	24,200	-	24,200	-	-	-	-	0%	0%	0.000%
Miscellaneous											
Pace Pakistan Limited	-	250,000	-	250,000	-	-	-	-	0%	0%	0.000%
Insurance											
Adamjee Insurance Company Limited	-	5,000	-	5,000	-	-	-	-	0%	0%	0.000%
Total as at 30 June 2017						211,235	200,921	(10,314)			
Total as at 30 June 2016						114,903	119,161	4,258			

7.1.1 Following shares were pledged with National Clearing Company Pakistan Limited (NCCPL) as collateral against exposure margin and mark to market losses:

	30 June 2017	30 June 2016
	(Number of Shares)	
D.G. Khan Cement Company Limited	12,500	17,500
Engro Corporation Limited	-	9,500
Fauji Fertilizers Company Limited	-	15,000
The Hub Power Company Limited	13,500	13,500
Lucky Cement Limited	5,000	-
Indus Motor Company Limited	1,000	-
Fauji Cement Limited	35,000	-
Glaxo Smith Kline Pakistan Limited	2,000	-
	69,000	55,500

8. DIVIDEND AND PROFIT RECEIVABLE

Dividend receivable	853	230
Profit receivable on saving account	66	26
	919	256

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	30 June 2017	30 June 2016
	(Number of Shares)	
9. DEPOSITS, ADVANCES, PREPAYMENTS AND OTHER RECEIVABLE		
Deposit with National Clearing Company of Pakistan Limited (NCCPL)	2,500	2,500
Cash margin to NCCPL against Equity Transaction	1,000	1,000
Deposit with Central Depository Company of Pakistan Limited	100	100
Prepayments	27	6
Advance tax	187	162
Receivable against sale of units	113	-
	3,927	3,769

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

As per the requirements of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16 percent 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, hence, a petition was collectively filed by the Mutual Fund Association of Pakistan with the Sindh High Court (SHC) on 4 September 2013.

While disposing the above petition through order dated 16 July 2016, the SHC declared the said provisions to be ultra vires and as a result no FED is payable with effect from 01 July 2016. However, the tax authorities subsequently filed appeal against the decision of the SHC in the Supreme Court of Pakistan, which is pending for the decision.

Furthermore, the Finance Act 2016 also introduced an amendment to the Federal Excise Act, 2005 whereby FED was withdrawn on services of different industries including Non-Banking Financial Institutions, which are already subject to provisional sales tax.

However, since the appeal is pending in the Supreme Court of Pakistan, the Management Company, as a matter of abundant caution, is carrying provision for FED for the period from 13 June 2013 to 30 June 2016 aggregating to Rs. 2.043 million. Had the provision not been made, NAV per unit of the Fund as at 30 June 2017 would have been higher by Rs. 1.04 (30 June 2016: Rs. 1.60) per unit.

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

	Note	30 June 2017	30 June 2016
		(Rupees in '000)	
Trustee fee	11.1	65	65
CDS charges		15	9
		80	74

- 11.1 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)

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.

12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

This represents annual fee payable to Securities and Exchange Commission of Pakistan (SECP) in accordance with the rule 62 of the NBFC Regulations 2008, whereby the Fund is required to pay SECP an amount at the rate of 0.095% (30 June 2016: 0.095%) of the average daily net assets of the Fund.

13. PROVISION / (REVERSAL) FOR SINDH WORKERS' WELFARE FUND / WORKERS' WELFARE FUND

The Finance Act, 2008 had introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance) as a result of which it was construed that all Collective Investment Schemes (CISs) / mutual funds whose income exceeded Rs 0.5 million in a tax year were 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 was higher. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honourable Sindh High Court (SHC) challenging the applicability of WWF on CISs which is pending adjudication. Similar cases were disposed of by the Peshawar and the Lahore

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High Courts in which these amendments were declared unlawful and unconstitutional. However, these decisions were challenged in the Supreme Court of Pakistan.

Subsequently, the Finance Act, 2015 introduced an amendment under which CISs / mutual funds have been excluded from the definition of “industrial establishment” subject to WWF under the WWF Ordinance. Consequently, mutual funds are not subject to this levy after the introduction of this amendment which is applicable from tax year 2016. Accordingly, no further provision in respect of WWF was made with effect from 1 July 2015.

On 10 November 2016 the Supreme Court of Pakistan (SCP) has passed a judgment declaring the amendments made in the Finance Acts 2006 and 2008 pertaining to WWF as illegal citing that WWF was not in the nature of tax and could, therefore, not have been introduced through money bills. Accordingly, the aforesaid amendments have been struck down by the SCP. The Federal Board of Revenue has filed a petition in the SCP against the said judgment, which is pending hearing. While the petitions filed by the CISs on the matter are still pending before the SHC, the Mutual Funds Association of Pakistan (MUFAP) (collectively on behalf of the asset management companies and their CISs) has taken legal and tax opinions on the impact of the SCP judgement on the CISs petition before the SHC. Both legal and tax advisors consulted were of the view that the judgment has removed the very basis on which the demands were raised against the CISs. Therefore, there was no longer any liability against the CISs under the WWF Ordinance and that all cases pending in the SHC or lower appellate forums will now be disposed of in light of the earlier judgement of the SCP.

Furthermore, as a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers’ Welfare Fund Act, 2014 (SWWF Act) had been passed by the government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.50 million, is required to pay Sindh Workers’ Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income. The matter was taken up by the MUFAP with the Sindh Revenue Board (SRB) collectively on behalf of various asset management companies (including the Management Company of the Fund) whereby it was contested that mutual funds should be excluded from the ambit of the SWWF Act as these were not industrial establishments but were pass through investment vehicles and did not employ workers. The SRB held that mutual funds were included in the definition of financial institutions as per the Financial Institution (Recovery of Finances) Ordinance, 2001 and were, hence, required to register and pay SWWF under the SWWF Act. Thereafter, MUFAP has taken up the matter with the Sindh Finance Ministry to have CISs / mutual funds excluded from the applicability of SWWF.

In view of the above developments regarding the applicability of WWF and SWWF on CISs / mutual funds. MUFAP has recommended the following to all its members on 12 January 2017:

- based on legal opinion, the entire provision against WWF held by the CISs till 30 June 2015, to be reversed on 12 January 2017; and
- the provision in respect of SWWF should be made on a prudent basis with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from 21 May 2015) on 12 January 2017.

Accordingly, the provision for SWWF is being made on a daily basis going forward.

The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on 12 January 2017 and the SECP vide its letter dated 1 February 2017 has advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosures in the financial statements of the CISs/ mutual funds. Accordingly, the Fund has recorded these adjustments in its books on 12 January 2017.

The Management Company has recognised SWWF charge for the period from 21 May 2015 to 30 June 2017, amounting to Rs. 0.945 million. Had the SWWF not been provided, the NAV per unit of the Fund would have been higher by Re. 0.48.

14. ACCRUED EXPENSES AND OTHER LIABILITIES	30 June 2017	30 June 2016
	(Rupees in '000)	
Auditors' remuneration	246	261
Printing charges	72	83
Payable against redemption of units	-	30,000
Withholding tax payable	2,402	-
Capital gain tax	11	76
Sales and transfer load payable	760	-
Broker Payable	352	130
Others	24	31
	3,867	30,581

15. CLASS OF UNITS IN ISSUE

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

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

	30 June 2017	30 June 2016
	(Number of Units)	
Type 'A' Units	17,879	17,879
Type 'B' Units	1,853,616	1,155,184
Type 'C' Units	100,000	100,000
	<u>1,971,495</u>	<u>1,273,063</u>

16. It represents profit on deposits with Bank Al Habib, a related party. Markup on this account is 5.25% (2016: 6%).

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 2% of such net assets of the Fund. The Management Company has charged its remuneration at the rate of 2% (2016: 2%) per annum in accordance with the Trust Deed.

18. SINDH SALES TAX ON MANAGEMENT COMPANY AND TRUSTEE REMUNERATION

Sindh Sales Tax has been charged at 13% (30 June 2016: 14%) on the management company's and trustee remuneration charged during the year.

19. ALLOCATED EXPENSES

Securities and Exchange Commission of Pakistan through its SRO 1160(I)/2015 dated 25 November 2015 has revised the Non-Banking Finance Companies and Notified Entities Regulations, 2008. In the revised regulations a new clause 60(s) has been introduced allowing the Management Company to charge "fees and expenses related to registrar services, accounting, operation and valuation services related to CIS maximum up to 0.1% of average annual net assets of the Scheme or actual whichever is less" from the mutual funds managed by it.

During the year, Management Company has charged actual expense related to registrar service and software cost to the Fund.

20. AUDITORS' REMUNERATION

	30 June 2017	30 Jun 2016
	(Rupees in '000)	
Annual audit fee	205	179
Half yearly review fee	62	59
Review of Code of Cooperate Governance	31	32
Out of pocket expenses	23	26
	<u>321</u>	<u>296</u>

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. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the Fund is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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 traded.
- 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).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

		Carrying amount				Fair value			
		Fair value through profit and loss	Loan and receivable	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
30 June 2017	<i>Note</i>	(Rupees in '000)							
Financial assets - measured at fair value									
Listed equity securities	7	200,921	-	-	200,921	200,921	-	-	200,921
Financial assets - not measured at fair value	22.1								
Balances with banks	6	-	3,395	-	3,395	-	-	-	-
Dividend Receivable	8	-	853	-	853	-	-	-	-
Receivable against investments		-	6,009	-	6,009	-	-	-	-
Advances, deposits, prepayments and other receivable	9	-	3,927	-	3,927	-	-	-	-
		<u>200,921</u>	<u>14,184</u>	<u>-</u>	<u>215,105</u>	<u>200,921</u>	<u>-</u>	<u>-</u>	<u>200,921</u>
Financial liabilities - not measured at fair value	22.1								
Payable to Habib Asset Management Limited - Management Company		-	-	515	515	-	-	-	-
Payable to Central Depository Company of Pakistan Limited (CDC) - Trustee		-	-	80	80	-	-	-	-
Payable to SECP		-	-	160	160	-	-	-	-
Accrued expenses and other liabilities		-	-	3,867	3,867	-	-	-	-
		<u>-</u>	<u>-</u>	<u>4,622</u>	<u>4,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		Carrying amount				Fair value			
		Fair value through profit and loss	Loan and receivable	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
30 June 2016	<i>Note</i>	(Rupees in '000)							
Financial assets - measured at fair value									
Listed equity securities	7	119,161	-	-	119,161	119,161	-	-	119,161

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		Carrying amount				Fair value			
		Fair value through profit and loss	Loan and receivable	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
30 June 2016	<i>Note</i>	(Rupees in '000) -----							
Financial assets - not measured at fair value	22.1								
Balances with banks	6	-	8,820	-	8,820	-	-	-	-
Dividend Receivable	8	-	256	-	256	-	-	-	-
Receivable against investments		-	36,128	-	36,128	-	-	-	-
Advances, deposits, prepayments and other receivable	9	-	3,769	-	3,769	-	-	-	-
		<u>119,161</u>	<u>48,973</u>		<u>168,134</u>	<u>119,161</u>	<u>-</u>	<u>-</u>	<u>119,161</u>
Financial liabilities - not measured at fair value	22.1								
Payable to Habib Asset Management Limited - Management Company		-	-	248	248	-	-	-	-
Payable to Central Depository Company of Pakistan Limited (CDC) - Trustee				74	74	-	-	-	-
Payable to SECP		-	-	157	157	-	-	-	-
Accrued expenses and other liabilities		-	-	30,451	30,451	-	-	-	-
		<u>-</u>	<u>-</u>	<u>30,930</u>	<u>30,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

22.1 The Fund has not disclosed the fair values for these financial assets and financial liabilities, as these are either short term in nature or repriced periodically. Therefore, their carrying amounts are reasonable approximation of fair value.

23. 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, First Habib Islamic Stock Fund and First Habib Islamic Income Fund being the Funds 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:

	30 June 2017	30 June 2016
	(Rupees in '000)	
Habib Asset Management Limited - Management Company		
Management Remuneration	3,295	3,297
Sales Tax on Management Remuneration	428	535
Federal Excise Duty on Management Remuneration	-	527
Allocated expense	94	38
AL Habib Capital Markets (Private) Limited - Brokerage house		
Brokerage	45	66
Central Depository Company of Pakistan Limited - Trustee		
Remuneration of trustee	700	700
Bank Al Habib Limited		
Profit on Bank Balances	709	1,791

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

	2017 (Rupees in '000)	2016
Bank Al Habib Limited		
Bank Balance	3,395	8,820
Habib Asset Management Limited - Management Company		
Management Company Remuneration payable	421	209
Sales Tax on Management Remuneration payable	55	34
Federal Excise Duty on Management Remuneration payable	2,043	2,043
Expenses allocated by management company payable	94	38
Sales and transfer load payable	760	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration Payable	80	74
Security deposit - Non interest bearing	100	100
AL Habib Capital Markets (Private) Limited - Brokerage house		
Remuneration payable	11	74

23.1 Sale / Redemption of units

	2017		2016	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<u>Units sold to:</u>				
<i>Management Company</i>				
- Habib Asset Management Limited	1,258,906	157,797	1,994,424	199,139
<i>Associated Companies</i>				
<i>Other related parties</i>				
- Mr. Qumail Habib	19,539	2,550	-	-
- Habib Asset Management Ltd.				
Emp. Provident Fund	19,898	2,586	26,606	2,679
- Directors of the Management Company	10,615	1,141	8,181	799
- Mrs. Ishrat Malik	61,514	8,052	5,084	540
- Mr. Haider Azim	4,817	499	4,306	418
- Mrs. Razia Ali raza Habib	167	17	-	-
- Mrs. Fatima Ali Raza Habib	2,513	262	-	-
- Mr. Abbas	23,359	2,990	19,373	1,825
Connected Parties holding 10% or more of the units in issue:				
- Sindh Province Pension Fund	100,327	10,455,755		
<u>Units redeemed by:</u>				
<i>Management Company</i>				
- Habib Asset Management Limited	721,837	82,730	1,827,780	188,152
<i>Other related parties</i>				
- Directors of the Management Company	-	-	51,879	5,000
- Habib Asset Management Ltd				
Emp. Provident Fund	29,643	3,687	16,862	1,705
- Mr. Abbas	17,907	1,898	2,103	204
- Mrs. Ishrat Malik	61,514	8,082	5,084	504
- Mr. Haider Azim	5,978	538	4,212	405

RISK MANAGEMENT

Introduction and overview

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

- 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.

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.

Management of credit risk

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

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- 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:

	2017		2016	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
	(Rupees in '000)		(Rupees in '000)	
Bank balances	3,395	3,395	8,820	8,820
Investments	200,921	-	119,161	-
Dividend receivable	919	919	256	256
Receivable against sale of investments	6,009	6,009	36,128	35,998
Deposits, advances, prepayments and other receivable	3,927	3,927	3,769	3,769
	<u>215,171</u>	<u>14,250</u>	<u>168,134</u>	<u>48,843</u>

Differences in the balances as per the statement of assets & liabilities and maximum exposures were due to the fact that investments of Rs.200,921 (2016: Rs.119.161 million million) relates to investments in equity securities which are not considered to carry credit risk.

Credit ratings and Collaterals

Ratings

AA+

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 94% (30 June 2016: 71%) of the Fund's financial assets are in quoted equity investments which are not exposed to credit risk.

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

	30 June 2017	30 June 2016
Banks (including bank Profit due)	49%	71%
Financial services	51%	29%

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.

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. 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:

	2017				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	More than one month and up to three months	More than three months and up to one year
<i>Non- derivative financial liabilities</i>	<i>----- (Rupees in '000) -----</i>				
Payable to Habib Asset Management Limited - Management Company	570	570	570	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	80	80	80	-	-
Payable to Securities and Exchange Commission of Pakistan	160	160	-	160	-
Accrued expenses and other liabilities	3,867	3,867	3,867	-	-
	<u>4,677</u>	<u>4,677</u>	<u>4,517</u>	<u>160</u>	<u>-</u>
	2016				
	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	More than one month and up to three months	More than three months and up to one year
<i>Non- derivative financial liabilities</i>	<i>----- (Rupees in '000) -----</i>				
Payable to Habib Asset Management Limited - Management Company	282	282	282	-	-
Payable to Central Depository Company of Pakistan Limited -					

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	Carrying amount	Gross nominal inflow / (outflow)	2016		
			Less than one month	More than one month and up to three months	More than three months and up to one year
<i>Non- derivative financial liabilities</i>			(Rupees in '000)		
Trustee	74	74	74	-	-
Payable to Securities and Exchange Commission of Pakistan	157	157	-	157	-
Accrued expenses and other liabilities	30,581	30,581	30,581	-	-
	<u>31,094</u>	<u>31,094</u>	<u>30,937</u>	<u>157</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 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, the Fund did not bear any interest rate financial instruments.

The composition of the Fund's financial instruments, interest rates are expected to change overtime. Accordingly, the sensitivity analysis prepared as of 30 June 2017 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:

	Markup / profit (%)	2017				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	5.25	3,395	-	-	-	3,395
Total assets		3,395	-	-	-	3,395
	Markup / profit (%)	2016				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	5.25-6	8,820	-	-	-	8,820
Total assets		8,820	-	-	-	8,820

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.

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 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 2017. This level of change is considered to be reasonably possible and represents management's best estimate of a reasonable possible shift in respective market indices and resulting increase/decrease in fair value of the Fund's investment in equity securities.

	30 June 2017	30 June 2016
Effect on income statement, net assets attributable to unit holders of an increase in index		
	(Rupees in '000)	
Equity investments	20,092	11,916

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

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 return 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.

Under the NBFC regulations 2008, the minimum size of an open end scheme shall be one hundred million rupees at all the times during the life of the scheme. The Fund size depends on the issuance and redemption of units.

25. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30 June 2017 is as follows:

Category

	Note	Number of unit holders	Number of units	Investment Amount (Rupees in '000)	Percentage of total investment
Individuals		114	346,200	36,438	17.56%
Associated companies	25.1	3	934,779	98,387	47.41%
Chief Executive	25.2	1	31,534	3,319	1.60%
Retirement Funds		2	615,174	64,748	31.20%
Others		1	43,808	4,614	2.22%
		121	1,971,495	207,506	100.00%

FIRST HABIB STOCK FUND

Unit holding pattern of the fund as at 30 June 2016 is as follows:

Category

	Note	Number of unit holders	Number of units	Investment Amount (Rupees in '000)	Percentage of total investment
Individuals		100	303,313	31,608	23.65%
Associated companies	25.1	2	397,710	41,445	31.01%
Chief Executive	25.2	1	25,265	2,634	1.97%
Retirement Funds		2	513,508	53,513	40.05%
Others		4	33,268	3,465	3.32%
		109	1,273,063	132,665	100.00%

25.1 Associated companies

	2017			2016		
	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	825,534	86,889	88%	288,465	30,061	73%
Bank AL Habib Limited	100,000	10,525	11%	100,000	10,421	25%
TPL Direct Insurance Limited	9,245	973	1%	9,245	963	2%
	934,779	98,387	100%	397,710	41,445	100%

25.2 Chief executive

Imran Azim (CEO)	31,534	3,319	2%	25,265	2,633	2%
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26. TOP 10 BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Name of Broker	30 June 2017	30 June 2016
	(Percentage)	
Topline Securities (Private) Limited	12.07%	7.59%
Munir Khanai Securities	11.66%	9.99%
Pearl Securities Limited	10.78%	7.76%
Intermarket securities Limited	9.97%	5.57%
Reliance Securities Limited	8.30%	0.00%
Ali Husain Rajab Ali Limited	6.51%	5.08%
Al Habib Capital Market (Private) Limited	6.11%	10.49%
Summit Capital (Private) Limited	5.55%	4.80%
BIPL securities Limited	5.22%	0.00%
Arif Habib Limited	4.87%	2.36%

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	61 Years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	40 Years
Mr. Mansoor Ali	Director	MBA	32 Years

28. Other Funds managed by the Fund Manager

Mr. Junaid Kasbati - Fund Manager

Mr. Junaid Kasbati is an MBA and possesses over eight 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, First Habib Income Fund, First Habib Islamic Income Fund and First Habib Islamic Stock Fund.

29. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 68th, 69th, 70th, 71th and 72nd board meetings were held on 11 July 2016, 10 September 2016, 24 October 2016, 14 February 2017 and 25 April 2017 respectively.

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

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave Granted	
Ali Raza D. Habib	5	3	2	68th and 72nd meeting
Imran Azim	5	5	-	-
Mansoor Ali	5	4	1	72nd meeting
Mohammad Ali Jameel	5	4	1	68th meeting
Vice Admiral(R) Khalid M Mir	5	4	1	70th meeting
Liaquat Habib Merchant	5	-	5	68th, 69th, 70th, 71th and 72nd meeting
Sajjad Hussain	5	4	1	68th meeting

30. TOTAL EXPENSE RATIO (TER)

In the current year, Securities and Exchange Commission of Pakistan (SECP) vide directive no. SCD/PRDD/Direction/18/2016 dated 20 July 2016, requires that Collective Investment Scheme (CIS) shall disclose Total Expense Ratio (TER) in the periodic financial statements of CIS / the Fund. TER of the Fund for the year ended 30 June 2017 is 3.18%% which include 0.99% representing government levy, Sindh Worker Welfare Fund and SECP fee. Total expense include effect of WWF reversal of Rs.2.332 million for the calculation of TER.

31. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on **07 September 2017**.

32. GENERAL

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

32.2 Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary, to facilitate comparative and to conform with changes in presentation in the current year.

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

Chief Executive

Director

FIRST HABIB STOCK FUND

ANNUAL FUND MANAGER REPORT FINANCIAL YEAR 2017

FUND OBJECTIVE:

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

FUND DESCRIPTION

Fund Type	Open end-Equity Scheme	Auditors External	KPMG Taseer Hadi & Co., Chartered Accountants
Category		Management Fee	2.00% p.a.
Launch Date	October 10, 2009	Sales Load	2% front-end-load
Benchmark	17.92% <i>KSE-30 Index(Total Return)</i>	Minimum Subscription	Initial Investment of Rs. 1000/ Subsequently Rs. 100 per transaction
FHSF Return	21.12%	AMC Rating	"AM3+" - PACRA
Net Assets	Rs. 207 million (June 30, 2017)	Dealing Days/Timings	Monday to Friday/ 9:00 am to 4:30 pm
NAV per unit	105.2524 per unit (June 30, 2017)	Fund Performance Ranking	MFR 3 Star by JCR - VIS
Pricing Mechanism	Forward Pricing	Trustee	Central Depository Company of Pakistan Ltd.

MARKET REVIEW

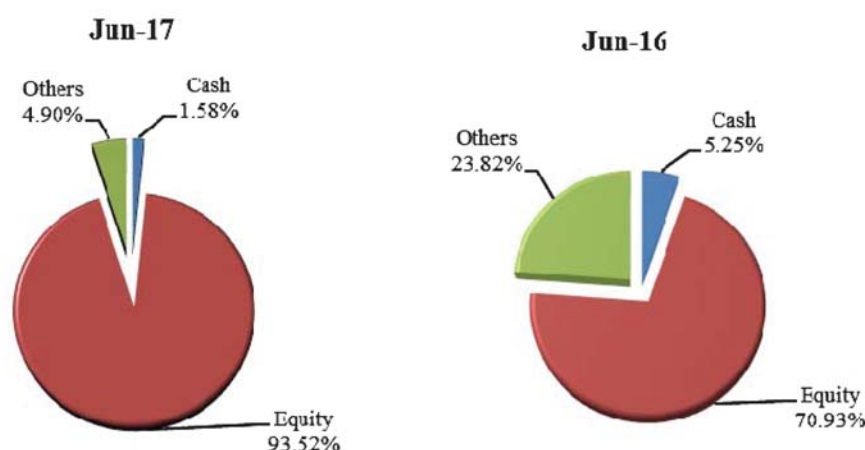
In FY17, the index rose 23% vs. 10% in FY16. Pakistan Benchmark index shed 3% in 1H2017 to 46,565 points. Huge sell-off was witnessed in June'17 (worst June since 1999 & worst month since Mar'15), with index losing 8% and 4,026 points due to overabundance of negative news and unfulfilled expectations from inclusion of Pakistan stock market in MSCI emerging market. Throughout the month the bourse was on the slip side. The main reason for this sharp fall mainly include i) Political uncertainty concerning ongoing JIT, ii) deteriorating current account deficit, iii) Short of investors expectation after MSCI inclusion, iv) Individual selling due to year end phenomenon. The average trading volume declined by 22% MoM to 265mn against 338mn recorded in May'17. Similarly, average traded value also dropped to USD142mn vs. USD184mn (down 23% MoM) in the preceding month. Major sectors that dragged down the index were i) Oil & Gas (-16% MoM), ii) Cements (-10% MoM) and iii) Banks (-4% MoM). Top performers include Electricity (+46% MoM), ii) Financial Services (+26% MoM and iii) Life insurance (+9% MoM).

On a forward note it is obvious now the market has already absorbed all severe shocks of political uncertainty, short falling of expectation from MSCI emerging market inclusion and investor somewhat overreaction to ongoing JIT of ruling elite. Although the ongoing Political dilemma is much important in terms of the political fate of sitting Government but the ultimate performance of stock market cannot be tied completely to the sitting government. Numbers of economic parameters including GDP growth, ongoing power and infrastructure projects are improving in the country that can help rebound stock market and ultimately the economy.

Fund Performance Review

As of June 30, 2017, the Fund was invested up to 93.52% in equities, while 1.58% was available as cash in banks. A holding of 48.62% of total asset was held as top ten holding; these allocations are made on fundamentally strong companies which will eventually provide long term capital growth. The Fund provided a net return of 21.12% during the financial year 2017.

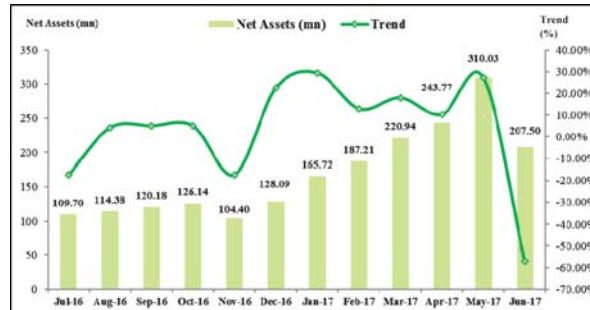
Asset Allocation as on June 30



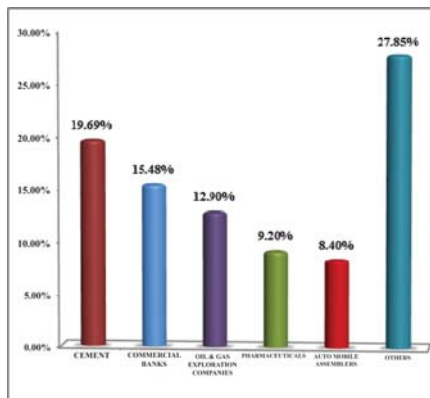
FIRST HABIB STOCK FUND

Fund Size

Net Assets of FHSF stood at Rs. 207.50 million as at June 30, 2017 against net assets of Rs. 132.66 million at June 30, 2016.



Sector Allocation (June 30, 2017)



Top Ten Stocks (June 30, 2017)

S. No.	Companies	% of Total Asset
1	Lucky Cement Company Limited	7.59%
2	Habib Bank Limited	6.26%
3	DG Khan Cement Company Limited	6.15%
4	Oil & Gas Development Company Limited	5.50%
5	United Bank Limited	4.60%
6	MCB Bank Limited	4.10%
7	Abbot Laboratories (Pakistan) Limited	3.89%
8	Hub Power Company Limited	3.55%
9	Pakistan Oilfields Limited	3.52%
10	Pak Elektron Limited	3.44%

Income Distribution

FHSF distributed Rs. 16.00 per unit as dividend on 30th June 2017, for the Financial Year 2016-17 for unit holders as detailed below:

2016-2017	Cum NAV Rs.	Ex - NAV Rs.	Distribution Rs.
July-June	121.2795	105.2795	16.00

Sales and Redemptions of Units

During the year, 3,850,567 units of the value of Rs. 492.46 million were sold while 3,152,135 units of value of Rs. 396.17 million were redeemed resulting in to a net sale of 698,432 units of the value of Rs. 96.29 million during the year.

Unit Holders Pattern

For the breakdown of unit holding by size as on June 30, 2017, please refer to note 25 to the Annual Accounts 2017.

FHSF Performance at a Glance

	2017	2016	2015
Net Assets as at June, 30 (Rs. In Million)	207	132	114
NAV per unit as on June, 30 (Rs.)	105.2524	104.2094	102.9147
Highest NAV	137.5327	107.7404	120.5431
Lowest NAV	103.4907	89.2124	96.532
Total Distribution (Rs.)	16.00	4.10	16.00
Annual Return (%)	21.12%	1.26%	14.75%

Responsibilities towards Corporate Governance and Proxy Voting as per Regulation 38A

Habib Asset Management Limited (HAML) on behalf of First Habib Stock Fund (FHSF) a collective investment scheme (CIS) under its management did not participate in shareholders' meetings. Further, the proxy voting policy of the FHSF is available on the website of the HAML and detailed information regarding actual proxies voted by the HAML (if any) in respect of the CIS is also available without charge, upon request, to all unit holders.

FIRST HABIB CASH FUND
Annual Report
For the year ended 30 June 2017

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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 Officer
Mr. Mohammad Ali Jameel	Director
Mr. Mansoor Ali	Director
Vice Admiral (R) Khalid M. Mir	Director
Mr. Liaquat Habib Merchant	Director

Audit Committee

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

CFO and Company Secretary

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

Human Resource Committee

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

Investment Committee

Mr. Mansoor Ali	Chairman
Mr. Sajjad Hussain Habib	Member
Mr. Imran Azim	Member

Auditors

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

Registrar

JWAFFS Registrar Services
(Pvt.) Limited
407-408, 4th Floor,
Al- Ameer Centre, Shahrah-e-Iraq,
Saddar, Karachi.

Trustee

Central Depository Company
of Pakistan Limited
CDC House, 99-B, Block 'B', S.M.C.H.S.,
Main Shahr-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
Bank Al-falah 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

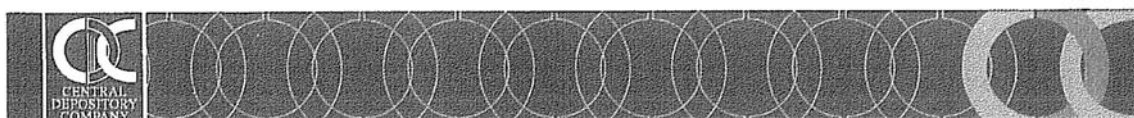
**Report of the Trustee pursuant to Regulation 41(h) and clause 9 of Schedule V of
the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

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, 2017 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 Executive Officer
Central Depository Company of Pakistan Limited

Karachi: September 19, 2017



FIRST HABIB CASH FUND

STATEMENT OF COMPLIANCE BY HABIB ASSET MANAGEMENT LIMITED WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2017

This statement is being presented to comply with the Code of Corporate Governance (the "Code"), contained in Regulation No. 5.19.24 of the Rule book of Pakistan Stock Exchange Limited, 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.

The Board of Directors (the "Board") of Habib Asset Management Limited (the "Management Company"), which is an unlisted public company, manages the affairs of **First Habib Cash Fund** (the "Fund"). The Fund being a unit trust open end scheme does not have its own Board of Directors. The units of the Fund are listed as a security on the Pakistan Stock Exchange Limited; therefore, the Management Company has applied the principles contained in the Code to the Fund in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes:

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

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 Broker 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. However, subsequent to the year, Mr. Sajjad Hussain Habib resigned on July 04, 2017.
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 vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of 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 this 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 have attended director's training program and one director is exempt from directors training program due to qualification and experience.
10. There was no appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year.
11. The Directors' report relating to the Fund for the year ended June 30, 2017 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 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 who is also an independent non-executive director.
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 Remuneration Committee. It comprises of three members, of whom two are non-executive directors including the chairman of the Committee who is also an independent non-executive director.
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.
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange.
23. The Management Company has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
24. We confirm that all other applicable material principles enshrined in the Code have been duly complied with by the Management Company except those that are not yet applicable

For and on behalf of the Board

Karachi.
Dated: September 07, 2017



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

**REVIEW REPORT TO THE MEMBERS 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 contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of Habib Asset Management Limited ("the Management Company") of HAML – First Habib Cash Fund ("the Fund") for the year ended 30 June 2017 to comply with the requirements of rule book Regulation No. 5.19.24 of Pakistan Stock Exchange Limited, where the Fund is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code 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 the 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 of Directors' 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 of Directors for their review and approval of 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 of Directors 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 of Compliance does not appropriately reflect the Fund'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 2017.

Date: 7 September 2017

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan
and a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
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Internet www.kpmg.com.pk

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 2017, and the related income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of 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

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as the Management determines is necessary to enable the preparation of the 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 about 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 our 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, we consider internal control relevant to the Fund'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 Fund'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 2017, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan
and a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.

FIRST HABIB CASH FUND



KPMG Taseer Hadi & Co.

Other Matters

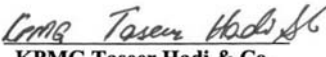
The financial statements of the Funds for the year ended 30 June 2016 were audited by another firm of Chartered Accountants, who vide their report dated 10 September 2016, addressed to the Unit holders, had expressed an unmodified opinion thereon.

Report on Other Legal and Regulatory Requirements

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

Date: 7 September 2017

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

STATEMENT OF ASSETS AND LIABILITIES

As at 30 June 2017

	<i>Note</i>	30 June 2017	30 June 2016
		(Rupees in '000)	
Assets			
Bank balances	7	1,063,544	804,535
Placements		-	200,000
Investments	8	-	69,162
Income receivable	9	5,518	9,064
Advances and prepayments	10	607	143
Total assets		1,069,669	1,082,904
Liabilities			
Payable to Habib Asset Management Limited - Management Company		1,329	1,275
Provision for Federal Excise Duty on remuneration of the Management Company	11	13,417	13,417
Payable to Central Depository Company of Pakistan Limited -Trustee	12	144	151
Payable to Securities and Exchange Commission of Pakistan (SECP)	13	890	956
Provision for Sindh Workers' Welfare Fund	14	1,993	-
Provision for Workers' Welfare Fund	14	-	16,410
Accrued expenses and other liabilities	15	10,911	16,161
Total liabilities		28,684	48,370
Net assets		1,040,985	1,034,534
Unit holders' funds (as per statement attached)		1,040,985	1,034,534
		(Number of Units)	
Number of units in issue (Face value of units is Rs.100 each)	16	10,368,238	10,310,803
		(Rupees)	
Net asset value per unit		100.40	100.33

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

INCOME STATEMENT

For the year ended 30 June 2017

		30 June 2017	30 June 2016
	Note	(Rupees in '000)	
Income			
Profit on bank deposits	17	59,756	14,601
Profit on certificate of investments		1,558	-
Income from government securities		4,311	61,698
Mark-up income on placements		8,512	8,573
Net gain on investments classified as 'at fair value through profit or loss'			
- Net capital gain on sale of investments		4	451
- Net unrealised gain on revaluation of investments	8.1	-	12
		4	463
Total income		74,141	85,335
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	18	6,779	10,838
Sindh sales tax on Management Company's remuneration	19	882	1,760
Federal Excise Duty on Management Company's Remuneration	11	-	1,733
Allocated expenses	20	744	310
Remuneration of Central Depository Company of Pakistan Limited - Trustee	12	1,859	1,944
Annual fee - Securities and Exchange Commission of Pakistan	13	898	956
Brokerage expense		5	102
Settlement and bank charges		71	45
Annual listing fee		45	40
Auditors' remuneration	21	312	314
Amortisation of preliminary expenses and floatation costs		-	424
Provision for Sindh Worker's Welfare Fund	14	1,993	-
Mutual fund rating fee		242	222
Reversal of provision for Workers' Welfare Fund		(16,410)	-
Printing and other expenses		94	86
Total expenses		(2,486)	18,774
Net income from operating activities		76,627	66,561
Net element of loss and capital loss included in prices of units issued less those in units redeemed		(17,415)	(26,146)
Net income for the year before taxation		59,212	40,415
Taxation	22	-	-
Net income for the year after taxation		59,212	40,415

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 2017

	30 June 2017	30 June 2016
	(Rupees in '000')	
Net income for the year	59,212	40,415
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u>59,212</u>	<u>40,415</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**DISTRIBUTION STATEMENT**

For the year ended 30 June 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
Undistributed income brought forward comprises of:		
- Realised income	7,773	11,711
- Unrealised income / (loss)	12	(245)
Undistributed income brought forward	7,785	11,466
Distribution to unit holders' of the Fund		
Interim cash dividend for class 'C' unit holders @ Rs. 5.75/- per unit declared on 22 June 2016	-	(44,096)
Interim cash dividend for class 'C' unit holders @ Rs. 6.50/- per unit declared on 23 June 2017	(58,447)	-
Net income for the year	59,212	40,415
Undistributed income carried forward	8,550	7,785
Undistributed income carried forward comprises of:		
- Realised income	8,550	7,773
- Unrealised income	-	12
Undistributed income carried forward	8,550	7,785

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 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
Net assets at the beginning of the year	1,034,534	1,278,205
Issue of 13,405,615 units (2016: 9,403,489 units)*	1,370,377	2,022,987
Redemption of 13,348,180 units (2016: 9,008,442 units)	(1,382,106)	(2,289,123)
	(11,729)	(266,136)
Net element of loss and capital loss included in prices of units issued less those in units redeemed	17,415	26,146
Net capital gain on sale of investments classified as held for trading	4	451
Net unrealised gain on revaluation of investments classified as 'held for trading'	-	12
Total comprehensive income for the year (excluding net unrealized gain on revaluation of investments classified as 'held for trading' and capital gain)	59,208	39,952
Distribution to unit holders in cash	(58,447)	(44,096)
Net income for the year less distribution	765	(3,681)
Net assets at the end of the year	1,040,985	1,034,534
	(Rupees)	
Net assets value per unit at beginning of the year	100.33	100.70
Net assets value per unit at end of the year	100.40	100.33

* Including 179,045 units issued as reinvestment during the year (2016: 100,265 units)

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**CASH FLOW STATEMENT**

For the year ended 30 June 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year before taxation	59,212	40,415
Adjustments for non-cash items		
Unrealised appreciation on investments at fair value through profit or loss - net	-	(12)
Net element of loss and capital loss included in prices of units issued less those in units redeemed	17,415	26,146
Amortisation of preliminary expenses and floatation costs	-	424
	<u>76,627</u>	<u>66,973</u>
(Increase) / decrease in assets		
Investments	69,162	570,852
Placements	200,000	-
Income receivable	3,546	(3,086)
Advances and prepayments	(464)	(21)
	<u>272,244</u>	<u>567,745</u>
Decrease / (increase) in liabilities		
Payable to Habib Asset Management Limited - Management Company	54	(941)
Provision for Federal Excise Duty on remuneration of the Management Company	-	1,733
Payable to Central Depository Company of Pakistan Limited - Trustee	(7)	(76)
Payable to Securities and Exchange Commission of Pakistan (SECP)	(66)	(1,476)
Provision for Workers' Welfare Fund	(16,410)	-
Provision for Sindh Workers' Welfare Fund	1,993	-
Accrued expenses and other liabilities	(5,250)	(74,656)
	<u>(19,686)</u>	<u>(75,416)</u>
Net cash generated from operating activities	<u>329,185</u>	<u>559,302</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Net payments from issuance and redemption of units	(11,729)	(266,136)
Dividend paid	(58,447)	(44,096)
Net cash used in financing activities	<u>(70,176)</u>	<u>(310,232)</u>
Increase in cash and cash equivalents during the year	<u>259,009</u>	<u>249,070</u>
Cash and cash equivalents at the beginning of the year	<u>804,535</u>	<u>555,465</u>
Cash and cash equivalents at the end of the year	<u><u>1,063,544</u></u>	<u><u>804,535</u></u>
Cash and cash equivalents at the end of the year comprise of:		
Cash at bank - saving accounts	<u><u>1,063,544</u></u>	<u><u>804,535</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

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 30 June 2017***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 Pakistan 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 government 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 Central Depository Company (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.

- 2.1** The Companies Act, 2017 was enacted on 30 May 2017 and is applicable with immediate effect. The Securities and Exchange Commission of Pakistan through press release and vide circular no. 17 of 2017 dated 20 July 2017 has decided that all the companies whose financial year, including quarterly and other interim period, closes on or before 30 June 2017, shall prepare their financial statements, including interim financial statements, in accordance with the provisions of the repealed Companies Ordinance, 1984. The new requirements of the Companies Act, 2017 shall be applicable to the companies having their financial year closure after 30 June 2017.

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.

3.1 Functional and presentation currency

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

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2017:

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset

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and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on Company's financial statements.

- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.
- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Company's financial statements.
- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Company's financial statements.
- Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 1 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 - 'Non-current Assets Held for Sale and Discontinued Operations'. The amendments are not likely to have an impact on Company's financial statements.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Company's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax.

The above amendments are not likely to have an impact on the Fund's financial statements.

As disclosed in note 2.1.2, the new requirements of the Companies Act, 2017, shall be applicable to the financial statements issued on or after 30 June 2017. The Act included mutual funds in Third Schedule, accordingly certain additional requirements / disclosures in Fifth Schedule to the Companies Act, 2017 are also applicable to the financial statements of mutual funds. Significant disclosures / requirements, which are relevant to the funds includes but not limited to: name of associated companies or related parties or undertakings along with the basis of relationship describing common directorship and/or percentage of shareholding; summary of significant transactions and events that have affected the financial position and performance during the year, etc.

SECP through SRO 756(I)/2017 dated 03 August 2017 has made certain amendments in NBFCs and Notified Entities Regulations, 2008. The amendments require additional disclosures and recording of element of income / loss included in price of unit issued or redeemed in Statement of Movements in Reserves or Unit holders' Fund instead of Income Statement. The SRO also deleted 'Distribution Statement' and its contents along with certain additional break-ups and disclosures to be included on the face of 'Income Statement' and 'Statement of Movements in Reserves or Unit holders' Fund'.

Further, new amendments changed the definition of accounting income in regulation (63) sub-regulation (I) which is now to be determined after taking into account the element of income / loss relating to the redemption of units. This change will be applied prospectively and may affect the charge for Sindh Workers' Welfare Fund (SWWF) and consequently, the Net Asset Value per unit of the Fund in future.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

5.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments at fair value through profit or loss

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

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

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

b) Available-for-sale

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

c) Loans and receivables

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

d) Financial liabilities

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

Recognition

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

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

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

Measurement

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

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

Basis of valuation of Government Securities

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

Derecognition

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

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

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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.

5.2 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.

5.3 Issue and redemption of units

Units issued are recorded at the net asset 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.

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

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unitholder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unitholders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

5.5 Net asset value - per unit

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

5.6 Taxation

The Fund is exempt from taxation under clause 99 of the Part I of the 2nd Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders, provided that for the purpose of determining distribution of not less than 90% of its accounting income for the year, the income distributed through bonus units shall not be taken into account.

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.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

5.7 Revenue recognition

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

5.8 Expenses

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

5.9 Provisions

Provisions are recognized when the Fund has a present, legal or constructive obligation as a result of past events and it is probable that and 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.

5.10 Preliminary expenses and floatation costs

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

5.11 Cash and cash equivalents

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

5.12 Other assets

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

5.13 Dividend (including bonus units)

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

5.14 Earnings per unit (EPU)

Earnings Per Unit (EPU) has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

6. ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the application of accounting 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 judgements 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 recognized in the period in which the estimates are 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. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in the application of accounting policies are given below:

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in note 5.1 regarding the Classification of investments.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ending 30 June 2017 is included in the following notes:

- Note 5.1 - Valuation of investments
- Notes 14 and 11 - Recognition of provision for Sindh Workers' Welfare Fund and Federal Excise Duty respectively.

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		30 June 2017	30 June 2016
	Note		
7. BANK BALANCES			
		(Rs in '000)	

Saving accounts	7.1	<u>1,063,544</u>	<u>804,535</u>
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- 7.1 This includes balance of Rs.47.4 million (30 June 2016: 9.27 million) with Bank Al Habib Limited, a related party, carrying profit rate of 5.25% (30 June 2016: 5.25% to 6.00%) per annum and balances with other commercial banks carry profit rates ranging from 5.25% to 6.35% (30 June 2016: 4.25% to 6.50%) per annum.

8. INVESTMENTS

At fair value through profit or loss:

Pakistan Investment Bonds	8.1	<u>-</u>	<u>69,162</u>
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8.1 Pakistan Investment Bonds

Issue date	Tenor	Face value				As at 30 June 2017			Market value as percentage of	
		As at 01 July 2016	Purchases during the year	Sold / matured during the year	As at 30 June 2017	Carrying value	Market value	Appreciation	Net assets	Total investments
<hr/> <div>(Rupees in '000)</div> <hr/>										
18-Jul-2013	3 years	69,000	-	69,000	-	-	-	-	0.00%	0.00%
Total as at 30 June 2017						-	-	-		
Total as at 30 June 2016						69,150	69,162	12		

		30 June 2017	30 June 2016
9. INCOME RECEIVABLE			
		(Rupees in '000)	

Profit receivable on saving accounts	5,518	3,063
Profit receivable on government securities	-	3,509
Profit receivable on term deposit receipts	-	2492
	<u>5,518</u>	<u>9,064</u>

10. ADVANCES AND PREPAYMENTS

Mutual fund rating fee	141	140
Listing fee	4	3
Advance tax	462	-
	<u>607</u>	<u>143</u>

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

As per the requirements of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16 percent 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, hence, a petition was collectively filed by the Mutual Fund Association of Pakistan with the Sindh High Court (SHC) on 4 September 2013.

While disposing the above petition through order dated 16 July 2016, the SHC declared the said provisions to be ultra vires and as a result no FED is payable with effect from 01 July 2016. However, the tax authorities subsequently filed appeal against the decision of the SHC in the Supreme Court of Pakistan, which is pending for the decision.

Furthermore, the Finance Act 2016 also introduced an amendment to the Federal Excise Act, 2005 whereby FED was withdrawn on services of different industries including Non-Banking Financial Institutions, which are already subject to provisional sales tax.

However, since the appeal is pending in the Supreme Court of Pakistan, the Management Company, as a matter of abundant caution, is carrying provision for FED for the period from 13 June 2013 to 30 June 2016 aggregating to Rs. 13.42 million. Had the provision on FED not been made, Net Asset Value per unit of the Fund as at 30 June 2017 would have been higher by Rs. 1.29 per unit (30 June 2016: Rs. 1.3 per unit).

12. 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

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 rule 62 of the NBFC Regulations 2008, whereby the Fund is required to pay SECP an amount at the rate of 0.075% (2016: 0.075%) of the average daily net assets of the Fund.

14. PROVISION / (REVERSAL) FOR SINDH WORKERS' WELFARE FUND / WORKERS' WELFARE FUND

The Finance Act, 2008 had introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance) as a result of which it was construed that all Collective Investment Schemes (CISs) / mutual funds whose income exceeded Rs 0.5 million in a tax year were 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 was higher. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honourable Sindh High Court (SHC) challenging the applicability of WWF on CISs which is pending adjudication. Similar cases were disposed of by the Peshawar and the Lahore High Courts in which these amendments were declared unlawful and unconstitutional. However, these decisions were challenged in the Supreme Court of Pakistan.

Subsequently, the Finance Act, 2015 introduced an amendment under which CISs / mutual funds have been excluded from the definition of "industrial establishment" subject to WWF under the WWF Ordinance. Consequently, mutual funds are not subject to this levy after the introduction of this amendment which is applicable from tax year 2016. Accordingly, no further provision in respect of WWF was made with effect from 1 July 2015.

On 10 November 2016 the Supreme Court of Pakistan (SCP) has passed a judgment declaring the amendments made in the Finance Acts 2006 and 2008 pertaining to WWF as illegal citing that WWF was not in the nature of tax and could, therefore, not have been introduced through money bills. Accordingly, the aforesaid amendments have been struck down by the SCP. The Federal Board of Revenue has filed a petition in the SCP against the said judgment, which is pending hearing. While the petitions filed by the CISs on the matter are still pending before the SHC, the Mutual Funds Association of Pakistan (MUFAP) (collectively on behalf of the asset management companies and their CISs) has taken legal and tax opinions on the impact of the SCP judgement on the CISs petition before the SHC. Both legal and tax advisors consulted were of the view that the judgment has removed the very basis on which the demands were raised against the CISs. Therefore, there was no longer any liability against the CISs under the WWF Ordinance and that all cases pending in the SHC or lower appellate forums will now be disposed of in light of the earlier judgement of the SCP.

Furthermore, as a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) had been passed by the government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.50 million, is required to pay Sindh Workers' Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income. The matter was taken up by the MUFAP with the Sindh Revenue Board (SRB) collectively on behalf of various asset management companies (including the Management Company of the Fund) whereby it was contested that mutual funds should be excluded from the ambit of the SWWF Act as these were not industrial establishments but were pass through investment vehicles and did not employ workers. The SRB held that mutual funds were included in the definition of financial institutions as per the Financial Institution (Recovery of Finances) Ordinance, 2001 and were, hence, required to register and pay SWWF under the SWWF Act. Thereafter, MUFAP has taken up the matter with the Sindh Finance Ministry to have CISs / mutual funds excluded from the applicability of SWWF.

In view of the above developments regarding the applicability of WWF and SWWF on CISs / mutual funds, MUFAP has recommended the following to all its members on 12 January 2017:

- based on legal opinion, the entire provision against WWF held by the CISs till 30 June 2015, to be reversed on 12 January 2017; and

FIRST HABIB CASH FUND

- the provision in respect of SWWF should be made on a prudent basis with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from 21 May 2015) on 12 January 2017.

Accordingly, the provision for SWWF is being made on a daily basis going forward.

The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on 12 January 2017 and the SECP vide its letter dated 1 February 2017 has advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosures in the financial statements of the CISs/ mutual funds. Accordingly, the Fund has recorded these adjustments in its books on 12 January 2017.

The Management Company has provided for SWWF for the period from 21 May 2015 to 30 June 2017, amounting to Rs. 0.504 million. Had the SWWF not been provided, the NAV per unit of the Fund would have been higher by Rs.0.19.

	30 June 2017	30 June 2016
15. ACCRUED EXPENSES AND OTHER LIABILITIES		
	(Rupees in '000)	
Auditors' remuneration payable	241	252
Printing charges	72	83
Payable against redemption of units	97	7,029
Capital gain and withholding tax payable	10,501	8,737
Brokerage payable	-	60
	10,911	16,161

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 form of bonus units.

	30 June 2017	30 June 2016
Units in issue as at 30 June in each class are:		
	(Number of Units)	
Type 'A' Units	-	-
Type 'B' Units	-	8,918,615
Type 'C' Units	10,368,238	1,392,189
	10,368,238	10,310,803

17. PROFIT ON BANK DEPOSITS		(Rupees in '000)
Income on saving accounts	17.1	58,997
Income on term deposit receipts		759
		59,756
		14,601

- 17.1 It represents profit on deposits with Bank Al Habib, a related party amounting to Rs. 883,705 (30 June 2016: 61,664) .

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 from 15th August 2016 and onwards at a rate of 10% on the net income of the Fund with a cap of 0.85 % per annum and a floor of 0.5% per annum of the average daily net assets of the Fund (2016:0.85%) per annum for the current year in accordance with the Trust Deed.

19. SINDH SALES TAX ON MANAGEMENT COMPANY AND TRUSTEE REMUNERATION

Sindh Sales Tax has been charged at 13% (30 June 2016: 14%) on the management company's and trustee remuneration charged during the year.

20. ALLOCATED EXPENSES

Securities and Exchange Commission of Pakistan through its SRO 1160(I)/2015 dated 25 November 2015 has revised the Non-Banking Finance Companies and Notified Entities Regulations, 2008. In the revised regulations a new clause 60(s) has been introduced allowing the Management Company to charge "fees and expenses related to registrar services, accounting, operation and valuation services related to CIS maximum up to 0.1% of average annual net assets of the Scheme or actual whichever is less" from the mutual funds managed by it.

During the year, Management Company has charged actual expense related to registrar service and software cost to the Fund.

21. AUDITORS' REMUNERATION

	30 June 2017	30 June 2016
	(Rupees in '000)	
Annual audit fee	195	180
Half yearly review fee	64	60
Review of Code of Corporate Governance	26	30
Out of pocket expenses	27	44
	312	314

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, in case of certain mutual funds, 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 Income Fund, First Habib Islamic Stock Fund, First Habib Stock Fund and First Habib Islamic Income Fund being the Funds managed by the common Management company, Central Depository Company Limited being the Trustee of the Fund.

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

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

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	For the year ended 30 June 2017		For the year ended 30 June 2016	
<u>Units sold to:</u>	Units	(Rupees in '000)	Units	(Rupees in '000)
Management Company				
- Habib Asset Management Limited	992,329	99,889	2,490,399	251,663
Associated Companies				
- Habib Insurance Company Limited	-	-	1,723,126	176,216
Other related parties				
- Directors of the Management Company	2,693	270	22,367	2,251
- Executives of the Management Company	3,489	350	1,998	204
- Habib Asset Management Limited Employee Provident Fund	7,436	750	23,889	2,505
- Mr. Haider Azim	23,189	2,342	-	-
- Mr. Abbas D Habib	-	-	9,930	1,000
- Mr. Ali Asad Habib	-	-	9,930	1,000
- Mrs Razia Ali Habib	2,097	210	1,763	177
- Mrs Samina Imran	-	-	20	2
- Mr . Haider Azim	-	-	12,873	1,290
- Mrs Batool Ali Raza Habib	372	37	313	31
- Mrs Fatima Ali Raza Habib	678	68	570	57
- Mrs Ishrat Malik	108,097	11,253	-	-
- Mr. Munawar Ali Habib	2,564	257	2,155	216
Units redeemed by:				
Management Company				
- Habib Asset Management Limited	989,582	99,904	3,483,836	352,612
Associated Companies				
- Habib Insurance Company Limited	-	-	1,723,126	155,655
Other related parties				
- Directors of the Management Company	4,953	500	70,500	7,209
- Executives of the Management Company	-	-	13,742	1,426
- Habib Asset Management Limited Employee Provident Fund	27,543	2,780	5,267	541
- Mr Asghar D. Habib	20,658	2,126	-	-
- Mrs Samina Imran	-	-	100	10
- Mr. Junaid Kasbati	3,489	351	-	-
- Mr. Qumail Habib	18,977	1,955	-	-
- Mr. Imran Ali Habib	40,592	4,082	-	-
- Mr . Haider Azim	18,569	1,893	16,874	1,699
- Mrs Ishrat Malik	92,193	9,739	-	-
Units held by:				
Management Company				
- Habib Asset Management Limited	2,747	276	-	-
Associated Companies				
- Bank AL Habib Limited	1,392,189	139,777	1,392,189	139,685
	As at 30 June 2017		As at 30 June 2016	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Connected Parties holding 10% or more of the units in issue				
K&N'S Foods Private Limited	3,843,449	395,913	3,843,449	385,632
Other related parties				
- Directors of the Management Company	48,791	4,899	51,052	5,122
- Habib Asset Management Limited Employee Provident Fund	-	-	19,016	2,017
- Mr. Imran Ali Habib	-	-	40,592	4,073
- Mr. Murtaza Habib	-	-	37,590	3,772
- Mr. Asghar D. Habib	-	-	20,658	2,073
- Mr. Qumail Habib	21,593	2,168	40,571	4,071

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	As at 30 June 2017		As at 30 June 2016	
	Units	(Rupees in '000)	Units	(Rupees in '000)
Connected Parties holding 10% or more of the units in issue				
- Mr. Abbas D Habib	40,565	4,073	40,565	4,070
- Mr. Ali Asad Habib	40,302	4,046	40,302	4,044
- Mr. Munawar Ali Habib	46,439	4,663	43,876	4,402
- Mrs Razia Ali Habib	37,986	3,814	35,889	3,601
- Mrs Batool Ali Raza Habib	6,746	677	6,373	640
- Mrs Fatima Ali Raza Habib	12,289	1,234	11,610	1,165
- Mr Aun Muhammad Ali Raza Habib	5,214	523	5,214	523
- Mrs Samina Imran	31	3	23	3
- Mr . Haider Azim	4,620	464	-	-
- Mrs. Hina Shoaib	27	3	27	3
- Mrs Ishrat Malik	15,904	1,597	-	-

Details of the transactions with connected persons are as follows:

	For the year ended 30 June 2017 (Rupees in '000)	For the year ended 30 June 2016 (Rupees in '000)
Habib Asset Management Limited - Management Company		
Management Remuneration	6,779	10,838
Sales Tax on Management Remuneration	882	1,760
FED on Management Remuneration	-	1,733
Expenses allocated to management company	744	310
Central Depository Company of Pakistan Limited - Trustee		
Trustee fee	1,859	1,944

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

Bank Al Habib Limited		
Bank balances	47,363	9,269
Habib Asset Management Limited - Management Company		
Management Remuneration payable	1,329	1,275
FED on Management Remuneration payable	13,417	13,417
Central Depository Company of Pakistan Limited - Trustee		
Trustee Fee payable	144	151

24. 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.

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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, dividend and income receivables, receivable against sale of investments and deposits etc.

Management of credit risk

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

Credit risk is managed and controlled by the Management Company of the Fund in the following manner:

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

Exposure to credit risk

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

	30 June 2017		30 June 2016	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
	(Rupees in '000)			
Bank balances and term deposit receipts	1,063,544	1,063,544	804,535	804,535
Placements	-	-	200,000	200,000
Investments	-	-	69,162	-
Income receivable	5,518	5,518	9,064	9,064
	<u>1,069,062</u>	<u>1,069,062</u>	<u>1,082,761</u>	<u>1,013,599</u>

Credit ratings and Collaterals

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

Ratings	2017	2016
AA+	99.07%	67.25%
AAA	0.93%	1.16%
AA	-	31.60%
	<u>100%</u>	<u>100%</u>

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

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 as at 30 June 2017.

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.

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

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

Maturity analysis of financial liabilities

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

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

	30 June 2017				
	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	1,329	1,329	1,329	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	144	144	144	-	-
Payable to Securities and Exchange Commission of Pakistan	890	890	890	-	-
Accrued expenses and other liabilities	10,911	10,911	10,658	241	-
	13,274	13,274	13,021	241	-

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	30 June 2016				
	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	1,275	1,275	1,275	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	151	151	151	-	-
Payable to Securities and Exchange Commission of Pakistan	956	956	956	-	-
Accrued expenses and other liabilities	16,161	16,161	15,908	252	-
	<u>18,543</u>	<u>18,543</u>	<u>18,290</u>	<u>252</u>	<u>-</u>

24.3 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). 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 risk only.

24.3.1 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:

	30 June 2017	30 June 2016
	(Rupees in '000)	
Fixed rate instruments		
Investment in government securities	4,311	69,162
Term deposit receipts (TDRs)	759	-
Placements	-	200,000
	<u>5,070</u>	<u>269,162</u>
Variable rate instruments		
Bank balance	<u>647,796</u>	<u>804,535</u>

None of the financial liabilities carry any interest rate risk.

a) Cash flow Sensitivity analysis for variable rate instruments

As at 30 June 2017, 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 2017, the Fund does not hold any fixed rate instrument and is not exposed to any cash flow interest rate risk.

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

FIRST HABIB CASH FUND

		30 June 2017				
	Mark-up / profit rate	Less than one month	One to three months	Three months to one year	More than one year	Total
		(Rupees in '000)				
<i>Assets</i>						
Bank balances and term deposit receipts	5.25%-6.35%	1,063,544	-	-	-	1,063,544
Total assets		1,063,544	-	-	-	1,063,544

		30 June 2016				
	Mark-up / profit rate	Less than one month	One to three months	Three months to one year	More than one year	Total
		----- (Rupees in '000) -----				
<i>Assets</i>						
Bank balances	5.25%-6.00%	804,535	-	-	-	804,535
Investments	6.36%-6.38%	69,162	-	-	-	69,162
Placements	6.45%	100,000	100,000	-	-	200,000
Total assets		973,697	100,000	-	-	1,073,697

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

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the Fund is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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 traded.
- 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).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

FIRST HABIB CASH FUND

		Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
June 30, 2017	Note	(Rupees in '000)							
Financial assets									
- measured at fair value		-	-	-	-	-	-	-	-
Financial assets									
- not measured at fair value									
Balances with banks	7	-	1,063,544	-	1,063,544	-	-	-	-
Income receivable	9	-	5,518	-	5,518	-	-	-	-
		-	1,069,062	-	1,069,062	-	-	-	-
Financial liabilities									
- not measured at fair value									
Payable to Habib Asset Management Limited		-	-	1,262	1,262				
Payable to Central Depository Company of Pakistan Limited (CDC) - Trustee	12	-	-	127	127				
Accrued expenses and other liabilities	15	-	-	10,911	10,911				
		-	-	12,300	12,300				
June 30, 2016		Carrying amount				Fair value			
		Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
		(Rupees in '000)							
Financial assets									
- measured at fair value		69,162	-	-	69,162	69,162	-	-	69,162
Financial assets									
- not measured at fair value									
Balances with banks	7	-	804,535	-	804,535	-	-	-	-
Placements		-	200,000	-	200,000	-	-	-	-
Income receivable	9	-	9,064	-	9,064	-	-	-	-
		69,162	1,013,599	-	1,082,761		-	-	-
Financial liabilities									
- not measured at fair value									
Payable to Habib Asset Management Limited		-	-	1,141	1,141				
Payable to Central Depository Company of Pakistan Limited (CDC) - Trustee	12	-	-	132	132				
Accrued expenses and other liabilities	15	-	-	7,438	7,438				
		-	-	8,711	8,711				

25.1 The Fund has not disclosed the fair values for these financial assets and financial liabilities, as these are either short term in nature or repriced periodically. Therefore, their carrying amounts are reasonable approximation of fair value.

26. PATTERN OF UNITHOLDING

Unit holding pattern of the Fund as at 30 June 2017 is as follows:

FIRST HABIB CASH FUND

Category		Number of unit holders	Number of units	Investment amount	Percentage of total investment
	<i>Note</i>		(Rupees in '000)		
Individuals		188	3,068,277	308,059	29.59%
Associated companies	26.1	2	1,394,936	140,053	13.45%
Chief Executive	26.2	1	10,500	1,054	0.10%
Retirement funds		5	1,005,431	100,947	9.70%
Others		12	4,889,094	490,872	47.15%
		208	10,368,238	1,040,985	100.00%

Unit holding pattern of the fund as at 30 June 2016 is as follows:

Category		Number of unit holders	Number of units	Investment amount	Percentage of total investment
	<i>Note</i>		(Rupees in '000)		
Individuals		148	1,983,728	199,038	19.24%
Associated companies	26.1	1	1,392,189	139,685	13.50%
Chief Executive	26.2	1	14,872	1,492	0.14%
Retirement funds		6	983,227	98,652	9.54%
Others		10	5,936,788	595,667	57.58%
		166	10,310,803	1,034,534	100.00%

26.1 Associated companies

	30 June 2017			30 June 2016		
	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	2,747	276	0.03%	-	-	0.00%
Bank AL Habib Limited	1,392,189	139,777	13.43%	1,392,189	139,685	10.93%
Habib Insurance Company Limited	-	-	0.00%	-	-	0.00%
	1,394,936	140,053	13.45%	1,392,189	139,685	10.93%

26.2 Chief executive

Imran Azim	10,500	1,054.21	0.10%	14,874	1,492	0.12%
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27. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker name	30 June 2017 (Percentage)	30 June 2016 (Percentage)
KASB Securities Limited	47.35%	27.36%
BMA Capital	44.51%	17.22%
Invest One Markets Limited	8.14%	2.30%
Arif Habib Investments Limited	0.00%	4.33%
Elixir Securities (Private) Limited	0.00%	6.51%
JS Global Capital Limited	0.00%	2.44%
Next Capital Limited	0.00%	32.04%
Optimus Markets (Private) Limited	0.00%	6.42%
Invest Capital Markets Limited	0.00%	0.41%
Pearl Securities Limited	0.00%	0.97%
	100.00%	100.00%

FIRST HABIB CASH 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	61 Years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	40 Years
Mr. Mansoor Ali	Director	MBA	32 Years

28.1 Other Funds managed by the Fund Manager

Mr. Ahmed Abbas - Fund Manager

Mr. Ahmed Abbas is an MBA Finance and has Eleven years of rich and valuable experience and in-depth understanding of money market/fixed income investments and operations. He started his career with Global Securitites 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 analytical and planning skills for better returns of the Fund. He is currently serving in the capacity of Fund Manager for First Habib Cash Fund.

29. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 68th, 69th, 70th, 71th and 72nd board meetings were held on 11 July 2016, 10 September 2016, 24 October 2016, 14 February 2017 and 25 April 2017 respectively.

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

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave Granted	
Ali Raza D. Habib	5	3	2	68th and 72nd meeting
Imran Azim	5	5	-	-
Mansoor Ali	5	4	1	72nd meeting
Mohammad Ali Jameel	5	4	1	68th meeting
Vice Admiral(R) Khalid M Mir	5	4	1	70th meeting
Liaquat Habib Merchant	5	-	5	68th, 69th, 70th, 71th and 72nd meeting
Sajjad Hussain	5	4	1	68th meeting

30. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on 07 September 2017.

31. TOTAL EXPENSE RATIO (TER)

In the current period, Securities and Exchange Commission of Pakistan (SECP) vide directive no. SCD/PRDD/Direction/18/2016 dated July 20, 2016, requires that Collective Investment Scheme (CIS) shall disclose Total Expense Ratio (TER) in the periodic financial statements of CIS / the Fund. TER of the Fund for the year ended 30 June, 2017 is -0.21% which include 0.33% representing government levy, Sindh Worker's Welfare Fund and SECP fee. Total expenses include effect of WWF reversal of 16.41 million for the calculation of TER.

32. GENERAL

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

32.2 Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary, to facilitate comparative and to conform with changes in presentation in the current year.

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

Chief Executive

Director

ANNUAL FUND MANAGER REPORT FINANCIAL YEAR 2017

FUND OBJECTIVE

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

Fund Description

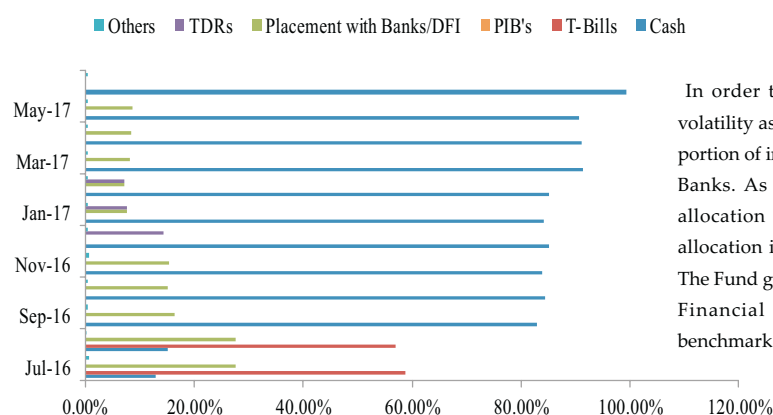
Fund Type Category	Open end - Money Market Scheme	Auditors External	KPMG Taseer Hadi & Co. Chartered Accountants.
Launch Date	March 10, 2011	Management Fee	10% of net income of the Fund (min 0.50% p.a. & max 0.85% p.a)
Benchmark	5.27% 70% three (3) months PKRV rates + 30% three (3) months average deposit rate of three (3) AA rated scheduled banks.	Sales Load	Nil
FHCF Return	6.56% p.a	Minimum Subscription	Initial Investment of Rs. 1000/-Subsequently Rs. 100 per transaction
Net Assets	Rs. 1040.985 million (June 30, 2017)	AMC Rating	"AM3+" by PACRA
NAV per Unit	100.4012 (June 30, 2017)	Dealing Days/Timings	Monday to Friday/ 9:00 am to 04:30 pm
Pricing Mechanism	Forward Pricing	Fund Stability Rating	AA(f) by JCR-VIS
		Trustee	Central Depository Company of Pakistan Ltd.

Market Review

Being in the final stretch the incumbent have bought the economy to a stable standpoint, still there are alarms that earlier exceptional macro level gains did not robust enough to stimulate micro economic factors. We may have put all eggs in one basket, but CPEC is beyond doubt a mammoth opportunity for Pakistan and after the Macro level achievements of marking MOUs and assisting Chinese teams, there is an obvious need to proactively monitor and assess all actively under this window. The devil is at all times in the details.

Government Expenditures, net trade balance, investment, and consumption are what Gross Domestic Product is. All what that can be expanded is in net trade balance which clocked at USD25.9 billion deficit in FY17 and in investment segment which posted a growth of 4.6% accumulating USD 2.4 billion in FY17 (USD 2.3 billion in FY16).The current account deficit for FY17 cumulated to USD 12.1 billion vs. USD 4.9 billion in SPLY. The economy registered real GDP growth at 5.3%, amounting to 31,862 billion whereas inflators were 4.15% (2.85% in FY16) for FY17. Moreover, key Policy rate remained stable at 5.75% during FY17 after a 25bps cut in 2016. Going forward the worsening current account deficit with rising pressure on exchange rate and possible reversal of inflation trajectory provide little room for downward adjustment of policy rate.

Fund Performance Review

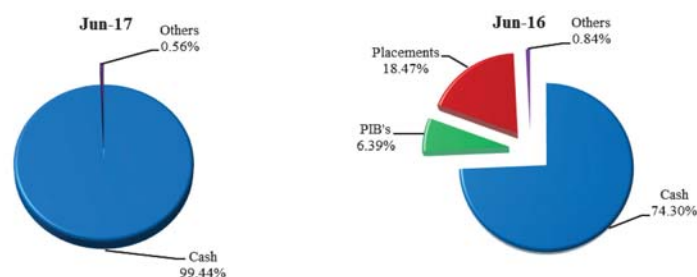


In order to maintain high stability and low volatility as mentioned in fund objectives; major portion of investment were held with "AA" rated Banks. As on June 30, 2017, almost all of the allocation was made in Cash i.e. 99.44%.The allocation indicates that Fund is highly liquid. The Fund generated a return of 6.56% p.a. for the Financial Year 2017, over performing its benchmark by 129bps.

The weighted average time to maturity of net assets at year end stood at 1.0216 days.

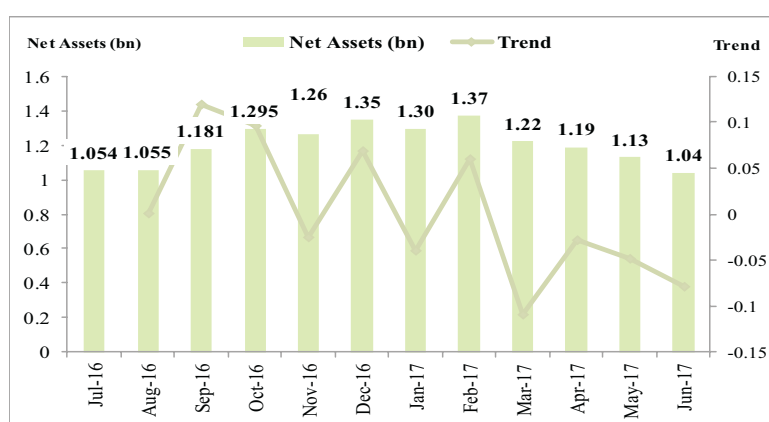
FIRST HABIB CASH FUND

Asset Allocation as on June 30.



Fund Size

The net assets of FHCF stood at Rs. 1040.983 million as at June 30, 2017 in comparison to the last year's net assets of Rs. 1034.53 million.



Income Distribution

The Fund made a total distribution of Rs.6.50 per unit on June 14, 2017 for the year ended June 30, 2017, as per details given below:

2016-2017	Cumulative NAV Rs.	EX-NAV Rs.	Distribution Rs.
July-June	106.6201	100.1201	6.50

Sales and Redemptions of Units

During the year, 13,405,615 units of the value of Rs. 1,370.38 million were sold while 13,348,180 units of the value of Rs. 1,382.11 million were redeemed resulting in to a net sale of 57,435 units of the value of Rs. 11.73 million during the year.

Unit Holders Pattern

For the breakdown of unit holding by size as on June 30, 2017, please refer to note 26 to the Annual Accounts 2017.

FHCF Performance at a Glance

	2017	2016	2015
Net Assets as at June, 30 (Rs. in Million)	1,040.90	1,034.00	1,280.00
NAV per unit as on June, 30 (Rs.)	100.4012	100.3349	100.7015
Highest NAV	106.6201	105.966	108.3231
Lowest NAV	100.1279	100.2344	100.1914
Total Distribution (Rs.)	6.5	5.75	7.7500
Annual Return (%)	6.56%	5.35%	8.29%

Responsibilities towards Corporate Governance and Proxy Voting as per Regulation 38A

Habib Asset Management Limited (HAML) on behalf of First Habib Cash Fund (FHCF) a collective investment scheme (CIS) under its management did not participate in shareholders' meetings. Further, the proxy voting policy of the FHCF is available on the website of the HAML and detailed information regarding actual proxies voted by the HAML (if any) in respect of the CIS is also available without charge, upon request, to all unit holders.

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)
Annual Report
For the year ended 30 June 2017

First Habib Islamic Stock Fund
(Formerly 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 Officer
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

Investment Committee

Mr. Mansoor Ali	Chairman
Mr. Sajjad Hussain Habib	Member
Mr. Imran Azim	Member

Auditors

KPMG Taseer Hadi & C0.
Chartered Accountants
Sheikh Sultan Trust Building No.2,
Beaumont Road, Karachi.

Registrar

JWAFS Registrar Services
(Pvt.) Limited
407-408, 4th Floor,
Al- Ameer Centre, Shahrah-e-Iraq,
Saddar, Karachi.

Trustee

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

MFR 1 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 STOCK FUND
(FORMERLY FIRST HABIB ISLAMIC BALANCED FUND)**

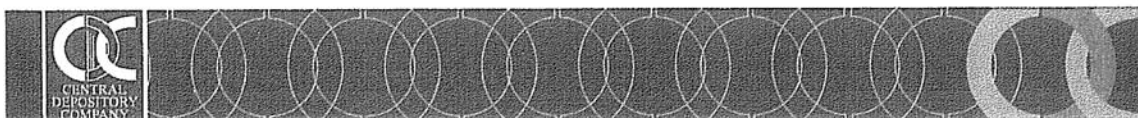
**Report of the Trustee pursuant to Regulation 41(h) and clause 9 of Schedule V of
the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

We Central Depository Company of Pakistan Limited, being the Trustee of First Habib Islamic 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, 2017 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 Executive Officer
Central Depository Company of Pakistan Limited

Karachi: September 19, 2017



REVIEW REPORT OF THE SHARIAH ADVISOR

As a Shariah Advisor of the **First Habib Islamic Stock Fund (FHISF)**, 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 Stock Fund (FHISF)**, for the year ended 30 June 2017 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 / books of account. 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 2017


Dr. Mufti Ismatullah
Shariah Advisor



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

Independent Assurance Report to the Unit Holders on the Statement of Compliance with the Shariah Guidelines

We were engaged by the Board of directors of Habib Asset Management Limited, Management Company of First Habib Islamic Stock Fund (the Fund), to report on Fund's Compliance with the Shariah guidelines as set out in the annexed statement prepared by the management company for the year ended 30 June 2017 in the form of an independent reasonable assurance conclusion about whether the annexed statement presents fairly, in all material respects, the status of the Fund's compliance with Shariah guidelines prescribed by the Shariah Advisor as required under the Trust Deed of the Fund.

Management Company's Responsibilities

The management company of the fund is responsible for preparing the annexed statement that is free from material misstatement in accordance with the Shariah guidelines prescribed by the Shariah Advisor. This responsibility includes designing, implementing and maintaining internal control relevant to the operations of the Fund in accordance with the Shariah guidelines and to ensure that Fund's investments and placements are made in compliance with Shariah guidelines.

The management company is also responsible for preventing and detecting fraud and for identifying and ensuring that the Fund complies with laws and regulations applicable to its activities. They are also responsible for ensuring that the management, where appropriate, those charged with governance, and personnel involved with the Fund's compliance with the Shariah guidelines are properly trained, systems are properly updated and that any changes in reporting encompass all significant business units.

Our Responsibilities

Our responsibility is to examine the annexed statement prepared by the Management Company and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE 3000) 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the annexed statement fairly presents the status of the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Chartered Accountants issued by the Institute of Chartered Accountants of Pakistan, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



KPMG Taseer Hadi & Co.

The procedures selected depend on our judgment, including the assessment of the risks of material non-compliance with Shariah guidelines whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the operations of the Fund in accordance with the Shariah guidelines in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Fund's internal control. Reasonable assurance is less than absolute assurance.

As part of this engagement, we have not performed any procedures by way of audit, review or verification of the statement of the management assessment of compliance with the Shariah guidelines nor of the underlying records or other sources from which the annexed statement was extracted.

The procedures performed included:

1. Checking compliance of specific guidelines prescribed by the Shariah Advisor relating to charity, maintaining bank accounts and for making investments of the Fund.
2. Check that the Shariah Advisor has certified that investments made by the Fund during the year ended 30 June 2017 are in compliance with the Shariah guidelines and where required purification of income from non-compliant sources has been made in consultation with the Shariah Advisor.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the annexed statement, in all material respects, presents fairly the status of the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor for the year ended 30 June 2017.

Date: 7 September 2017

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

**STATEMENT OF COMPLIANCE BY HABIB ASSET MANAGEMENT LIMITED WITH THE CODE
OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2017**

This statement is being presented to comply with the Code of Corporate Governance (the "Code"), contained in Regulation No. 5.19.24 of the Rule book of Pakistan Stock Exchange Limited, 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.

The Board of Directors (the "Board") of Habib Asset Management Limited (the "Management Company"), which is an unlisted public company, manages the affairs of **First Habib Islamic Stock Fund (formerly: First Habib Islamic Balance Fund)** (the "Fund"). The Fund being a unit trust open end scheme does not have its own Board of Directors. The units of the Fund are listed as a security on the Pakistan Stock Exchange Limited; therefore, the Management Company has applied the principles contained in the Code to the Fund in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes:

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

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 Broker 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. However, subsequent to the year, Mr. Sajjad Hussain Habib resigned on July 04, 2017.
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 vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of 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 this 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 have attended director's training program and one director is exempt from directors training program due to qualification and experience.
10. There was no appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year.
11. The Directors' report relating to the Fund for the year ended June 30, 2017 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 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 who is also an independent non-executive director.
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 Remuneration Committee. It comprises of three members, of whom two are non-executive directors including the chairman of the Committee who is also an independent non-executive director.
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.
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange.
23. The Management Company has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
24. We confirm that all other applicable material principles enshrined in the Code have been duly complied with by the Management Company except those that are not yet applicable

For and on behalf of the Board

Karachi.
Dated: September 07, 2017



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

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Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

**REVIEW REPORT TO THE MEMBERS 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 contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of Habib Asset Management Limited ("the Management Company") of HAML – First Habib Islamic Stock Fund ("the Fund") for the year ended 30 June 2017 to comply with the requirements of rule book Regulation No. 5.19.24 of Pakistan Stock Exchange Limited, where the Fund is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code 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 the 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 of Directors' 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 of Directors for their review and approval of 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 of Directors 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 of Compliance does not appropriately reflect the Fund'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 2017.

Date: 7 September 2017

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan
and a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.



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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 Stock Fund** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2017, and the related income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of 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

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as the Management determines is necessary to enable the preparation of the 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 about 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 our 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, we consider internal control relevant to the Fund'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 Fund'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 2017, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)



KPMG Taseer Hadi & Co.

Other Matters

The financial statements of the Funds for the year ended 30 June 2016 were audited by another firm of Chartered Accountants, who vide their report dated 10 September 2016, addressed to the Unit holders, had expressed an unmodified opinion thereon.

Report on Other Legal and Regulatory Requirements

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

Date: 7 September 2017

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

STATEMENT OF ASSETS AND LIABILITIES

As at 30 June 2017

	<i>Note</i>	30 June 2017	30 June 2016
		(Rupees in '000)	
Assets			
Bank balances	5	8,905	38,294
Investments	6	146,377	64,465
Dividend and profit receivable	7	890	267
Advances, deposits and other receivables	8	2,852	21,634
Preliminary expenses and floatation costs	9	73	280
Total assets		159,097	124,940
Liabilities			
Payable to Habib Asset Management Limited - Management Company		695	173
Provision for Federal Excise Duty on remuneration of the Management Company	10	1,478	1,478
Payable to Central Depository Company of Pakistan Limited - Trustee	11	65	65
Payable to Securities and Exchange Commission of Pakistan (SECP)	12	105	88
Provision for Workers' Welfare Fund	13	-	1,604
Provision for Sindh Workers' Welfare Fund	13	504	-
Accrued expenses and other liabilities	14	2,576	7,599
Total liabilities		5,423	11,007
Net assets		153,674	113,933
Unit holders' funds (as per statement attached)		153,674	113,933
		(Number of units)	
Number of units in issue (Face value of units is Rs. 100 each)	15	1,475,200	1,100,842
		(Rupees)	
Net asset value per unit		104.17	103.50

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 Stock Fund
(Formerly First Habib Islamic Balanced Fund)

INCOME STATEMENT

For the year ended 30 June 2017

	<i>Note</i>	30 June 2017	30 June 2016
		(Rupees in '000)	
Income			
Profit on bank deposits		1,838	1,819
Income from debt securities		-	271
Dividend income		3,298	3,352
Net gain on investments classified as 'at fair value through profit or loss'			
- Net capital gain / (loss) on sale of investments		17,458	(238)
- Net unrealised (loss) / gain on revaluation of investments	6.1	(9,832)	2,779
		7,626	2,541
Total income		12,762	7,983
Expenses			
Remuneration of Habib Asset Management Limited - Management Company	16	1,946	1,405
Sindh sales tax on Management Company's remuneration	17	253	228
Allocated Expenses	18	88	39
Federal Excise Duty on Management Company's remuneration	10	-	225
Remuneration of Central Depository Company of Pakistan Limited - Trustee	11	700	700
Sindh sales tax on Trustee's remuneration	17	91	98
Annual fee to Securities and Exchange Commission of Pakistan (SECP)	12	105	88
Brokerage expense		406	928
Settlement and bank charges		337	470
Annual listing fee		30	20
Auditors' remuneration	19	377	370
Amortisation of preliminary expenses and floatation costs	9	207	207
Mutual fund rating fee		120	219
Provision for Sindh Workers' Welfare Fund	13	504	-
Reversal of provision for Workers' Welfare Fund	13	(1,604)	-
Printing charges		94	85
Charity expense		46	55
Total expenses		3,700	5,137
Net income from operating activities		9,062	2,846
Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		11,163	(601)
Net income for the year before taxation		20,225	2,245
Taxation	20	-	-
Net income for the year after taxation		20,225	2,245

The annexed notes 1 to 31 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 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
Net income for the year before taxation	20,225	2,245
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u>20,225</u>	<u>2,245</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 Stock Fund
(Formerly First Habib Islamic Balanced Fund)

DISTRIBUTION STATEMENT

For the year ended 30 June 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
Undistributed income brought forward comprises of:		
- Realised income	6,070	7,722
- Unrealised income / (loss)	2,779	(1,118)
Undistributed income brought forward	8,849	6,604
Net income for the year	20,225	2,245
Final dividend distribution 11 July 2016 @ 3.35/- per unit for class "C" for the year ended 30 June 2017.	(3,688)	-
Interim cash dividend for class 'C' unit holders @ Rs. 11.00/- per unit as declared on 23 June 2017.	(15,542)	-
Undistributed income carried forward	9,844	8,849
Undistributed income carried forward comprises of:		
- Realised income	19,676	6,070
- Unrealised (loss) / income	(9,832)	2,779
Undistributed income carried forward	9,844	8,849

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

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS

For the year ended 30 June 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
Net assets at the beginning of the year	113,933	109,940
Issuance of 1,578,796 units (30 June 2016 : 934,309 units)*	186,109	94,570
Redemption of 1,204,438 units (30 June 2016 : 913,345 units)	(136,200)	(93,423)
	49,909	1,147
	163,842	111,087
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(11,163)	601
Unrealised (loss) / gain on remeasurement of held for trading investments - net	(9,832)	2,779
Gain / (loss) on sale of investment classified as 'at fair value through profit or loss' - net	17,458	(238)
Total comprehensive income for the year (excluding net unrealized (loss) / gain on revaluation of investments classified as 'at fair value through profit or loss' and capital gain / (loss)	12,599	(296)
Distribution during the year	(19,230)	-
Net income for the year less distribution	995	2,245
Net assets at the end of the year	153,674	113,933
	----- (Rupees) -----	
Net assets value per unit at beginning of the year	103.50	101.81
Net assets value per unit at end of the year	104.17	103.50

*Including 67,563 units issued as re-investment during the year (30 June 2016: Nil)

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 Stock Fund
(Formerly First Habib Islamic Balanced Fund)

CASH FLOW STATEMENT

For the year ended 30 June 2017

	30 June 2017	30 June 2016
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year before taxation	20,225	2,245
Adjustments for non-cash items		
Net unrealised loss / (gain) on revaluation of investments classified as 'at fair value through profit or loss'	9,832	(2,779)
Net element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed	(11,163)	601
Amortisation of preliminary expenses and floatation costs	207	207
	19,101	274
(Increase) / decrease in assets		
Investments	(91,744)	(19,942)
Dividend and profit receivable	(623)	539
Advances, deposits and other receivables	18,782	21,916
	(73,585)	2,513
(Decrease) / increase in liabilities		
Payable to Habib Asset Management Limited - Management Company	522	20
Provision for Federal Excise Duty on remuneration of Habib Asset Management Limited - the Management Company	-	225
Payable to Central Depository Company of Pakistan Limited - Trustee	-	7
Payable to Securities and Exchange Commission of Pakistan (SECP)	17	(128)
Provision for Workers' Welfare Fund	(1,604)	-
Provision for Sindh Workers' Welfare Fund	504	-
Accrued expenses and other liabilities	(5,023)	6,948
	(5,584)	7,072
Net cash (used in)/ generated from operating activities	(60,068)	9,859
CASH FLOW FROM FINANCING ACTIVITIES		
Net receipts from sale and redemption of units	49,909	1,147
Distribution to unit holders in cash	(19,230)	-
Net cash generated from financing activities	30,679	1,147
Net (decrease) / increase in cash and cash equivalents during the year	(29,389)	11,006
Cash and cash equivalents at the beginning of the year	38,294	27,288
Cash and cash equivalents as at end of year	8,905	38,294
Cash and cash equivalents comprise of :		
Cash at bank	8,905	38,294

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

For the year ended 30 June 2017

1. LEGAL STATUS AND NATURE OF BUSINESS

First Habib Islamic Stock Fund (formerly 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. During the year, the Fund revised its Trust Deed (the Deed) dated 6 December 2016, under the Trusts Act, 1882 entered into and between Habib Asset Management Limited (Wakeel), the Management Company, and Central Depository Company of Pakistan Limited, the Trustee. Trust Deed was approved by SECP on 24 November 2016.

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 Pakistan 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.

During the year, the Fund revised its investment objectives in order to seek long-term capital growth by investing primarily in a Shariah Compliant diversified pool of equities and equity related instruments. The management team shall ensure the active implementation of prudent investment practices, the highest professional standards and compliance of applicable laws. Previously, the Fund has been investing 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+' 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 Equity Scheme as per the criteria laid down by the SECP for categorisation of Collective Investment Schemes(CIS).

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. BASIS OF PREPARATION

The transactions undertaken by the Fund are in accordance with the Shariah guidelines issued by the Shariah advisor and are accounted for on substance rather than the form. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

2.1 Statement of compliance

2.1.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, and the requirements of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008, (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever, the requirement of the NBFC Rules, the NBFC Regulations and the said directives differ with the requirements of these standards, the requirements of the NBFC Rules, the NBFC Regulations, and the said directives shall prevail.

2.1.2 The Companies Act, 2017 was enacted on 30 May 2017 and is applicable with immediate effect. The Securities and Exchange Commission of Pakistan through press release and vide circular no. 17 of 2017 dated 20 July 2017 has decided that all the companies whose financial year, including quarterly and other interim period, closes on or before 30 June 2017, shall prepare their financial statements, including interim financial statements, in accordance with the provisions of the repealed Companies Ordinance, 1984. The new requirements of the Companies Act, 2017 shall be applicable to the companies having their financial year closure after 30 June 2017.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that investments are measured at fair values.

2.3 Functional and presentation currency

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

2.4 Use of judgments and estimates

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the application of accounting 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 judgements 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 recognized in the period in which the estimates are 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. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in the application of accounting policies are given below:

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in note 4.1 regarding the Classification of investments.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ending 30 June 2017 is included in the following notes:

- Note 4.1 - Valuation of investments
- Notes 13 and 10 - Recognition of provision for Sindh Workers' Welfare Fund and Federal Excise Duty respectively

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2017:

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Fund's financial statements.
- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Fund's financial statements.
- Annual improvements to IFRS standards 2014-2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:
- Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 1 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 - 'Non-current Assets Held for Sale and Discontinued Operations'. The amendments are not likely to have an impact on Fund's financial statements.

- Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Fund's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax.
- **The above amendments are not likely to have an impact on Fund's financial statements.**

As disclosed in note 2.1.2, the new requirements of the Companies Act, 2017, shall be applicable to the financial statements issued on or after 30 June 2017. The Act included mutual funds in Third Schedule, accordingly certain additional requirements / disclosures in Fifth Schedule to the Companies Act, 2017 are also applicable to the financial statements of mutual funds. Significant disclosures / requirements, which are relevant to the funds includes but not limited to: name of associated companies or related parties or undertakings along with the basis of relationship describing common directorship and/or percentage of shareholding; summary of significant transactions and events that have affected the financial position and performance during the year, etc.

SECP through SRO 756(I)/2017 dated 03 August 2017 has made certain amendments in NBFCs and Notified Entities Regulations, 2008. The amendments require additional disclosures and recording of element of income / loss included in price of unit issued or redeemed in Statement of Movements in Reserves or Unit holders' Fund instead of Income Statement. The SRO also deleted 'Distribution Statement' and its contents along with certain additional break-ups and disclosures to be included on the face of 'Income Statement' and 'Statement of Movements in Reserves or Unit holders' Fund'.

Further, new amendments changed the definition of accounting income in regulation (63) sub-regulation (I) which is now to be determined after taking into account the element of income / loss relating to the redemption of units. This change will be applied prospectively and may affect the charge for Sindh Workers' Welfare Fund (SWWF) and consequently, the Net Asset Value per unit of the Fund in future.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

4.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments at fair value through profit or loss

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

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

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.

First Habib Islamic Stock Fund

(Formerly First Habib Islamic Balanced Fund)

d) Financial liabilities

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

Recognition

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

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

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

Measurement

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

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

Basis of Valuation of 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.

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.

4.2 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.

4.3 Issue and redemption of units

Units issued are recorded at the net asset 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.

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

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unitholder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unitholders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

4.5 Net asset value - per unit

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

4.6 Taxation

The Fund is exempt from taxation under clause 99 of the Part I of the 2nd Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders, provided that for the purpose of determining distribution of not less than 90% of its accounting income for the year, the income distributed through bonus units shall not be taken into account.

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.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

4.7 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date 'at which the transaction takes place.
- 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.

4.8 Expenses

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

4.9 Provisions

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

4.10 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from 09 November 2012 as per the Trust Deed of the Fund.

4.11 Cash and cash equivalents

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

4.12 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.

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)

4.13 Earnings per unit (EPU)

Earnings Per Unit (EPU) has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

5. BANK BALANCE

Note	30 June 2017	30 June 2016
	(Rupees in '000)	
Current account	10	445
Saving accounts	8,895	37,849
	8,905	38,294

5.1 Saving accounts carry profit rate ranging from 4.74% to 5.60% (30 June 2016: 4.74% to 6.25%) per annum.

5.2 It includes balance amounting to Rs 1.963 million (30 June 2016: Rs 23.231 million) in saving account with Bank Al Habib Limited, a related party.

6. INVESTMENTS - at fair value through profit or loss

Note	30 June 2017	30 June 2016
	(Rupees in '000)	
Quoted Equity securities	146,377	64,465

						As at 30 June 2017			Market Value as a Percentage of:		
Name of the Investee	As at 1 July 2016	Acquired during the year	Bonus / Right issue	Sold during the year	As at 30 June 2017	Cost / Carrying Value	Market value	Unrealised gain / (loss)	Net Assets	Total Investment	Paid up capital of investee company (with face value of investment)
						(Rupees. in '000)					
AUTOMOBILE ASSEMBLER											
AL-Ghazi Tractors Limited	-	1,000	-	1,000	-	-	-	-	0.00%	0.00%	0.000%
Ghandhara Industries Limited		16,500	-	7,000	9,500	7,998	6,176	(1,822)	4.02%	4.22%	0.045%
Ghandhara Nissan Limited		4,000	-	4,000	-	-	-	-	0.00%	0.00%	0.000%
Honda Atlas Cars (Pakistan) Limited	3,000	8,000	-	8,000	3,000	1,752	2,603	851	1.69%	1.78%	0.003%
Millat Tractors Limited		1,500	-	-	1,500	2,191	2,062	(129)	1.34%	1.41%	0.003%
Pak Suzuki Motor Company limited	3,500	6,000	-	5,500	4,000	2,371	3,121	750	2.03%	2.13%	0.005%
TOTAL	6,500	37,000	-	25,500	18,000	14,312	13,962	(350)			
CHEMICALS											
Fatima Fertilizer Company Limited	-	10,000	-	10,000	-	-	-	-	0.00%	0.00%	0.000%
TOTAL	-	10,000	-	10,000	-	-	-	-			
FERTILIZER											
Engro Fertilizers Limited	43,000	17,500	-	53,000	7,500	475	414	(61)	0.27%	0.28%	0.001%
Engro Corporation Limited	16,000	37,500	-	53,500	-	-	-	-	0.00%	0.00%	0.000%
TOTAL	59,000	55,000	-	106,500	7,500	475	414	(61)			
CEMENT											
Cherat Cement Company Limited	22,500	15,500	-	25,000	13,000	1,960	2,324	364	1.51%	1.59%	0.007%
D.G.K.Cement Company Limited	26,500	24,500	-	51,000	-	-	-	-	0.00%	0.00%	0.000%
Fauji Cement Company Limited	-	295,000	-	125,000	170,000	7,334	6,975	(359)	4.54%	4.77%	0.012%
Kohat Cement Company Limited	-	5,000	-	5,000	-	-	-	-	0.00%	0.00%	0.000%
Lucky Cement Limited	13,900	20,550	-	12,950	21,500	17,823	17,980	157	11.70%	12.28%	0.007%
Maple Leaf Cement Factory Limited	29,500	98,000	-	47,500	80,000	9,654	8,909	(745)	5.80%	6.09%	0.015%
Pioneer Cement Limited	14,000	33,500	-	29,500	18,000	2,317	2,340	23	1.52%	1.60%	0.008%
TOTAL	106,400	492,050	-	295,950	302,500	39,088	38,528	(560)			
POWER GENERATION & DISTRIBUTION											
Hub Power Company Limited	62,500	90,500	-	94,800	58,200	7,417	6,834	(583)	4.45%	4.67%	0.005%
Kot Addu Power Company Limited	-	37,500	-	37,500	-	-	-	-	0.00%	0.00%	0.000%
K-Electric Limited	72,500	-	-	72,500	-	-	-	-	0.00%	0.00%	0.000%
TOTAL	135,000	128,000	-	204,800	58,200	7,417	6,834	(583)			
ENGINEERING											
Amreli Steels Limited	-	42,500	-	30,000	12,500	1,087	1,537	450	1.00%	1.05%	0.004%
Crescent Steel And Allied Products Limited	-	29,000	-	9,000	20,000	4,882	4,771	(111)	3.10%	3.26%	0.026%
International Steel Limited	-	80,000	-	37,000	43,000	5,811	5,499	(312)	3.58%	3.76%	0.036%
Mughal Iron & Steel Industries Limited.	20,500	67,500	13,000	58,000	43,000	2,419	3,303	884	2.15%	2.26%	0.017%
TOTAL	20,500	219,000	13,000	134,000	118,500	14,199	15,110	911			
TECHNOLOGY AND COMMUNICATION											
Avanceon Limited	-	60,000	15,000	60,000	15,000	660	680	20	0.44%	0.46%	0.011%
TOTAL	-	60,000	15,000	60,000	15,000	660	680	20			
FOOD & PERSONAL CARE PRODUCTS											
Engro Foods Limited	-	20,000	-	15,000	5,000	765	607	(158)	0.39%	0.41%	0.001%
Treet Corporation Limited	35,000	17,000	-	22,000	30,000	1,533	1,706	173	1.11%	1.17%	0.033%
TOTAL	35,000	37,000	-	37,000	35,000	2,298	2,313	15			

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)

						As at 30 June 2017			Market Value as a Percentage of:		
Name of the Investee	As at 1 July 2016	Acquired during the year	Bonus / Right issue	Sold during the year	As at 30 June 2017	Cost / Carrying Value	Market value	Unrealised gain / (loss)	Net Assets	Total Investment	Paid up capital of investee company (with face value of investment)
AUTOMOBILE ASSEMBLER						(Rupees, in '000)					
AUTOMOBILE PARTS & ACCESSORIES											
Thal Limited	-	5,000	-	5,000	-	-	-	-	0.00%	0.00%	0.000%
General Tyre and Rubber Company Of Pakistan Limited	-	20,500	-	3,000	17,500	5,193	5,311	118	3.46%	3.63%	0.029%
TOTAL	-	25,500	-	8,000	17,500	5,193	5,311	118			
CABLE & ELECTRICAL GOODS											
Pak Elektron Limited	22,500	71,500	-	84,000	10,000	1,109	1,103	(6)	0.72%	0.75%	0.002%
TPL Trakker Limited	-	270,000	-	270,000	-	-	-	-	0.00%	0.00%	0.000%
TOTAL	22,500	341,500	-	354,000	10,000	1,109	1,103	(6)			
PAPER & BOARD											
Packages Limited	1,600	7,200	-	4,100	4,700	3,797	3,269	(528)	2.13%	2.23%	0.005%
TOTAL	1,600	7,200	-	4,100	4,700	3,797	3,269	(528)			
OIL & GAS EXPLORATION COMPANIES											
Mari Petroleum Company Limited	2,000	7,150	-	8,650	500	788	788	-	0.51%	0.54%	0.000%
Oil and Gas Development Company Limited	-	88,000	-	27,000	61,000	10,244	8,582	(1,662)	5.58%	5.86%	0.001%
Pakistan Oilfields Limited	13,000	5,500	-	11,500	7,000	2,949	3,207	258	2.09%	2.19%	0.003%
Pakistan Petroleum Limited	25,000	20,000	-	29,500	15,500	2,540	2,296	(244)	1.49%	1.57%	0.001%
TOTAL	40,000	120,650	-	76,650	84,000	16,521	14,873	(1,648)			
OIL & GAS MARKETING COMPANIES											
Hascol Petroleum Limited	4,500	21,000	-	15,500	10,000	3,273	3,411	138	2.22%	2.33%	0.008%
Pakistan State Oil Company Limited	-	42,000	-	19,000	23,000	10,073	8,909	(1,164)	5.80%	6.09%	0.008%
Sui Northern Gas Pipelines Limited	-	294,000	-	249,000	45,000	7,695	6,701	(994)	4.36%	4.58%	0.007%
Sui Southern Gas Company Limited	-	226,500	-	191,500	35,000	1,498	1,274	(224)	0.83%	0.87%	0.004%
TOTAL	4,500	583,500	-	475,000	113,000	22,539	20,295	(2,244)			
TEXTILE COMPOSITE											
Nishat Mills Limited	25,000	11,500	-	36,500	-	-	-	-	0.00%	0.00%	0.000%
TOTAL	25,000	11,500	-	36,500	-	-	-	-			
PHARMACEUTICALS											
Abbott Lab (Pakistan) limited	-	2,150	-	-	2,150	2,052	2,009	(43)	1.31%	1.37%	0.002%
Ferozsons (Lab) Limited	-	10,500	-	1,800	8,700	5,269	3,363	(1,906)	2.19%	2.30%	0.029%
Glaxo Smith Kline Pakistan	8,000	10,300	-	12,500	5,800	1,258	1,142	(116)	0.74%	0.78%	0.002%
The Searle Company Limited	4,800	13,537	1,146	8,537	10,946	6,227	5,605	(622)	3.65%	3.83%	0.007%
TOTAL	12,800	36,487	1,146	22,837	27,596	14,806	12,119	(2,687)			
REFINERY											
Attock Refinery Limited	3,200	44,000	-	25,200	22,000	9,472	8,418	(1,054)	5.48%	5.75%	0.026%
TOTAL	3,200	44,000	-	25,200	22,000	9,472	8,418	(1,054)			
TRANSPORT											
Pakistan National Shipping Corporation	-	25,000	-	-	25,000	4,323	3,148	(1,175)	2.05%	2.15%	0.019%
TOTAL	-	25,000	-	-	25,000	4,323	3,148	(1,175)			
Total as at 30 June 2017						156,209	146,377	(9,832)			
Total as at 30 June 2016						61,686	64,465	2,779			

6.1.1 Following shares were pledged with National Clearing Company of Pakistan Limited (NCCPL) as collateral against exposure margin and mark to market losses.

	Note	30 June 2017	30 June 2016
		(Number of shares)	
Engro Corporation Limited		-	8,000
Hub Power Company Limited		20,000	-
Fauji Fertilizer Bin Company Limited		-	18,500
Lucky Cement Limited		5,000	-
Pakistan Petroleum Limited		5,000	-
		30,000	26,500

7. DIVIDEND AND PROFIT RECEIVABLE

Profit receivable on saving accounts	135	134
Dividend receivable	755	133
	890	267

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)

	<i>Note</i>	30 June 2017	30 June 2016
		(Number of shares)	
8. ADVANCES, DEPOSITS AND OTHER RECIEVABLES			
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		-	18,804
Advance tax on dividend		252	230
		<u>2,852</u>	<u>21,634</u>
9. PRELIMINARY EXPENSES AND FLOATATION COSTS			
Opening balance	<i>9.1</i>	280	487
Less: amortization for the year		(207)	(207)
		<u>73</u>	<u>280</u>
9.1	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.		
10. PROVISION FOR FEDERAL EXCISE DUTY ON REMUNERATION TO HABIB ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY			
As per the requirements of the Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16 percent 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, hence, a petition was collectively filed by the Mutual Fund Association of Pakistan with the Sindh High Court (SHC) on 4 September 2013.			
While disposing the above petition through order dated 16 July 2016, the SHC declared the said provisions to be ultra vires and as a result no FED is payable with effect from 01 July 2016. However, the tax authorities subsequently filed appeal against the decision of the SHC in the Supreme Court of Pakistan, which is pending for the decision.			
Furthermore, the Finance Act 2016 also introduced an amendment to the Federal Excise Act, 2005 whereby FED was withdrawn on services of different industries including Non-Banking Financial Institutions, which are already subject to provisional sales tax.			
However, since the appeal is pending in the Supreme Court of Pakistan, the Management Company, as a matter of abundant caution, is carrying provision for FED for the period from 01 July 2013 to 30 June 2016 aggregating to Rs. 1.478 million. Had the provision not been made, NAV per unit of the Fund as at 30 June 2017 would have been higher by Rs. 1.00 (30 June 2016: Rs. 1.34) per unit.			
11. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE			
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.		
12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN			
This represents annual fee payable to Securities and Exchange Commission of Pakistan (SECP) in accordance with the rule 62 of the NBFC Regulations 2008, whereby the Fund is required to pay SECP an amount at the rate of 0.085% (2016: 0.085%) of the average daily net assets of the Fund.			
13. PROVISION / (REVERSAL) FOR SINDH WORKERS' WELFARE FUND / WORKERS' WELFARE FUND			
The Finance Act, 2008 had introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance) as a result of			

which it was construed that all Collective Investment Schemes (CISs) / mutual funds whose income exceeded Rs 0.5 million in a tax year were 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 was higher. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honourable Sindh High Court (SHC) challenging the applicability of WWF on CISs which is pending adjudication. Similar cases were disposed of by the Peshawar and the Lahore High Courts in which these amendments were declared unlawful and unconstitutional. However, these decisions were challenged in the Supreme Court of Pakistan.

Subsequently, the Finance Act, 2015 introduced an amendment under which CISs / mutual funds have been excluded from the definition of "industrial establishment" subject to WWF under the WWF Ordinance. Consequently, mutual funds are not subject to this levy after the introduction of this amendment which is applicable from tax year 2016. Accordingly, no further provision in respect of WWF was made with effect from 1 July 2015.

On 10 November 2016 the Supreme Court of Pakistan (SCP) has passed a judgment declaring the amendments made in the Finance Acts 2006 and 2008 pertaining to WWF as illegal citing that WWF was not in the nature of tax and could, therefore, not have been introduced through money bills. Accordingly, the aforesaid amendments have been struck down by the SCP. The Federal Board of Revenue has filed a petition in the SCP against the said judgment, which is pending hearing. While the petitions filed by the CISs on the matter are still pending before the SHC, the Mutual Funds Association of Pakistan (MUFAP) (collectively on behalf of the asset management companies and their CISs) has taken legal and tax opinions on the impact of the SCP judgement on the CISs petition before the SHC. Both legal and tax advisors consulted were of the view that the judgment has removed the very basis on which the demands were raised against the CISs. Therefore, there was no longer any liability against the CISs under the WWF Ordinance and that all cases pending in the SHC or lower appellate forums will now be disposed of in light of the earlier judgement of the SCP.

Furthermore, as a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) had been passed by the government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.50 million, is required to pay Sindh Workers' Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income. The matter was taken up by the MUFAP with the Sindh Revenue Board (SRB) collectively on behalf of various asset management companies (including the Management Company of the Fund) whereby it was contested that mutual funds should be excluded from the ambit of the SWWF Act as these were not industrial establishments but were pass through investment vehicles and did not employ workers. The SRB held that mutual funds were included in the definition of financial institutions as per the Financial Institution (Recovery of Finances) Ordinance, 2001 and were, hence, required to register and pay SWWF under the SWWF Act. Thereafter, MUFAP has taken up the matter with the Sindh Finance Ministry to have CISs / mutual funds excluded from the applicability of SWWF.

In view of the above developments regarding the applicability of WWF and SWWF on CISs / mutual funds, MUFAP has recommended the following to all its members on 12 January 2017:

- based on legal opinion, the entire provision against WWF held by the CISs till 30 June 2015, to be reversed on 12 January 2017; and
- the provision in respect of SWWF should be made on a prudent basis with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from 21 May 2015) on 12 January 2017.

Accordingly, the provision for SWWF is being made on a daily basis going forward.

The above decisions were communicated to the SECP and the Pakistan Stock Exchange Limited on 12 January 2017 and the SECP vide its letter dated 1 February 2017 has advised MUFAP that the adjustments relating to the above should be prospective and supported by adequate disclosures in the financial statements of the CISs/ mutual funds. Accordingly, the Fund has recorded these adjustments in its books on 12 January 2017.

The Management Company has provided for SWWF for the period from 21 May 2015 to 30 June 2017, amounting to Rs. 0.504 million. Had the SWWF not been provided, the NAV per unit of the Fund would have been higher by Rs.0.34.

14. ACCRUED EXPENSES AND OTHER LIABILITIES	Note	30 June 2017	30 June 2016
		(Rupees in '000)	
Auditors' remuneration		263	257
Printing charges		43	54
Withholding tax payable on dividend		1,794	-
Payable against redemption of units		-	7,000
Charity payable	14.1	14	10
Brokerage payable		180	-
Others		282	278
		<u>2,576</u>	<u>7,599</u>

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)

	<i>Note</i>	30 June 2017	30 June 2016
		(Rupees in '000)	
14.1 Charity payable			
Opening balance		10	4
Charged for the year		46	55
Less: paid during the year		(42)	(49)
Closing balance		14	10

15. CLASS OF UNITS IN ISSUE

The Fund has three classes of units as per the Trust Deed. Class 'A' units pertain to core investors. Such 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:

	30 June 2017	30 June 2016
	(Number of Units)	
Type 'B' Units	1,234,675	999,913
Type 'C' Units	240,525	100,929
	1,475,200	1,100,842

16. 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. During the year, the Management Company has charged its remuneration at the rate of 1.35% from 01 July 2016 to 31 March 2017 and 2.00% from 01 April 2017 to 30 June 2017. (30 June 2016: 1.35%) per annum on the average annual net assets of the Fund in accordance with the Trust Deed.

17. SINDH SALES TAX ON MANAGEMENT COMPANY'S AND TRUSTEE REMUNERATION

Sindh Sales Tax has been charged at 13% (30 June 2016: 14%) on the management company's and trustee remuneration charged during the year.

18. ALLOCATED EXPENSES

Securities and Exchange Commission of Pakistan through its SRO 1160(I)/2015 dated 25 November 2015 has revised the Non-Banking Finance Companies and Notified Entities Regulations, 2008. In the revised regulations a new clause 60(s) has been introduced allowing the Management Company to charge "fees and expenses related to registrar services, accounting, operation and valuation services related to CIS maximum up to 0.1% of average annual net assets of the Scheme or actual whichever is less" from the mutual funds managed by it.

During the year, Management Company has charged actual expense related to registrar service and software cost to the Fund.

	30 June 2017	30 June 2016
	(Rupees in '000)	
19. AUDITORS' REMUNERATION		
Annual audit fee	184	181
Half yearly review fee	59	53
Fee for review report on compliance with the Code of Corporate Governance	30	30
Fee for review report on Shariah compliance	71	71
Out of pocket expenses	33	35
	377	370

20. 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.

21. TRANSACTIONS WITH CONNECTED PERSONS

Connected persons / related parties 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 or directorship, First Habib Income Fund, First Habib Stock Fund, First Habib Cash Fund and First Habib Islamic Income Fund being the Funds managed by the common Management Company, Central Depository Company Limited being the Trustee of the Fund, directors and officers of the above entities and includes persons holding 10% or more in the units of the Fund as at 30 June 2017.

It also includes staff retirement benefit funds of the above connected person / related parties.

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.

	30 June 2017		30 June 2016	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<u>Units sold to:</u>				
<i>Management Company</i>				
Habib Asset Management Limited	<u>1,135,585</u>	<u>133,254</u>	<u>784,369</u>	<u>79,612</u>
<u>Other related parties</u>				
- Directors of the Management Company	<u>2,997</u>	<u>317</u>	<u>5,736</u>	<u>594</u>
- Habib Asset Management Limited - Employees Provident Fund	<u>19,592</u>	<u>2,516</u>	<u>-</u>	<u>-</u>
<u>Connected Parties holding 10% or more of the units in issue:</u>				
- Pioneer Cables Limited	<u>24,997</u>	<u>2,602</u>	<u>-</u>	<u>-</u>
	2017		2016	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<u>Units redeemed by:</u>				
<i>Management Company</i>				
Habib Asset Management Limited	<u>824,573</u>	<u>91,144</u>	<u>563,325</u>	<u>57,882</u>
<u>Other related parties</u>				
- Directors of the Management Company	<u>19,415</u>	<u>2,000</u>	<u>-</u>	<u>-</u>
- Habib Asset Management Limited - Employees Provident Fund	<u>19,592</u>	<u>2,557</u>	<u>-</u>	<u>-</u>
<u>Connected Parties holding 10% or more of the units in issue:</u>				
- The News Staff Provident Fund	<u>-</u>	<u>-</u>	<u>140,375</u>	<u>13,885</u>
<u>Units held by:</u>				
<i>Management Company</i>				
Habib Asset Management Limited	<u>630,279</u>	<u>65,657</u>	<u>319,268</u>	<u>33,043</u>
<i>Associated Companies</i>				
- Bank AL Habib Limited	<u>100,929</u>	<u>10,514</u>	<u>100,929</u>	<u>10,446</u>

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)

	30 June 2017		30 June 2016	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Other related parties				
- Directors of the Management Company	40,360	4,204	56,778	5,876
- Habib Insurance Company Limited - Employees Provident Fund	16,952	1,766	16,952	1,754
Connected Parties holding 10% or more of the units in issue:				
- Pioneer Cables Limited	235,249	24,506	210,252	21,760

Details of transactions with connected persons are as follows:

	30 June 2017	30 June 2016
	(Rupees in '000)	
Habib Asset Management Limited - Management Company		
Management remuneration (including Sindh sales tax)	1,946	1,405
Allocated Expenses	88	39
Sindh Sales tax on Management remuneration	253	228
Federal Excise Duty on Management Company's remuneration	-	225
Al-Habib Capital Market Private Limited - Brokerage House	34	88
Bank Al Habib Limited		
Profit on bank balances	303	414
Central Depository Company of Pakistan Limited - Trustee		
Remuneration to the Trustee	700	700
Sindh Sales tax on Trustee remuneration	91	98
Details of balances with connected persons at year end are as follows:		
Bank Al Habib Limited		
Bank Balance	1,963	23,231
Habib Asset Management Limited - Management Company		
Management Company remuneration payable	695	173
Federal Excise Duty payable	1,478	1,478
Al-Habib Capital Market Private Limited	17	26
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable (including Sindh sales tax)	65	65
Security deposit - Non interest bearing	100	100

22. 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.

22.1 Credit risk

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

Management of credit risk

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

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

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

Exposure to credit risk

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

	30 June 2017		30 June 2016	
	Statement of assets and liabilities	Maximum exposure	Statement of assets and liabilities	Maximum exposure
	(Rupees in '000)		(Rupees in '000)	
Bank balances	8,905	8,905	38,294	38,294
Investments	146,377	-	64,465	-
Dividend and Profit receivable	890	135	267	134
Advances, deposits and other receivables	2,852	2,852	21,634	21,634
	159,024	11,892	124,660	60,062

Differences in the balances as per the statement of assets & liabilities and maximum exposures in investments and dividend and profit receivable were due to the fact that investments of Rs. 146.377 million (30 June 2016: 64.465 million) relates to investments in quoted equity securities which are not considered to carry credit risk; and therefore the pertaining dividend receivable amounting to Rs. 754,900 (30 June 2016: Rs. 132,500) is also excluded.

Credit ratings and Collaterals

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

Ratings	30 June 2017	30 June 2016
AAA	20%	4%
AA+	22%	61%
A+	58%	35%
	100%	100%

First Habib Islamic Stock Fund

(Formerly First Habib Islamic Balanced Fund)

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 92.5% (30 June 2016: 51.8%) of the Fund's financial assets are in quoted equity investments which are not exposed to credit risk.

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

	30 June 2017	30 June 2016
Banks (including bank Profit due)	78%	64%
Financial services	22%	36%
	100%	100%

Past due and impaired assets

None of the financial assets of the Fund are past due / impaired as at 30 June 2017.

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.

22.2 Liquidity risk

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

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

Management of Liquidity Risk

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

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

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

Maturity analysis of financial liabilities

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

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

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)

	30 June 2017				
	Carrying amount	Gross nominal outflow	Less than one month	More than one month and up to three months	More than three months and up to one year
<i>Non- derivative financial liabilities</i>	(Rupees in '000)				
Payable to Habib Asset Management Limited - Management Company	695	695	695	-	-
Payable to Central Depository Company of Pakistan Limited-Trustee	65	65	65	-	-
Payable to Securities and Exchange Commission of Pakistan	105	105	-	105	-
Accrued expenses and other liabilities	2,576	2,576	1,794	782	-
	<u>3,441</u>	<u>3,441</u>	<u>2,554</u>	<u>887</u>	<u>-</u>
	30 June 2016				
	Carrying amount	Gross nominal outflow	Less than one month	More than one month and up to three months	More than three months and up to one year
<i>Non- derivative financial liabilities</i>	(Rupees in '000)				
Payable to Habib Asset Management Limited - Management Company	173	173	173	-	-
Payable to Central Depository Company of Pakistan Limited-Trustee	65	65	65	-	-
Payable to Securities and Exchange Commission of Pakistan	88	88	-	88	-
Accrued expenses and other liabilities	7,599	7,599	7,000	599	-
	<u>7,925</u>	<u>7,925</u>	<u>7,238</u>	<u>687</u>	<u>-</u>

Above financial liabilities do not carry any mark-up.

22.3 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:

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)

	30 June 2017	30 June 2016
	(Rupees in '000)	
Variable rate instruments		
Bank balances	<u>8,895</u>	<u>37,849</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 2017, the net assets of the Fund would have been lower/ higher by Rs. 0.09 million (2016: 0.38 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 financial instruments, interest rates are expected to change overtime. Accordingly, the sensitivity analysis prepared as of 30 June 2017 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 2017				
	Mark-up / 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	4.74%-5.60%	8,895	-	-	-	8,895
Total assets		8,895	-	-	-	8,895
		30 June 2016				
	Mark-up / 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	4.74%-6.25%	37,849	-	-	-	37,849
Total assets		37,849	-	-	-	37,849

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 7.1 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 6.1.

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 quoted equity securities as at 30 June 2017. This level of change is considered to

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)

be reasonably possible and represents management's best estimate of a reasonable possible shift in respective market indices and resulting increase/decrease in fair value of the Fund's investment in equity securities:

	30 June 2017	30 June 2016
	(Rupees in '000)	
Effect on income statement, net assets attributable to unit holders of an increase in index		
Quoted equity securities	<u>14,638</u>	<u>6,447</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.

22.4 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 return 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.

Under the NBFC regulations 2008, the minimum size of an open end scheme shall be one hundred million rupees at all the times during the life of the scheme. The Fund size depends on the issuance and redemption of units.

23. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the Fund is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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 traded.

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).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

		Carrying amount					Fair value			
		Fair value through profit or loss	Available for sale	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	<i>Note</i>	(Rupees in '000)								
Financial assets - measured at fair value										
Investments - 'at fair value through profit or loss'	6	146,377	-	-	-	146,377	146,377	-	-	146,377
Financial assets - not measured at fair value	23.1									
Balances with banks	5	-	-	8,905	-	8,905	-	-	-	-
Dividend and Profit receivable	7	-	-	890	-	890	-	-	-	-
Deposits and other receivables	8	-	-	2,600	-	2,600	-	-	-	-
		146,377	-	12,395	-	158,772				

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(Formerly First Habib Islamic Balanced Fund)

		Carrying amount					Fair value			
		Fair value through profit or loss	Available for sale	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
30 June 2017										
	<i>Note</i>					(Rupees in '000)				
Financial assets -										
Financial liabilities - not measured at fair value	<i>23.1</i>									
Payable to the Habib Asset Management Limited - Management Company		-	-	-	634	634	-	-	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	65	65	-	-	-	-
Accrued expenses and other liabilities		-	-	-	782	782	-	-	-	-
		-	-	-	1,481	1,481				
30 June 2016										
Financial assets - measured at fair value										
Investments - 'at fair value through profit or loss'	<i>7</i>	64,465	-	-	-	64,465	64,465	-	-	64,465
Financial assets - not measured at fair value	<i>23.1</i>									
Balances with banks	<i>5</i>	-	-	38,294	-	38,294	-	-	-	-
Dividend and Profit receivable	<i>7</i>	-	-	267	-	267	-	-	-	-
Deposits and other receivables	<i>8</i>	-	-	21,404	-	21,404	-	-	-	-
		64,465	-	59,965	-	124,430				
Financial liabilities - not measured at fair value	<i>23.1</i>									
Payable to the Habib Asset Management Limited - Management Company		-	-	-	154	154	-	-	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee		-	-	-	65	65	-	-	-	-
Accrued expenses and other liabilities		-	-	-	7,599	7,599	-	-	-	-
		-	-	-	7,818	7,818				

23.1 The Fund has not disclosed the fair values for these financial assets and financial liabilities, as these are either short term in nature or repriced periodically. Therefore, their carrying amounts are reasonable approximation of fair value.

24. PATTERN OF UNITHOLDING

Unit holding pattern of the fund as at 30 June 2017 is as follows:

Category	<i>Note</i>	Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		44	172,017	17,919	12%
Associated Companies	<i>24.1</i>	2	731,208	76,171	50%
Chief Executive	<i>24.2</i>	1	23,659	2,465	2%
Retirement Funds		3	116,150	12,100	8%
Others		3	432,166	45,019	29%
		53	1,475,200	153,674	100%

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)

Unit holding pattern of the fund as at 30 June 2016 is as follows:

Category	Note	Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		47	249,044	25,775	28%
Associated Companies	24.1	2	420,197	43,489	18%
Chief Executive	24.2	1	20,662	2,138	2%
Retirement Funds		3	106,260	10,998	23%
Others		3	304,679	31,533	28%
		56	1,100,842	113,933	100%

24.1 Associated companies

	30 June 2017			30 June 2016		
	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	630,279	65,657	43%	319,268	33,043	29%
Bank AL Habib Limited	100,929	10,514	7%	100,929	10,446	9%
	731,208	76,171	50%	420,197	43,489	38%

24.2 Chief executive

Imran Azim (CEO)	23,659	2,465	2%	20,662	2,138	2%
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25. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID BY THE FUND

Name of Broker	30 June 2017	30 June 2016
	(Percentage)	
Munir Khanani Securities	12.47%	9.86%
Arif Habib Limited	12.10%	4.77%
Al-Habib Capital Markets (Private) Limited	10.12%	11.19%
Intermarket Securities Limited	9.65%	5.17%
Habib Metropolitan Financial Services Limited	9.32%	6.12%
Pearl Securities (Private) Limited	7.38%	4.93%
Ali Hussain Rajabali Limited	7.06%	11.06%
Top Line Securities (Private) Limited	6.51%	3.96%
Standard Capital Securities (Private) Limited	5.26%	5.36%
Multiline Securities (Private) Limited	4.46%	10.27%
	84.33%	72.69%

26. 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	61 Years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	40 Years
Mr. Mansoor Ali	Director	MBA	32 Years

First Habib Islamic Stock Fund
(Formerly First Habib Islamic Balanced Fund)

27. Other Funds managed by the Fund Manager

Mr. Junaid Kasbati - Fund Manager

Mr. Junaid Kasbati is an MBA and possesses over nine 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, First Habib Islamic Stock Fund, First Habib Stock Fund and First Habib Islamic Income Fund.

28. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 68th, 69th, 70th, 71th and 72nd board meetings were held on 11 July 2016, 10 September 2016, 24 October 2016, 14 February 2017 and 25 April 2017 respectively.

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

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave Granted	
Ali Raza D. Habib	5	3	2	68th and 72nd meeting
Imran Azim	5	5	-	-
Mansoor Ali	5	4	1	72nd meeting
Mohammad Ali Jameel	5	4	1	68th meeting
Vice Admiral(R) Khalid M Mir	5	4	1	70th meeting
Liaquat Habib Merchant	5	-	5	68th, 69th, 70th, 71th and 72nd meeting
Sajjad Hussain	5	4	1	68th meeting

29. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on **07 September, 2017**.

30. TOTAL EXPENSE RATIO (TER)

In the current period, Securities and Exchange Commission of Pakistan (SECP) vide directive no. SCD/PRDD/Direction/18/2016 dated July 20, 2016, requires that Collective Investment Scheme (CIS) shall disclose Total Expense Ratio (TER) in the periodic financial statements of CIS / the Fund. TER of the Fund for the year ended June 30, 2017 is 2.99% which include 0.77% representing government levy, Worker Welfare Fund and SECP fee. Total expenses include effect of WWF reversal of Rs 1.604 million for the calculation of TER.

31. GENERAL

31.1 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 2017

Fund Objective:

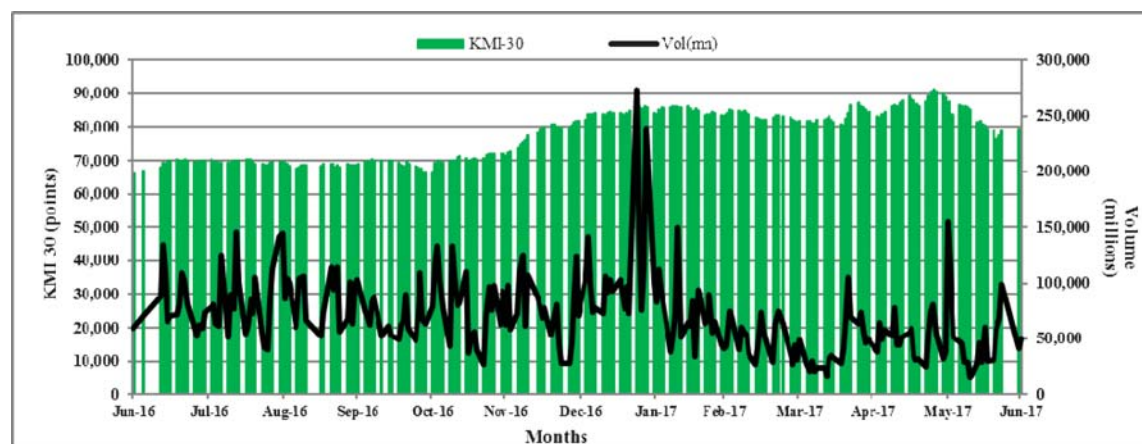
First Habib Islamic Balanced Fund has been converted to First Habib Islamic Stock Fund an Open ended Sharia Compliant Equity scheme since April 2017. The objective of the Fund is to provide investors with long term capital growth by investing primarily in a Sharia Compliant diversified pool of equities and equity related instruments.

Fund Description:

Fund Type Category	Open end - Sharia Compliant Equity Scheme	Auditors External	KPMG Taseer Hadi & Co., Chartered Accountants
Launch /Conversion date	Nov 11, 2012 /April 01, 2017	Management Fee	2% p.a.
Benchmark	-3.94% <i>KMI - 30 Index</i>	Sales Load	2% front-end-load
FHISF Return	-5.44%	Minimum Subscription	Initial Investment of Rs. 1000/-Subsequently Rs. 100 per transaction "AM3+" by PACRA
Net Assets	Rs. 153.67 million (June 30, 2017)	AMC Rating	Monday to Friday/ 9:00 am to 04:30 pm
NAV per Unit	104.1711 per unit (June 30, 2017)	Dealing Days/Timings	
Pricing Mechanism	Forward Pricing	Trustee	Central Depository Company of Pakistan Ltd.

Market Review

With the closure of June 2017, the stock market marked the end of the fiscal year with reasonable returns whereby the KMI-30 indices was 18.80% up respectively on a YoY basis. The market did pitch good return till December 2016 but as the political environment started to burn; the incumbent felt the pressure of the Panama Case; which eventually resulted in adverse as decided by Supreme Court on 20 April 2017. Uncertainty on the political front on account of ongoing investigation by the Supreme Court sanctioned JIT kept the investors jittery and the market volatile. Later the big news on Pakistan's reclassification finally materialized with MSCI revealing details on scheduled upgrade of Pakistan from MSCI FM to MSCI EM weighing impartial 0.10%; the inclusion was effective from 01 June 2017. However, the last month of the year tuned out to be an extremely rough one whereby from the highest levels attained in the last week of May 2017, the KMI-30 fell 13.77% to close at 78,598 points by the end of June 2017. It is to note that post the month end, the very first working day of the new fiscal year continued to witness an extremely volatile stock market, whereby the KMI-30 fell 4.37% during a single day, taking the differential from their peak levels of May 2017 to 17.54% respectively.



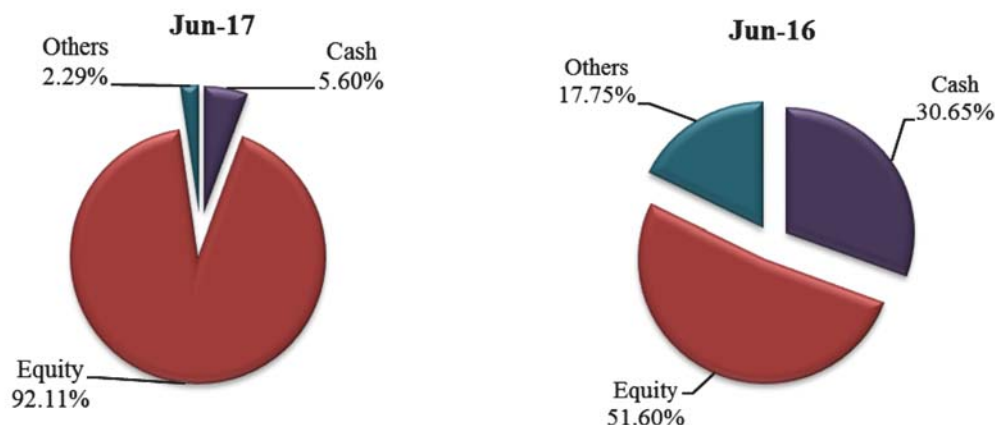
First Habib Islamic Stock Fund

(Formerly First Habib Islamic Balanced Fund)

The benchmark KMI-30 Index reached its highest peak of 91,145.45 points and touched low of 66,162.77 points during the year under review. The average daily traded volume of shares reached 71.64 million during the year.

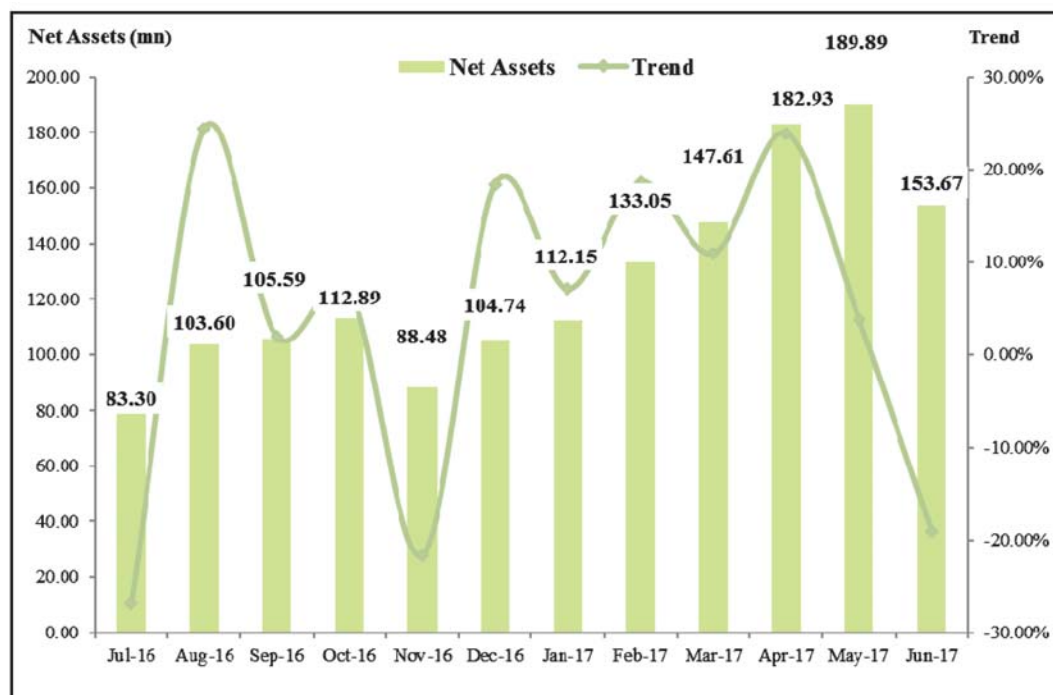
Fund Performance Review

The Fund generated a net return of -5.44% for the Financial Year 2017. As on June, 30 2017, the Fund was invested up to 92.11% in Shariah compliant equities and 5.60% was held as cash in banks. As per the Fund's Objective of long term investment we have placed major portion of our investment in fundamentally strong companies as shown below in Top Ten holdings. The return was separated into two heads where First Habib Islamic Balanced Fund posted a return of 21.50% July,2016 till March ,2017; whereas since April till June 2017 the fund was converted to First Habib Islamic Stock Fund which posted a return of -5.44%. Asset Allocation as on June 30.

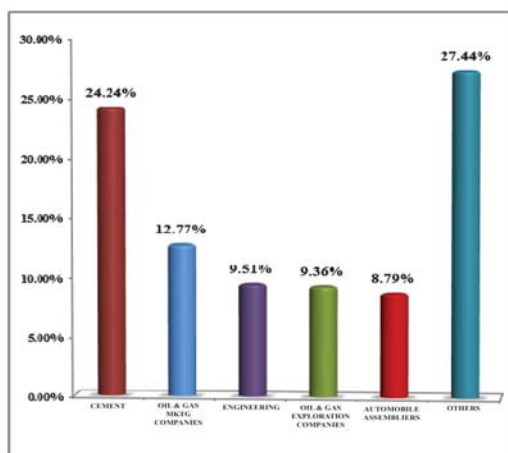


Fund Size

Net Assets of FHISF stood at Rs.153.67 million as on June 30, 2017 against the net assets of Rs. 113.93 million as on June 30, 2016.



Sector Allocation (As of June 30, 2017)



Top Ten Holdings (As of June 30, 2017)

S. No.	Companies	% of Total Asset
1	Lucky Cement Company Limited	11.31%
2	Pakistan State Oil	5.61%
3	Maple Leaf Company Limited	5.61%
4	Oil & Gas Development Company Limited	5.40%
5	Attock Refinery Limited	5.30%
6	Fauji Cement Company Limited	4.39%
7	Hub Power Company Limited	4.30%
8	Sui Northern Gas Pipelines Limited	4.22%
9	Ghandhara Industries Limited	3.89%
10	The Searle Company Limited	3.53%

Income Distribution

FHISF distributed Rs. 11.00 per unit as dividend as on June 30, 2017, for the Financial Year 2017 as follows:

2016-2017	Cumulative NAV Rs.	Ex - NAV Rs.	Distribution Rs.
July-June	116.1847	105.1847	11.00

Sales and Redemptions of Units

During the year, 1,578,796 units of the value of Rs. 186.11 million were sold while 1,204,438 units of the value of Rs. 136.20 million were redeemed resulting in to a net sale of 374,358 units of the value of Rs. 49.91 million during the year.

Unit Holders Pattern

For the breakdown of unit holding by size as on June 30, 2017, please refer to note 24 to the Annual Accounts 2017. Responsibilities towards Corporate Governance and Proxy Voting as per Regulation 38A

Habib Asset Management Limited (HAML) on behalf of First Habib Islamic Stock Fund (FHISF) a collective investment scheme (CIS) under its management did not participate in shareholders' meetings. Further, the proxy voting policy of the FHISF is available on the website of the HAML and detailed information regarding actual proxies voted by the HAML (if any) in respect of the CIS is also available without charge, upon request, to all unit holders.

First Habib Islamic Income Fund
Annual Report
For the year ended 30 June 2017

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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 Officer
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

Investment Committee

Mr. Mansoor Ali	Chairman
Mr. Sajjad Hussain Habib	Member
Mr. Imran Azim	Member

Auditors

KPMG Taseer Hadi & C0.
Chartered Accountants
Sheikh Sultan Trust Building No.2,
Beaumont Road, Karachi.

Registrar

JWAFS Registrar Services
(Pvt.) Limited
407-408, 4th Floor,
Al- Ameer Centre, Shahrah-e-Iraq,
Saddar, 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 Bank Limited

Rating

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 INCOME FUND

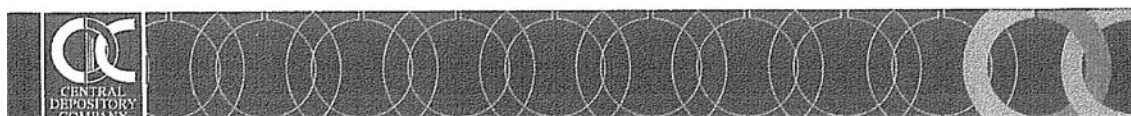
**Report of the Trustee pursuant to Regulation 41(h) and clause 9 of Schedule V of
the Non-Banking Finance Companies and Notified Entities Regulations, 2008**

We Central Depository Company of Pakistan Limited, being the Trustee of First Habib Islamic 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 for the period from January 23, 2017 to June 30, 2017 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 Executive Officer
Central Depository Company of Pakistan Limited

Karachi: September 19, 2017



REVIEW REPORT OF THE SHARIAH ADVISOR

As a Shariah Advisor of the **First Habib Islamic Income Fund (FHIIF)**, 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 Income Fund (FHIIF)**, for the year ended 30 June 2017 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 / books of account. 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 2017



Dr. Mufti Ismatullah
Shariah Advisor



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Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

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Independent Assurance Report to the Unit Holders on the Statement of Compliance with the Shariah Guidelines

We were engaged by the Board of directors of Habib Asset Management Limited, Management Company of First Habib Islamic Income Fund (the Fund), to report on Fund's Compliance with the Shariah guidelines as set out in the annexed statement prepared by the management company for the year ended 30 June 2017 in the form of an independent reasonable assurance conclusion about whether the annexed statement presents fairly, in all material respects, the status of the Fund's compliance with Shariah guidelines prescribed by the Shariah Advisor as required under the Trust Deed of the Fund.

Management Company's Responsibilities

The management company of the fund is responsible for preparing the annexed statement that is free from material misstatement in accordance with the Shariah guidelines prescribed by the Shariah Advisor. This responsibility includes designing, implementing and maintaining internal control relevant to the operations of the Fund in accordance with the Shariah guidelines and to ensure that Fund's investments and placements are made in compliance with Shariah guidelines.

The management company is also responsible for preventing and detecting fraud and for identifying and ensuring that the Fund complies with laws and regulations applicable to its activities. They are also responsible for ensuring that the management, where appropriate, those charged with governance, and personnel involved with the Fund's compliance with the Shariah guidelines are properly trained, systems are properly updated and that any changes in reporting encompass all significant business units.

Our Responsibilities

Our responsibility is to examine the annexed statement prepared by the Management Company and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE 3000) 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the annexed statement fairly presents the status of the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Chartered Accountants issued by the Institute of Chartered Accountants of Pakistan, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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KPMG Taseer Hadi & Co.

The procedures selected depend on our judgment, including the assessment of the risks of material non-compliance with Shariah guidelines whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the operations of the Fund in accordance with the Shariah guidelines in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Fund's internal control. Reasonable assurance is less than absolute assurance.

As part of this engagement, we have not performed any procedures by way of audit, review or verification of the statement of the management assessment of compliance with the Shariah guidelines nor of the underlying records or other sources from which the annexed statement was extracted.

The procedures performed included:

1. Checking compliance of specific guidelines prescribed by the Shariah Advisor relating to charity, maintaining bank accounts and for making investments of the Fund.
2. Check that the Shariah Advisor has certified that investments made by the Fund during the year ended 30 June 2017 are in compliance with the Shariah guidelines and where required purification of income from non-compliant sources has been made in consultation with the Shariah Advisor.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the annexed statement, in all material respects, presents fairly the status of the Fund's compliance with the Shariah guidelines prescribed by the Shariah Advisor for the year ended 30 June 2017.

Date: 7 September 2017

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

STATEMENT OF COMPLIANCE BY HABIB ASSET MANAGEMENT LIMITED WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2017

This statement is being presented to comply with the Code of Corporate Governance (the "Code"), contained in Regulation No. 5.19.24 of the Rule book of Pakistan Stock Exchange Limited, 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.

The Board of Directors (the "Board") of Habib Asset Management Limited (the "Management Company"), which is an unlisted public company, manages the affairs of **First Habib Islamic Income Fund** (the "Fund"). The Fund being a unit trust open end scheme does not have its own Board of Directors. The units of the Fund are listed as a security on the Pakistan Stock Exchange Limited; therefore, the Management Company has applied the principles contained in the Code to the Fund in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes:

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

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 Broker 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. However, subsequent to the year, Mr. Sajjad Hussain Habib resigned on July 04, 2017.
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 vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of 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 this 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 have attended director's training program and one director is exempt from directors training program due to qualification and experience.
10. There was no appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year.
11. The Directors' report relating to the Fund for the year ended June 30, 2017 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

First Habib Islamic Income Fund

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 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 who is also an independent non-executive director.
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 Remuneration Committee. It comprises of three members, of whom two are non-executive directors including the chairman of the Committee who is also an independent non-executive director.
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.
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange.
23. The Management Company has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
24. We confirm that all other applicable material principles enshrined in the Code have been duly complied with by the Management Company except those that are not yet applicable

For and on behalf of the Board

Karachi.
Dated: September 07, 2017



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**REVIEW REPORT TO THE MEMBERS 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 contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of Habib Asset Management Limited ("the Management Company") of HAML – First Habib Islamic Income Fund ("the Fund") for the year ended 30 June 2017 to comply with the requirements of rule book Regulation No. 5.19.24 of Pakistan Stock Exchange Limited, where the Fund is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code 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 the 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 of Directors' 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 of Directors for their review and approval of 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 of Directors 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 of Compliance does not appropriately reflect the Fund'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 2017.

Date: 7 September 2017

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

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and a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative
("KPMG International"), a Swiss entity.



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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 Income Fund** ("the Fund"), which comprise the statement of assets and liabilities as at 30 June 2017, and the related income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of 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

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as the Management determines is necessary to enable the preparation of the 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 about 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 our 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, we consider internal control relevant to the Fund'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 Fund'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 2017, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

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KPMG Taseer Hadi & Co.

Report on Other Legal and Regulatory Requirements

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

Date: 7 September 2017

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

First Habib Islamic Income Fund

STATEMENT OF ASSETS AND LIABILITIES

As at 30 June 2017

	Note	30 June 2017 (Rupees in '000)
Assets		
Bank balances	6	34,410
Investments	7	51,314
Fair value of derivatives		383
Dividend and profit receivable	8	620
Preliminary expenses and floatation costs	9	1,541
Deposits, prepayments and other receivables	10	18,643
Total assets		106,911
Liabilities		
Payable to the Habib Asset Management Limited - Management Company		105
Payable to Central Depository Company of Pakistan Limited - Trustee	11	16
Payable to Securities and Exchange Commission of Pakistan (SECP)	12	51
Provision for Sindh Workers' Welfare Fund	13	30
Payable against purchase of investment		4,211
Accrued expenses and other liabilities	14	550
Total liabilities		4,963
Net assets		101,948
Unit holders' funds (as per the statement attached)		101,948
Number of units in issue (Face value of units is Rs. 100 each)	15	1,019,094
		(Rupees)
Net asset value per unit		100.04

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

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

Chief Executive

Director

INCOME STATEMENT

For the Period from 23 January 2017 to 30 June 2017

	Note	For the period from 23 January 2017 to 30 June 2017 (Rupees in '000)
Income		
Profit on deposits	16	2,678
Income from certificates of musharaka		579
Income from sukuk certificate		98
Dividend income		188
Net gain on investments classified as ' at fair value through profit or loss'		
- Net capital gain on sale of investments		1,006
- Net unrealized loss on revaluation of investments	7.3	(869)
- Unrealised appreciation on derivative financial instrument		383
		520
Total income		4,063
Expenses		
Remuneration of Habib Asset Management Limited - Management Company	17	708
Sindh sales tax on Management Company's remuneration	18	92
Remuneration of Central Depository Company of Pakistan Limited - Trustee	11	116
Sindh sales tax on Trustee's remuneration	18	15
Annual fee - Securities and Exchange Commission of Pakistan (SECP)	12	51
Brokerage expense		176
Settlement and bank charges		35
Annual listing fee		25
Auditors' remuneration	19	211
Amortization of formation cost		147
Printing charges		65
Provision for Sindh Workers' Welfare Fund	13	30
Fees and subscription		31
Total expenses		1,702
		2,361
Net Element of loss and capital losses included in prices of units issued less those in units redeemed		(916)
Net income for the period before taxation		1,445
Taxation	20	-
Net income for the period after taxation		1,445

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 Income Fund

STATEMENT OF COMPREHENSIVE INCOME

For the Period from 23 January 2017 to 30 June 2017

	For the period from 23 January 2017 to 30 June 2017 (Rupees in '000)
Net income for the period	1,445
Other comprehensive income for the period	-
Total comprehensive income for the period	<u>1,445</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

DISTRIBUTION STATEMENT

For the Period from 23 January 2017 to 30 June 2017

	For the period from 23 January 2017 to 30 June 2017 (Rupees in '000)
Undistributed income brought forward	-
Net income for the period	1,445
Interim cash dividend distribution of Rs. 1.40/- per unit declare on 15 June 2017.	(1,407)
Undistributed income carried forward	38
Undistributed income carried forward comprises of:	
- Realised income	38
- Unrealised income	-
Undistributed income carried forward	38

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 Income Fund**STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS**

For the Period from 23 January 2017 to 30 June 2017

	For the period from 23 January 2017 to 30 June 2017 (Rupees in '000)
Net assets at the beginning of the period	-
Issuance of 2,844,666 units *	285,057
Redemption of 1,825,572 units	(184,063)
	100,994
Net element of loss and capital loss included in prices of units issued less those in units redeemed	916
Net capital gain on sale of investments classified as 'at fair value through profit and loss'	1,006
Net unrealized loss on revaluation of investments classified as 'at fair value through profit and loss'	(869)
Unrealized appreciation on derivative financial instrument	383
Total comprehensive income for the period (excluding net unrealized gain on revaluation of investments classified as 'at fair value through profit or loss' and capital gain)	925
Distribution during the period	(1,407)
Net income for the period less distribution	38
Net assets at the end of the period	101,948
	(Rupees)
Net asset value per unit at beginning of the period	100.00
Net asset value per unit at the end of the period	100.04

*Including 8,022.91 units issued as re-investment during the period

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

**For Habib Asset Management Limited
(Management Company)**_____
Chief Executive_____
Director

CASH FLOW STATEMENT

For the Period from 23 January 2017 to 30 June 2017

For the period
from 23 January
2017 to 30 June
2017
(Rupees in '000)

CASH FLOW FROM OPERATING ACTIVITIES

Net income for the period 1,445

Adjustments for non-cash items

Net unrealized loss on revaluation of investments classified as 'at fair value through profit and loss' 869

Provision for Sindh Workers' Welfare Fund 30

Amortization of preliminary expenses and flotation costs 147

Net element of loss and capital losses included in prices of units issued less those in units redeemed 916

3,407

(Decrease) in assets

Investments (52,183)

Fair value of derivatives (383)

Dividend and profit receivable (620)

Deposits, prepayments and other receivables (18,643)

(71,829)

Increase / (decrease) in liabilities

Payable to the Habib Asset Management Limited - Management Company 105

Payable to Central Depository Company of Pakistan Limited - Trustee 16

Payable to Securities and Exchange Commission of Pakistan (SECP) 51

Payable against purchase of investment 4,211

Accrued expenses and other liabilities (1,138)

3,245

Net cash flow (used in) operating activities (65,177)

CASH FLOW FROM FINANCING ACTIVITIES

Net receipts from sale and redemption of units 100,994

Dividend paid during the period (1,407)

Net cash flow generated from financing activities 99,587

Net increase in cash and cash equivalents during the period 34,410

Cash and cash equivalents at beginning of the period -

Cash and cash equivalents at end of the period 34,410

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

Bank Balances 34,410

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

For the Period from 23 January 2017 to 30 June 2017

1. LEGAL STATUS AND NATURE OF BUSINESS

First Habib Islamic Income Fund ("the Fund") was established under a Trust Deed executed between Habib Asset Management Limited (HAML) as the Management Company and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Trust Deed was executed on 30 August 2016 and was approved by the Securities and Exchange Commission of Pakistan (SECP) on 22 August 2016 under Regulation 67 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

- 1.1** The Management Company of the Fund has been licensed to undertake Asset Management Services as Non-Banking Finance Company under the NBFC Rules by SECP. The registered office of the management company is situated at Imperial Court Building, Dr. Ziauddin Ahmed Road Karachi, Pakistan.
- 1.2** The Fund is an open-end mutual fund and is listed on the Pakistan Stock Exchange. Units are offered for public subscription on a continuous basis. The 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.

- 1.3** The Fund has been categorized as an Open-End Shariah Compliant (Islamic) Income Scheme as per the criteria laid down by the Securities and Exchange Commission of Pakistan for Categorisation of Collective Investment Schemes (CIS).
- 1.4** Title to the assets of the Fund are held in the name of Central Depository Company Limited (CDC) as a trustee of the Fund.
- 1.5** Pakistan Credit Rating Agency (PACRA) has assigned asset management rating of 'AM3+' to the Management Company.

2. BASIS OF PRESENTATION

The transactions undertaken by the Fund are in accordance with the Shariah guidelines issued by the Shariah advisor and are accounted for on substance rather than the form. This practice is being followed to comply with the requirements of approved accounting standards as applicable in Pakistan.

2.1 Statement of compliance

- 2.1.1** These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, and the requirements of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008, (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever, the requirement of the NBFC Rules, the NBFC Regulations and the said directives differ with the requirements of these standards, the requirements of the NBFC Rules, the NBFC Regulations, and the said directives shall prevail.
- 2.1.2** The Companies Act, 2017 was enacted on 30 May 2017 and is applicable with immediate effect. The Securities and Exchange Commission of Pakistan through press release and vide circular no. 17 of 2017 dated 20 July 2017 has decided that all the companies whose financial year, including quarterly and other interim period, closes on or before 30 June 2017, shall prepare their financial statements, including interim financial statements, in accordance with the provisions of the repealed Companies Ordinance, 1984. The new requirements of the Companies Act, 2017 shall be applicable to the companies having their financial year closure after 30 June 2017.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2017:

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are not likely to have an impact on Fund's financial statements.

- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Fund's financial statements.
- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Fund's financial statements.
- Annual improvements to IFRS standards 2014-2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:
- Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 1 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 - 'Non-current Assets Held for Sale and Discontinued Operations'. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or jointventure. The amendments are not likely to have an impact on Fund's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax.
- The above amendments are not likely to have an impact on Fund's financial statements.
- As disclosed in note 2.1.2, the new requirements of the Companies Act, 2017, shall be applicable to the financial statements issued on or after 30 June 2017. The Act included mutual funds in Third Schedule, accordingly certain additional requirements / disclosures in Fifth Schedule to the Companies Act, 2017 are also applicable to the financial statements of mutual funds. Significant disclosures / requirements, which are relevant to the funds includes but not limited to: name of associated companies or related parties or undertakings along with the basis of relationship describing common directorship and/or percentage of shareholding; summary of significant transactions and events that have affected the financial position and performance during the year, etc.
- SECP through SRO 756(I)/2017 dated 03 August 2017 has made certain amendments in NBFCs and Notified Entities Regulations, 2008. The amendments require additional disclosures and recording of element of income / loss included in price of unit issued or redeemed in Statement of Movements in Reserves or Unit holders' Fund instead of Income Statement. The SRO also deleted 'Distribution Statement' and its contents along with certain additional break-ups and disclosures to be included on the face of 'Income Statement' and 'Statement of Movements in Reserves or Unit holders' Fund'.
- Further, new amendments changed the definition of accounting income in regulation (63) sub-regulation (I) which is now to be determined after taking into account the element of income / loss relating to the redemption of units. This change will be applied prospectively and may affect the charge for Sindh Workers' Welfare Fund (SWWF) and consequently, the Net Asset Value per unit of the Fund in future.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except that investments are measured at fair values.

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.

First Habib Islamic Income Fund

4.1 Use of judgments and estimates

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the application of accounting 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 judgements 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 recognized in the period in which the estimates are 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. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in the application of accounting policies are given below:

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in note 5.1 regarding the Classification of investments.

b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ending 30 June 2017 is included in the following notes:

- Note 5.1 - Valuation of investments
- Notes 13 - Recognition of provision for Sindh Workers' Welfare Fund

5. 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:

5.1 Financial instruments

The Fund classifies its financial instruments in the following categories:

a) Financial instruments at fair value through profit or loss

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

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

b) Available-for-sale

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

c) Loans and receivables originated by the enterprise

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

d) Financial liabilities

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

Recognition

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

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

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

Measurement

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

Subsequent to initial recognition, financial instruments classified as 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 Debt Securities

The Fund's investment in 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.

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.

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.

First Habib Islamic Income Fund

5.2 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.

5.3 Issue and redemption of units

Units issued are recorded at the net asset 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.

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

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

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

The Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealised gains / (losses) held in the unitholder's funds in a separate account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unitholders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognised in the Income Statement.

5.5 Net asset value - per unit

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

5.6 Taxation

The Fund is exempt from taxation under clause 99 of the Part I of the 2nd Schedule of the Income Tax Ordinance, 2001, subject to the condition that not less than 90% of its accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders, provided that for the purpose of determining distribution of not less than 90% of its accounting income for the year, the income distributed through bonus units shall not be taken into account.

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.

The Fund is also exempt from the provisions of section 113 (minimum tax) under clause 11A of Part IV of the Second Schedule to the Income Tax Ordinance, 2001.

5.7 Revenue recognition

- Gains / (losses) arising on sale of investments are included in the Income Statement on the date 'at which the transaction takes place.
- Unrealised gains / (losses) arising on revaluation of investments classified as financial assets at fair value through profit or loss are included in the Income Statement in the period in which they arise.
- 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.

5.8 Expenses

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

5.9 Provisions

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

5.10 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred up to the close of Initial Public Offer (IPO) period of the Fund. These costs are being amortised over a period of five years commencing from 23 January 2017 as per the Trust Deed of the Fund.

5.11 Cash and cash equivalents

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

5.12 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.

5.13 Earnings per unit (EPU)

Earnings Per Unit (EPU) has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

6. This represents saving accounts carrying profit ranging from 4.0% to 5.60% per annum.

7. INVESTMENTS

**30 June
2017
(Rupees in '000)**

At fair value through profit or loss

Quoted Equity Securities (spread transactions)	7.1	40,799
Investment in Sukuk Certificate	7.2	10,515
		51,314

7.1 Quoted equity securities

Name of the Investee	As at 1 July 2016	Purchases during the period	Sales during the period	As at 30 June 2017	Carrying value as at 30 June 2017	Market value as at 30 June 2017	Appreciation / (diminution)	Market Value as a Percentage of		Paid up capital of investee company (with face value of investment)
								Net Assets	Total Investment	
----- (Number of shares) ----- (Rupees in '000) -----										
CABLE AND ELECTRICAL GOODS										
Pak Elektron Limited	-	241,000	158,000	83,000	8,971	9,157	186	8.98%	17.85%	0.017%
TPL Trakker Limited	-	300,500	192,500	108,000	1,118	1,067	(51)	1.05%	2.08%	0.050%
CEMENT										
Maple Leaf Cement Factory Limited	-	87,000	87,000	-	-	-	-	0.00%	0.00%	0.000%
ENGINEERING										
International Steel Limited	-	183,000	122,500	60,500	8,495	7,737	(758)	7.59%	15.08%	0.014%
FERTILIZERS										
Engro Fertilizers Limited	-	152,000	22,500	129,500	7,190	7,154	(36)	7.02%	13.94%	0.010%
Engro Corporation Limited	-	13,000	3,000	10,000	3,304	3,259	(45)	3.20%	6.35%	0.002%
FOOD AND PERSONAL CARE PRODUCT										
Engro Foods Limited	-	13,000	13,000	-	-	-	-	0.00%	0.00%	0.000%
Treet Corporation Limited	-	293,500	293,500	-	-	-	-	0.00%	0.00%	0.000%
OIL AND GAS EXPLORATION COMPANIES										
Oil and Gas Development Company Limited	-	72,000	-	72,000	10,256	10,130	(126)	9.94%	19.74%	0.002%
REFINERY										
Attock Refinery Limited	-	31,000	25,000	6,000	2,517	2,295	(222)	2.25%	4.47%	0.007%
Total as at 30 June 2017					41,851	40,799	(1,052)			

First Habib Islamic Income Fund

7.2 Sukuk Certificate

Name of the Investee	Face Value				As at 30 June 2017			Market value as percentage of	
	As at 01 July 2016	Purchases during the period	Sold / matured during the period	As at 30 June 2017	Carrying value	Market value	Unrealised gain	Net assets	Total investments
----- (Rupees in '000) -----									
TPL Traker Limited - Sukuk	-	10,000	-	10,000	10,332	10,515	183	10%	20%
Total as at 30 June 2017					10,332	10,515	183		

7.3 Net unrealised appreciation / (diminution) in fair value of investments classified as 'at fair value through profit or loss'

For the period
from 23
January 2017 to
30 June 2017
(Rupees in '000)

Quoted equity securities	(1,052)
Investment in sukuk certificate	183
	<u>(869)</u>

8. DIVIDEND AND PROFIT RECEIVABLE

30 June
2017
(Rupees in '000)

Profit accrued on sukuk certificate	205
Profit receivable on bank deposits	269
Dividend receivable	146
	<u>620</u>

9. PRELIMINARY EXPENSES AND FLOATATION COST

Preliminary expenses and floatation cost incurred	9.1	1,688
Amortization for the period		(147)
Balance as at 30 June 2017		<u>1,541</u>

9.1 This represents expenses incurred on the formation of the Fund. The said expenses are being amortised over a period of five years effective from 23 January 2017, i.e. after the close of initial period of the Fund.

10. DEPOSITS AND PREPAYMENTS

Deposit with National Clearing Company of Pakistan Limited	8,500
Deliverable Future Contracts (DFC) Margin with National Clearing Company of Pakistan Limited	9,822
Deposit with Central Depository Company of Pakistan Limited	100
Withholding tax deducted on income	78
Receivable from Habib Asset Management Limited (formation cost)	143
	<u>18,643</u>

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

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;

First Habib Islamic Income Fund

Average net assets	Tariff
Up to 1 billion	0.17% p.a on net assets
1-5 billion	Rs 1.7 million + 0.085 % p.a on net assets exceeding Rs. 1 billion
Over 5 billion	Rs 5.1 million + 0.07 % p.a on net assets exceeding Rs. 5 billion

12. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

13. PROVISION FOR SINDH WORKERS' WELFARE FUND

As a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) had been passed by the government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.50 million, is required to pay Sindh Workers' Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income. The matter was taken up by the MUFAP with the Sindh Revenue Board (SRB) collectively on behalf of various asset management companies (including the Management Company of the Fund) whereby it was contested that mutual funds should be excluded from the ambit of the SWWF Act as these were not industrial establishments but were pass through investment vehicles and did not employ workers. The SRB held that mutual funds were included in the definition of financial institutions as per the Financial Institution (Recovery of Finances) Ordinance, 2001 and were, hence, required to register and pay SWWF under the SWWF Act. Thereafter, MUFAP has taken up the matter with the Sindh Finance Ministry to have CISs / mutual funds excluded from the applicability of SWWF.

The Management Company as advised by MUFAP, as a abundant caution has recognized SWWF for the Period from 23 January 2017 to 30 June 2017, amounting to Rs. 0.03 million. Hold the SWWF not been provided The NAV per unit of the fund would have been higher by Rs. 0.029.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

**30 June
2017
(Rupees in '000)**

Auditors' remuneration	209
Payable against printing charges	50
Withholding tax payable	146
Brokerage Payable	141
Others	4
	<u>550</u>

15. CLASS OF UNITS IN ISSUE

The Fund has two classes of units as per the Trust Deed. Class 'A' units pertain to investors participated before the Initial Period (Pre-IPO) and during Initial Period (IPO). Class 'B' are issued and redeemed in the usual course of business on a daily basis.

Units in issue as at 30 June in each class are:	30 June 2017 Units
Type 'A' Units	1,017,455
Type 'B' Units	<u>1,639</u>
	<u>1,019,094</u>

First Habib Islamic Income Fund

16. PROFIT ON DEPOSITS

	<i>Note</i>	For the period from 23 January 2017 to 30 June 2017 (Rupees in '000)
Profit on deposit with saving accounts	16.1	2,629
Profit on deposit with NCCPL	16.2	49
		2,678

16.1 This represents profit on saving accounts ranging from 4.0% to 5.60% per annum.

16.2 This represents profit on deposit with NCCPL at 4% per annum.

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 10% of gross earning which is further subject to minimum of 1% and maximum of 1.5% of average daily net assets in accordance with the Trust Deed

18. SALES TAX ON MANAGEMENT REMUNERATION AND TRUSTEE REMUNERATION

Sindh Sales Tax has been charged at 13% on the management company's and trustee remuneration during the year.

19. AUDITORS' REMUNERATION

Annual audit fee	100
Review report on compliance with the Code of Corporate Governance fee	30
Review report on Shariah Compliance	60
Out of pocket expenses	21
	211

20. 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.

21. DERIVATIVE INSTRUMENTS

The fund has been involved in derivatives transactions involving equity futures.

Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions, these controls include appropriate segregation of duties, regular reconciliation of accounts, and the valuation of assets and positions.

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 Stock Fund, First Habib Cash Fund and First Habib Islamic 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.

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 Regulations, 2008 and the Trust Deed respectively.

First Habib Islamic Income Fund

	For the period from 23 January 2017 to 30 June 2017	
	(Units)	(Rupees in '000)
<u>Units sold to:</u>		
<i>Management Company</i>		
Habib Asset Management Limited	1,474,660	148,054
<i>Associated Companies</i>		
- Bank AL Habib Limited	253,917	25,393
<i>Other related parties:</i>		
- Directors and executives of the Management Company	3,041	304
- Habib Asset Management Limited Employees Provident Fund	15,010	1,501
- Habib Sugar Mills Limited	100,084	10,008
Units sold to Connected Parties holding 10% or more of the units in issue:		
Treet Corporation Ltd - Group Employees Superannuation Fund	304,406	30,440
<u>Units redeemed by:</u>		
<i>Management Company</i>		
Habib Asset Management Limited	1,149,768	115,785
<i>Other related parties</i>		
- Habib Asset Management Limited - Employees Provident Fund	15,010	1,516
- Habib Sugar Mills Limited	100,084	10,028
	30 June 2017	
<u>Units held by:</u>	(Units)	(Rupees in '000)
<i>Management Company</i>		
Habib Asset Management Limited	324,892	32,501
<i>Associated Companies</i>		
- Bank AL Habib Limited	253,917	25,401
<i>Other related parties</i>		
- Directors and executives of the Management Company	3,041	304
Units held to Connected Parties holding 10% or more of the units in issue:		
Treet Corporation Ltd-Group Employees Superannuation Fund	304,406	30,452
Details of transactions with connected persons are as follows:		
Habib Asset Management Limited - Management Company		
- Management Remuneration		708
- Sindh sales tax on Management Company's Remuneration		92
Central Depository Company of Pakistan Limited - Trustee		
- Trustee Remuneration		116
- Sindh sales tax on Trustee's Remuneration		15
Dividend Paid		
- Bank AL Habib Limited		350
Details of balances with connected persons at period end are as follows:		
Habib Asset Management Limited - Management Company		
- Management Company fee payable		105
Central Depository Company of Pakistan Limited - Trustee		
- Remuneration payable		16
- Security deposit - Non interest bearing		100

First Habib Islamic Income Fund

23. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- Credit Risk
- Liquidity Risk
- Market Risk

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

Risk management framework

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

The Fund invests in spread transactions, secured and unsecured sukuks, placement of funds under Musharakahs. 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.

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, investment in debt securities, profit receivable 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 2017	
	Statement of assets and liabilities	Maximum exposure
	(Rupees in '000)	
Bank balances	34,410	34,410
Investments	51,314	10,515
Dividend and Profit receivable	620	474
Deposits, prepayments and other receivables	18,643	18,643
	<u>104,987</u>	<u>64,042</u>

First Habib Islamic Income Fund

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. 40.79 million relate to investment in quoted equity securities which are not considered to carry credit risk, and therefore pertaining dividend receivable amounting to Rs. 0.146 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 balances with the banks (including profit receivable) as at 30 June 2017 are as follows:

Ratings	30 June 2017
AA	0.36%
A+	99.64%
	100%

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

Investment in debt securities

Credit risk on debt investments is mitigated by investing primarily in investment grade rated investments and purchase certificate of investments or make placements with financial institutions having sound credit rating.

Sukuk certificate of Rs.10.515 million as at 30 June 2017 has a rating of A+.

Advances, deposits and other receivables

Deposits are placed with National Clearing Company of Pakistan Limited (NCCPL) and Central Depository Company of Pakistan Limited (CDC) for the purpose of effecting transaction and settlement of listed securities. It is expected that all securities deposited with NCCPL and CDC will be clearly identified as being assets of the Fund, hence management believes that the Fund is not materially exposed to a credit risk with respect to such parties.

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 38.00% of the Funds financial assets are in quoted equity 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:

	30 June 2017
Banks	74%
Financial services	26%
	100%

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.

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

First Habib Islamic Income Fund

net asset value per unit at the time of redemption calculated in accordance with the Fund's constitutive document and guidelines laid down by Securities and Exchange Commission of Pakistan (SECP).

Management of Liquidity Risk

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

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

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

Maturity analysis of financial liabilities

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

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

	30 June 2017				
	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	105	105	105	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	16	16	16	-	-
Payable to Securities and Exchange Commission of Pakistan	51	51	-	51	-
Accrued expenses and other liabilities	550	550	341	209	-
	722	722	462	260	-

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 risks

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

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on investment in certificate of investments 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

First Habib Islamic Income Fund

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.

As at 30 June 2017, the investment in sukuk certificate exposed to interest rate risk is detailed in note 7.2.

As at 30 June 2017, details of the interest rate profile of the Fund's interest bearing financial instruments were as follows:

	30 June 2017 (Rupees in '000)
Variable rate instruments	
Bank balances	34,410
Investment in Sukuk Certificate	10,515
	<u>44,925</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 point in KIBOR on 30 June 2017, the net assets of the Fund would have been lower / higher by Rs 0.3931million 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 2017, investment in sukuk exposes the Fund to fair value interest rate risk. In case of 100 basis points increase / decrease in interest on Sukuk on 30 June 2017, the net assets of the Fund would have been lower/ higher by Rs. 0.1051 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 2017 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 2017	Mark-up / profit rate	Less than one month	One to three months	Three months to one year	One year and above	Total
(Rupees in '000)						
Assets						
Bank balances	4.0% - 5.6%	34,410	-	-		34,410
Investment	9.47%				10,515	10,515
Total assets		<u>34,410</u>	<u>-</u>	<u>-</u>	<u>10,515</u>	<u>44,925</u>

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the Fund is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange,

First Habib Islamic Income Fund

dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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 traded.
- 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).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

		Carrying amount					Fair value			
		Fair value through profit and loss	Available for sale	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
30 June 2017	<i>Note</i>	(Rupees in '000)								
Financial assets - measured at fair value										
Investments	7	51,314	-	-	-	51,314	51,314	-	-	51,314
Fair value of derivatives		383	-	-	-	383	383	-	-	383
Financial assets - not measured at fair value	24.1									
Balances with banks	6	-	-	34,410	-	34,410				
Dividend and profit receivable	8	-	-	620	-	620				
Deposits, prepayments and other receivables	10	-	-	18,643	-	18,643				
		51,697	-	53,673	-	105,370				
Financial liabilities - not measured at fair value	24.1									
Payable to the Habib Asset Management Limited - Management Company		-	-	-	93	93				
Payable to Central Depository Company of Pakistan Limited - Trustee	11	-	-	-	14	14				
Payable against Purchase of Investment		-	-	-	4,211	4,211				
Accrued expenses and other liabilities	14	-	-	-	550	550				
		-	-	-	4,868	4,868				

- 24.1** The Fund has not disclosed the fair values for these financial assets and financial liabilities, as these are either short term in nature or repriced periodically. Therefore, their carrying amounts are reasonable approximation of fair value.

25. TOTAL EXPENSE RATIO (TER)

In the current period, Securities and Exchange Commission of Pakistan (SECP) vide directive no. SCD/PRDD/Direction/18/2016 dated July 20, 2016, requires that Collective Investment Scheme (CIS) shall disclose Total Expense Ratio (TER) in the periodic financial statements of CIS / the Fund. TER of the Fund for the period ended June 30, 2017 is 0.97 % which include 0.12% representing government levy, Sindh Worker Welfare Fund and SECP fee.

26. PATTERN OF UNIT HOLDING

Unit holding pattern of the fund as at 30 June 2017 is as follows:

Category	Note	Number of unit holders	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Individuals		28	87,337	8,737	8.57%
Associated companies	26.1	2	578,809	57,903	56.80%
Chief executive	26.2	1	3,041	304	0.30%
Insurance companies		-	-	-	
Retirement funds		1	304,406	30,452	29.87%
Others		2	45,501	4,552	4.46%
		34	1,019,094	101,948	100.00%

26.1 Associated companies

	30 June 2017		
	Number of units	Investment amount (Rupees in '000)	Percentage of total investment
Habib Asset Management Limited	324,892	32,501	31.88%
Bank Al Habib	253,917	25,401	24.92%
	578,809	57,902	56.80%

26.2 Chief executive

Imran Azim	3,041	304	0.30%
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27. TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Broker name	2017 (Percentage)
Munir Khanani Securities Limited	14.41%
Pearl Securities Limited	14.25%
Asda Securities Limited	13.61%
Realiance Securities Limited	13.21%
Multiline Securities Limited	13.20%
Intermarket Securities Limited	13.14%
Vector Securities Limited	12.34%
Next Capital Limited	2.41%
Bank Islami Pakistan Limited	3.43%
	100.00%

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	61 Years
Mr. Imran Azim	Chief Executive Officer	BA, MBA	40 Years
Mr. Mansoor Ali	Director	MBA	32 Years

First Habib Islamic Income Fund

28.1 Fund Manager

Mr. Junaid Kasbati - Fund Manager

Mr. Junaid Kasbati is an MBA and possesses over nine 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 Income Fund, First Habib Islamic Stock Fund and First Habib Stock Fund.

29. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 71th and 72nd board meetings were held on 14 February 2017 and 25 April 2017 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	2	1	1	72nd meeting
Imran Azim	2	2	-	
Mansoor Ali	2	1	1	72nd meeting
Mohammad Ali Jameel	2	2	-	
Vice Admiral('R) Khalid M Mir	2	2	-	
Liaquat Habib Merchant	2	-	2	71th & 72nd meeting
Sajjad Hussain	2	2	-	

30. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the Management Company on 07 September 2017.

31. GENERAL

31.1 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 2017

FUND OBJECTIVE

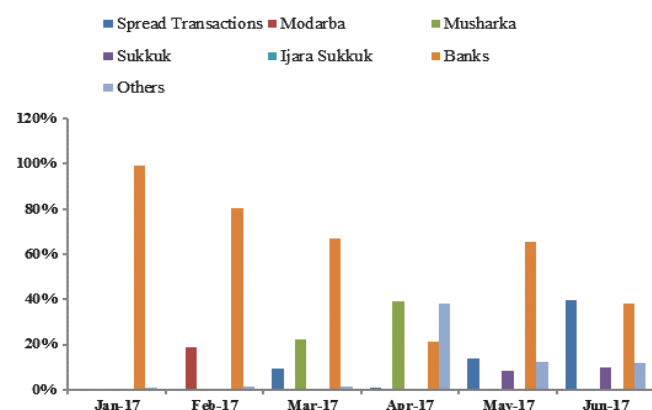
To provide competitive risk adjusted returns to its investors by investing in a diversified portfolio of long, medium and short term Sharia Compliant debt instruments while taking into account liquidity considerations.

FUND DESCRIPTION

Fund Type Category	Open end - Sharia Compliant Income Scheme	Auditors External	KPMG Taseer Hadi & Co., Chartered Accountants
Launch Date	January 23, 2017	Management Fee	10% of gross earnings of the Fund (Min 1% p.a. & max 1.50% p.a.)
Benchmark	2.22% <i>Average of six months profit rate of 3 scheduled Islamic banks / Islamic windows of conventional banks having long term rating of 'A' or higher</i>	Sales Load	1% front-end-load
FHIF Return	3.30% p.a	Minimum Subscription	Initial Investment of Rs. 1000/- Subsequently Rs. 100 per transaction
Net Assets	Rs. 101.94 million (June 30, 2017)	Dealing Days/Timings	Monday to Friday/ 9:00 am to 04:30 pm
NAV per Unit	100.0374 per unit (June 30, 2017)	Fund Stability Rating	Not Rated
Pricing Mechanism	Forward Pricing	AMC Rating	"AM3+" by PACRA
Trustee	Central Depository Company of Pakistan Ltd.		

Market and Fund Performance Review

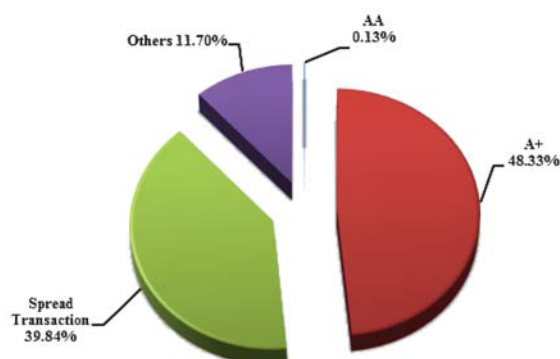
The National Economy made significant improvements for the Financial Year 2017 (FY2017) and the average annual CPI Inflation increased by 4.15% compared to 2.86% for the financial year 2016. GDP grew by 5.3% during FY2017 against 4.7% of last year. Policy rate was maintained at 5.75% by State Bank of Pakistan (SBP). The Islamic money market front, Ijarah XV matured on June 25, 2017. To prevent the Islamic market going into excess liquidity crisis, Government of Pakistan issued a Rs. 71 billion worth of fixed rate Ijara Sukuk at a rate of 5.24% against M1 Motorway as the underlying Asset.



The allocation of the fund was based to achieve a moderate return above its benchmark. As of June 30, 2017, the major portion i.e. 39.84% was invested in Spread Transactions, whereas 38.38% was available as cash in banks, and 10.09% was Sukkuk. Here through spread transaction we manage to achieve a return above banks rates.

The Fund generated a return of 3.30% p.a. for the financial year 2017. The weighted average time to maturity of net assets at the yearend stood at 139.60 days.

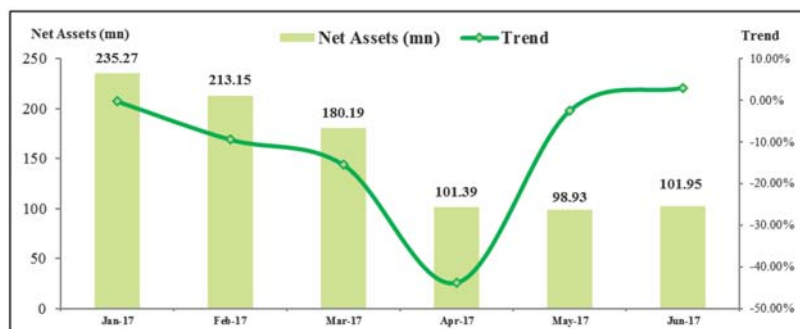
Asset Quality as on June 30, 2017



First Habib Islamic Income Fund

Fund Size

The net assets of FHIIF were recorded at Rs. 101 million as at June 30, 2017.



Income Distribution

FHIIF distributed an amount of Rs.1.40 per unit as dividend for the year Financial Year ended June 30, 2017, as detailed below:

2016-2017	Cum NAV Rs.	EX-NAV Rs.	Distribution Rs.
July-June	101.3643	99.9643	1.40

Sales and Redemptions of Units

During the period 2,844,666 units of the value of Rs. 285.057 million were sold while, 1,825,572 units of the value of Rs. 184.063 million were redeemed resulting in to a net sales of 1,019,094 units of the value of Rs. 100.994 million during the year.

Unit Holder Pattern

For the breakdown of unit holding by size as on June 30, 2017, please refer to note 26 to the Annual Accounts.

Responsibilities towards Corporate Governance and Proxy Voting as per Regulation 38A

Habib Asset Management Limited (HAML) on behalf of First Habib Islamic Income Fund (FHIIF) a collective investment scheme (CIS) under its management did not participate in shareholders' meetings. Further, the proxy voting policy of the FHIIF is available on the website of the HAML and detailed information regarding actual proxies voted by the HAML (if any) in respect of the CIS is also available without charge, upon request, to all unit holders.

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