

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



## Half Yearly Report

December 31, 2011



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

**First Habib Income Fund**  
**Half Yearly Report**  
December 2011

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**FUND'S INFORMATION**

**Management Company**

Habib Asset Management Limited

**Board of Directors of the Management Company**

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

**CFO and Company Secretary**

Mr. Muhammad Shakeel Musani	Chief Financial Officer / Company Secretary
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**Audit Committee**

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

**Auditors**

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

**Internal Auditors**

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

**Trustee**

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

**Registrar**

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

**Bankers to the Fund**

Bank AL Habib Limited  
Bank Alfalah Limited  
Habib Metropolitan Bank Limited

**Legal Advisor**

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

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

## DIRECTORS' REPORT

The Board of Directors' of Habib Asset Management Limited is pleased to present the condensed interim financial statements of First Habib Income Fund (FHIF), for the half year ended December 31, 2011.

### MARKET REVIEW

The high inflation of 13.90% in the middle of 2011 came down to 9.70% in December 2011 mainly due to changes made in CPI basket and changing the benchmark from 2001 to 2008. Accordingly, the State Bank of Pakistan (SBP) cut the discount rate by 150 bps in October to 12.00%, so the overall reduction in the discount rate during the last six month was 2.00%. The reduction in discount rate reduced cutoffs between 1.62% to 2.01% for 3 to 12 months T-Bills.

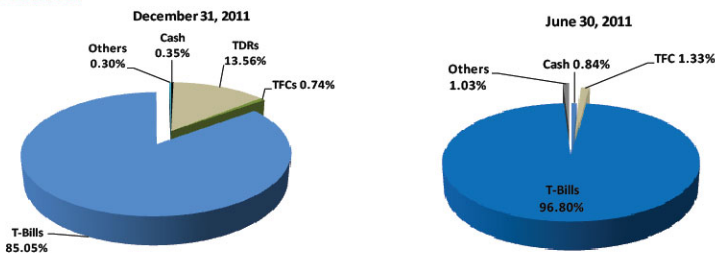
### FUND'S PERFORMANCE

The net assets of the fund stood at Rs. 1,461 million as on December 31, 2011 against Rs. 1,251 million on June 30, 2011. As on December 31, 2011, 85.05% of the net assets were invested in government securities whereas 13.86% were placed with banks in short term deposits. The fund earned gross income of Rs.92.16 million with an annualized return of 10.83% p.a. during the half year ended December 31, 2011.

### DIVIDEND DISTRIBUTION

The Board of Directors has approved second interim dividend of Rs.2.70 per Unit for unit holders having 'C' class of Units, while other unit holders will get 2.6910 bonus units for every 100 Units held by them.

### ASSET ALLOCATION



### FUTURE OUTLOOK

The current political uncertainty will hopefully end with the Senate elections scheduled to be held in March 2012 bringing stability in the capital market. For the time being the discount rate is expected to be maintained at 12.00%.

### ACKNOWLEDGMENT

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

On behalf of the Board of Directors  
Habib Asset Management Limited

January 10, 2012  
Karachi

Ali Raza D. Habib  
Chairman

**TRUSTEE REPORT TO THE UNIT HOLDERS**

**Report of the Trustee pursuant to Regulation 41(h) 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 six months period ended December 31, 2011 in accordance with the provisions of the following:

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

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

February 14, 2012  
Karachi

**INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED  
INTERIM FINANCIAL INFORMATION TO THE UNIT HOLDERS**

**INTRODUCTION**

We have reviewed the accompanying condensed interim statement of assets and liabilities of **FIRST HABIB INCOME FUND** (the Fund) as at 31 December 2011, and the related condensed interim income statement, condensed interim statement of comprehensive income, condensed interim distribution statement, condensed interim cash flow statement and condensed interim statement of movement in unit holders' funds together with the notes forming part thereof (here-in-after referred to as the "interim financial information") for the six months period then ended. Management Company (Habib Asset Management Limited) is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

**SCOPE OF REVIEW**

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

**OTHER MATTERS**

The financial statements of the Fund for the year ended 30 June 2011 and for the six months ended 31 December 2010 were audited and reviewed by another firm of Chartered Accountants, whose audit report dated 6 October 2011 and review report dated 18 February 2011 expressed an unmodified opinion and unmodified conclusion on those statements respectively.

The figures for the quarters ended 31 December 2011 and 31 December 2010 in the interim financial information have not been reviewed and we do not express a conclusion on them.

January 09, 2012

Karachi

**Audit Engagement Partner**  
Chartered Accountants  
Omer Chughtai

**CONDENSED INTERIM STATEMENT OF ASSET AND LIABILITIES  
AS AT 31 DECEMBER 2011**

		(Unaudited)	(Audited)
Note	31 December	30 June	2011
		----- (Rupees in '000) -----	
<b>Assets</b>			
Bank balances	7	205,287	10,598
Investments	8	1,265,817	1,250,752
Income receivable	9	1,286	334
Deposits and prepayments	10	2,620	2,600
Preliminary expenses and floatation costs		217	481
<b>Total assets</b>		<b>1,475,227</b>	<b>1,264,765</b>
<b>Liabilities</b>			
Payable to the Habib Asset Management Limited - Management Company		2,154	1,713
Payable to Central Depository Company of Pakistan Limited - Trustee		178	168
Payable to Securities and Exchange Commission of Pakistan Workers' Welfare Fund	11	522	1,303
Accrued expenses and other liabilities		10,839	9,246
<b>Total liabilities</b>		<b>875</b>	<b>872</b>
<b>Net assets</b>		<b>14,568</b>	<b>13,302</b>
<b>Net assets</b>		<b>1,460,659</b>	<b>1,251,463</b>
<b>Unit holders' funds (as per the statement attached)</b>		<b>1,460,659</b>	<b>1,251,463</b>
<b>(Number of Units)</b>			
<b>Number of units in issue</b>		<b>14,212,624</b>	<b>12,141,891</b>
<b>(Rupees)</b>			
<b>Net asset value per unit</b>		<b>102.77</b>	<b>103.07</b>

The annexed notes 1 to 17 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director



# First Habib Income Fund

## CONDENSED INTERIM INCOME STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED 31 DECEMBER 2011

Note	Six months ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
----- (Rupees in '000) -----				
<b>Income</b>				
Profit on bank deposits	1,769	7,446	1,502	4,771
Income from term finance certificates	2,051	19,329	840	7,399
Income from certificate of investments	-	49	-	-
Income on government securities	87,529	92,196	43,693	49,940
Income from placements	298	489	160	89
Net gain / loss on investments designated at fair value through income statement				
-Net capital gain / (loss) on sale of investments classified as held for trading	826	(1,437)	522	(147)
-Net unrealized loss on revaluation of investments classified as held for trading	(312)	(5,141)	(314)	(1,590)
	514	(6,578)	208	(1,737)
<b>Total income</b>	<b>92,161</b>	<b>112,931</b>	<b>46,403</b>	<b>60,462</b>
<b>Expenses</b>				
Remuneration of Habib Asset Management Limited - Management Company	10,448	13,965	5,405	7,332
Sales tax on management fee	1,672	-	865	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee	1,019	1,435	520	741
Annual fee - Securities and Exchange Commission of Pakistan	522	698	270	367
Brokerage	100	260	79	167
Settlement and bank charges	93	188	39	97
Annual listing fee	20	20	10	10
Auditors' remuneration	177	174	87	88
Amortisation of preliminary expenses and floatation costs	264	264	132	132
Workers' Welfare Fund	1,593	1,694	903	838
Mutual fund rating fee	88	88	44	44
Legal expense	-	63	-	-
Printing charges	67	59	37	5
Provision against debt securities	2,826	4,878	2,687	1,909
<b>Total expenses</b>	<b>18,889</b>	<b>23,786</b>	<b>11,078</b>	<b>11,730</b>
	73,272	89,145	35,325	48,732
Element of income / (loss) and capital gain / (loss) included in prices of units issued less those in units redeemed - net	4,626	(6,136)	8,748	(7,672)
<b>Net income for the period</b>	<b>77,898</b>	<b>83,009</b>	<b>44,073</b>	<b>41,060</b>

The annexed notes 1 to 17 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED 31 DECEMBER 2011**

	Six months ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
	----- (Rupees in '000) -----			
Net income for the period	77,898	83,009	44,073	41,060
Other comprehensive income for the period	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>77,898</b>	<b>83,009</b>	<b>44,073</b>	<b>41,060</b>

The annexed notes 1 to 17 form an integral part of these condensed interim financial statements.

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

**Chief Executive**

**Director**

## First Habib Income Fund

### CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED 31 DECEMBER 2011

	Six months ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
	----- (Rupees in '000) -----			
<b>Undistributed income brought forward</b>	<b>37,267</b>	<b>41,856</b>	<b>34,672</b>	<b>42,465</b>
Final cash dividend for class 'C' unit holders @ Rs. 2.50/- per unit and bonus units @ 2.4993/- for class 'A' and 'B' unit holders for every 100 units held at 30 June 2010	-	(41,340)	-	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.25/- per unit and bonus units @ 2.2457/- for class 'A' and 'B' unit holders for every 100 units held as at 06 October 2010	-	(40,366)	-	(40,366)
Final cash dividend for class 'C' unit holders @ Rs. 3.00/- per unit and bonus units @ 2.9979/- for class 'A' and 'B' unit holders for ever 100 units held as at 30 June 2011	(36,420)	-	-	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.70/- per unit bonus units @ 2.6876/- for class 'A' and 'B' unit holders for every 100 units held as at 06 October 2011	(39,494)	-	(39,494)	-
Net income for the period	<u>77,898</u>	<u>83,009</u>	<u>44,073</u>	<u>41,060</u>
<b>Undistributed income carried forward</b>	<b><u>39,251</u></b>	<b><u>43,159</u></b>	<b><u>39,251</u></b>	<b><u>43,159</u></b>

The annexed notes 1 to 17 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

CONDENSED INTERIM STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED 31 DECEMBER 2011

	Six months ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
----- (Rupees in '000) -----				
<b>Net assets at the beginning of the period</b>	1,251,463	1,695,463	1,207,073	1,835,097
Amount received on sale of units	537,262	765,211	359,415	455,750
Amount paid on redemption of units	(364,648)	(846,397)	(123,995)	(657,672)
	172,614	(81,186)	235,420	(201,922)
Element of loss / (income) and capital loss / (gain) included in prices of units issued less those in units redeemed	(4,626)	6,136	(8,748)	7,672
Final cash dividend for class 'C' unit holders @ Rs. 2.50/- per unit	-	(21,515)	-	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.25/- per unit	-	(18,992)	-	(18,992)
Final cash dividend for class 'C' unit holders @ Rs. 3.00/- per unit	(19,531)	-	-	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.70/- per unit	(17,159)	-	(17,159)	-
Net income for the period	77,898	83,009	44,073	41,060
<b>Net assets at the end of the period</b>	<b>1,460,659</b>	<b>1,662,915</b>	<b>1,460,659</b>	<b>1,662,915</b>
----- (Number of Units) -----				
Units at the beginning of the period	12,141,891	16,536,076	11,724,298	17,926,326
Number of units issued	5,259,506	7,555,230	3,492,264	4,500,365
Number of units redeemed	(3,579,935)	(8,305,274)	(1,226,270)	(6,442,463)
	1,679,571	(750,044)	2,265,994	(1,942,098)
<i>Issue of bonus units:</i>				
Final bonus units distribution @ 2.4993/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2010	-	198,196	-	-
Interim bonus units distribution @ 2.2457/- for class 'A' and 'B' unit holders for every 100 units held as at 06 October 2010	-	213,325	-	213,325
Issue of bonus units on 4 July 2011 @ 2.9979 units for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2011	168,830	-	-	-
Interim bonus units distribution @ 2.6876/- for class 'A' and 'B' unit holders for every 100 units held as at 06 October 2011	222,332	-	222,332	-
<b>Units at the end of the period</b>	<b>14,212,624</b>	<b>16,197,553</b>	<b>14,212,624</b>	<b>16,197,553</b>

The annexed notes 1 to 17 form an integral part of these condensed interim financial statements.

For Habib Asset Management Limited  
(Management Company)

Chief Executive

Director

# First Habib Income Fund

## CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE HALF YEAR AND QUARTER ENDED 31 DECEMBER 2011

	Six months ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
----- (Rupees in '000) -----				
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Net income for the period	77,898	83,009	44,073	41,060
<b>Adjustments for non-cash items</b>				
Unrealised loss on revaluation of investments at fair value through profit or loss - net	312	5,141	314	1,590
Workers' Welfare Fund	1,593	1,694	903	838
Net element of loss / (income) and capital loss / (gain) included in prices of units issued less those in units redeemed	(4,626)	6,136	(8,748)	7,672
Provision against debt securities	2,826	4,878	2,687	1,909
Amortisation of preliminary expenses and floatation costs	264	264	132	132
	<u>78,267</u>	<u>101,122</u>	<u>39,361</u>	<u>53,201</u>
<b>(Increase) / decrease in assets</b>				
Term deposit receipt	-	100,000	-	-
Placements	-	-	8,000	-
Investments	(18,203)	139,507	(60,650)	391,914
Certificates of investment and deposit	-	3,375	-	-
Income receivable	(952)	15,469	(1,218)	2,429
Advances, deposits, prepayments and other receivables	(20)	(20)	10	10
	<u>(19,175)</u>	<u>258,331</u>	<u>(53,858)</u>	<u>394,353</u>
<b>Increase / (decrease) in liabilities</b>				
Payable to Habib Asset Management Limited - Management Company	441	197	235	194
Payable to Central Depository Company of Pakistan Limited - Trustee	10	16	14	17
Payable to Securities and Exchange Commission of Pakistan	(781)	(710)	270	366
Payable on redemption of units	-	(56,668)	-	-
Accrued expenses and other liabilities	3	23	(135)	(130)
	<u>(327)</u>	<u>(57,142)</u>	<u>384</u>	<u>447</u>
<b>Net cash flow from / (used in) operating activities</b>	<b>58,765</b>	<b>302,311</b>	<b>(14,113)</b>	<b>448,001</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Net receipts / (payments) from sale and redemption of units	172,614	(81,186)	235,420	(201,922)
Dividend paid during the period	(36,690)	(40,507)	(17,159)	(18,992)
Net cash flow from/ (used in) financing activities	135,924	(121,693)	218,261	(220,914)
Net increase in cash and cash equivalents during the period	194,689	180,618	204,148	227,087
Cash and cash equivalents at beginning of the period	10,598	64,847	1,139	18,378
Cash and cash equivalents at end of the period	<u>205,287</u>	<u>245,465</u>	<u>205,287</u>	<u>245,465</u>
<b>Cash and cash equivalents at the end of the period comprise of :</b>				
Cash and cash equivalents at end of the period	5,287	20,465	5,287	20,465
Term deposit receipts maturity of 3 months and less	200,000	225,000	200,000	225,000
	<u>205,287</u>	<u>245,465</u>	<u>205,287</u>	<u>245,465</u>

The annexed notes 1 to 17 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE HALF YEAR AND QUARTER ENDED 31 DECEMBER 2011**

**1. LEGAL STATUS AND NATURE OF BUSINESS**

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

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

The Fund is an open-end mutual fund and is listed on the Lahore Stock Exchange. Units are offered for public subscription on a continuous basis. 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.

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 to the assets of the Fund are held in the name of Central Depository Company Limited (CDC) as a trustee of the Fund.

**2. BASIS OF PRESENTATION**

- 2.1 These condensed interim financial statements have been prepared in accordance with International Accounting Standard - 34 "Interim Financial Reporting" as applicable in Pakistan, the Trust Deed, the NBFC Rules, Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by SECP. In case where the requirements differ, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.
- 2.2 These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the financial statements of the Fund for the year ended June 30, 2011
- 2.3 The condensed interim financial statements are unaudited but subject to limited scope review by the auditors.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted for the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the financial statements of the Fund for the year ended June 30, 2011, except for the following amended IFRS and IFRIC interpretation which became effective during the period:

- IFRS 7 – Financial Instruments : Disclosures - Amendments enhancing disclosures about transfers of financial assets
- IAS 24 – Related Party Disclosure (Revised)

Improvements to various standards issued by IASB in 2010

IFRS 7 – Financial Instrument Disclosures  
IAS 1 – Presentation of Financial Statements  
IFRIC 13 – Customer Loyalty Programmes

The adoption of the above standards, amendments / improvements and interpretations does not have any effect on the financial statements.

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of condensed interim financial information in conformity with approved accounting standards, as applicable in Pakistan, requires the Management Company to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual result may differ from these estimates.

The significant judgments made by the Management Company in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to financial statements as at and for the year ended 30 June 2011 except as mentioned in Note 5.

#### 5. ELEMENT OF INCOME / (LOSS) AND CAPITAL GAIN / (LOSS) INCLUDED IN PRICES OF UNITS SOLD LESS THOSE IN UNITS REDEEMED

To prevent the dilution of per unit income and distribution of income already paid out on redemption as dividend, an equalization account called “element of income / (loss) and capital gain / (loss) in prices of units sold less those in units redeemed” is created.

The “element of income / (loss) and capital gain / (loss) in prices of units sold less those in units redeemed” account is credited with the amount representing net income and capital gain accounted for in the announced net asset value and included in the sale proceeds of units. Upon redemption of units, the “element of income / (loss) and capital gain / (loss) in prices of units sold less those in units redeemed” account is debited with the amount representing net income and capital gain accounted for in the last announced net asset value and included in the redemption price.

During the period, the Fund has revised its methodology for recognition of element of income / (loss) and capital gain / (loss) included in the prices of units sold less in those in the units redeemed in the financial statements. As per the revised methodology, element of income / (loss) and capital gain / (loss) included in the prices of units sold less those in units redeemed is recognised in the income statement to the extent it is represented by increase in net income and capital gains earned during the period. Previously, the element of income / (loss) and capital gain / (loss) included in the prices of units sold less those in the units redeemed represented by net income and capital gain carried forward from previous period was also recognised in the income statement. The effect of revision in the methodology has been incorporated in the current period.

Had the methodology not been changed, net income and total comprehensive income for the period would have been higher by Rs. 145,051/-. However, the change has no effect on the net assets of the Fund.

#### 6. FINANCIAL RISK MANAGEMENT

The Fund's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 30 June 2011.

## First Habib Income Fund

### 7. BANK BALANCES

	(Unaudited)	(Audited)
	31 December	30 June
	2011	2011
	----- (Rupees in '000) -----	
Savings accounts	7.1	10,598
Term deposit receipts	7.2	-
	<u>200,000</u>	<u>-</u>
	<u>205,287</u>	<u>10,598</u>

7.1 Savings accounts carry profit rates ranging between 5% to 11% (30 June 2011: 5% to 11%) per annum.

7.2 Term deposit receipts (TDRs) have tenor of one and three months (30 June 2011: nil) and carry profit rate of 12% (30 June 2011: nil) per annum. These TDRs will mature up to 13 January 2012 and 13 March 2012.

### 8. INVESTMENTS

#### At fair value through profit or loss - held for trading

Term Finance Certificates	8.3	30,352		33,540
Provision	8.3.1	<u>(19,361)</u>		<u>(16,535)</u>
		10,991		17,005
 Government securities	 8.4	 <u>1,254,826</u>		 <u>1,233,747</u>
		<u>1,265,817</u>		<u>1,250,752</u>

8.1 Circular No. 16 dated 07 July 2010 issued by the SECP requires details of investments not compliant with the investment criteria specified for the category assigned to open-end collective investment schemes or the investment requirements of the constitutive documents of the Fund to be disclosed in the annual accounts of the Fund. The table below gives the details of such non-compliant investments.

Name of Non-Compliant Investment	Type of Investment	Value of investment before provision	Provision held, if any	Value of investment after provisioning	% of Gross Assets	% of Net Assets
Saudi Pak Leasing Company Limited-III issue	Term Finance Certificate	13,609	(2,618)	10,991	0.75%	0.75%
Gharibwal Cement Limited	Term Finance Certificate	16,743	(16,743)	-	-	-

### 8.2 Net unrealised (diminution) / appreciation in fair value of investments classified as 'fair value through profit or loss' - held for trading

	(Unaudited)	(Audited)
	31 December	30 June
	2011	2011
	----- (Rupees in '000) -----	
Fixed income and debt securities - Term Finance Certificates	(1,038)	(6,497)
Government Securities	726	(660)
	<u>(312)</u>	<u>(7,157)</u>



## 8.3 Term Finance Certificates

Name of the investee company	Status	Number of certificates			As at 31 December 2011		Market value as a percentage of net assets (%)	Market value as a percentage of total investments (%)
		As at 1 July 2011	Acquired during the period	Sold/Redeemed during the period	As at 31 December 2011	Carrying value		
Held for trading		(Rupees in '000)						
IGI Investment Bank Limited	Listed	5,379	-	5,379	-	-	-	-
Gharibwal Cement Limited	Unlisted	4,450	-	-	4,450	17,149	16,743	1.15
Saudi Pak Leasing Company Limited - III	Listed	5,999	-	-	5,999	14,241	13,609	0.93
Total as at 31 December 2011						<u>31,390</u>	<u>30,352</u>	
Total as at 30 June 2011						<u>40,037</u>	<u>33,540</u>	

8.3.1 Provision	(Unaudited) (Audited)	
	31 December 2011	30 June 2011
----- (Rupees in '000) -----		
Opening balance	16,535	12,719
Provision for the period /year	8.3.1.1 2,826	3,816
Reversal of provision during the period /year	-	-
Closing balance	<u>19,361</u>	<u>16,535</u>

8.3.1.1 This represents specific provision made against Gharibwal Cement Limited and Saudi Pak Leasing Company Limited in accordance with Circular No.1 of 2009 dated 6 January 2009 and the provisioning policy of the Fund approved by the Board of Directors of the Management Company.

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

8.3.3 Significant terms and conditions of Term Finance Certificates outstanding as at period ended 31 December 2011.

Name of the investee company	Note	Remaining principal (per TFC) as at 31 December	Start date	Maturity	Credit rating	Mark-up Rate (Per annum)	Secured / Unsecured
Term Finance Certificates - Held for trading							
Gharibwal Cement Limited	8.3.3.1	4,871.10	18-Jan-08	30-Sep-16	Non performing	3 Months KIBOR	Secured
Saudi Pak Leasing Company Limited - III	8.3.3.2	3,435.33	13-Mar-08	13-Mar-17	Non performing	Fixed 6 %	Secured

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

These TFCs were classified as non-performing from 2 August 2009 by the Fund as the borrower could not pay the scheduled installments since 18 July 2009. The TFCs were restructured on 28 December 2010 on the following terms:

- Tenor for repayment extended to 30 September 2016 from 18 January 2013 i.e. by four years.
- The principal will be repaid as follows:

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

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

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

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

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

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

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

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

- Tenor for repayment extended to March 2017 from March 2013 i.e. by four years.
- Principal Repayment of PKR 0.131 million per month for the first 12 months including the month of September 2010. Thereafter, residual principal amount will be repaid in 67 monthly installments of Rs. 0.312 million each.
- Mark-up will be paid on following rates:  
First 24 months @ 6% p.a (3% cash & 3% accrual).  
25th month-48th month @ 8% (4% cash & 4% accrual).  
49th month-78th month @ 1 month KIBOR (offer side) on cash basis.
- Accrued mark-up as of 13 September 2010 will be paid in forty eight equal monthly installments starting from 13 October 2010 and the mark-up for the said forty eight months will be paid in four equal annual installments starting from September 2014.
- However, despite of restructuring, the company was unable to pay the installments due on 13th of October, November and December, 2011 amounting to Rs. 936,744/-. A provision of Rs. 2.618 million has been made against these TFCs in accordance with the provisioning policy of the Fund and Circular 1 of 2009 dated 06 January, 2009.

**8.4 Government Securities - Treasury Bills**

Issue date	Tenor	Face Value			As at 31 December 2011			Market value as a percentage of net assets (%)	Market value as a percentage of total investments (%)	
		As at 01 July 2011	Purchases during the period	Sales / Matured during the period	As at 31 December 2011	Carrying value	Market value			Appreciation / (diminution)
(Rupees in '000)										
10-Feb-2011	1 Year	-	100,000	-	100,000	98,767	98,743	(24)	6.76	7.80
2-Jun-2011	1 Year	35,000	15,000	15,000	35,000	33,204	33,347	143	2.28	2.63
25-Aug-2011	1 Year	-	50,000	-	50,000	46,210	46,403	193	3.18	3.67
8-Sep-2011	1 Year	-	40,000	-	40,000	36,782	36,964	182	2.53	2.92
22-Sep-2011	1 Year	-	50,000	-	50,000	45,773	46,009	236	3.15	3.63
27-Jan-2011	6 Months	30,000	-	30,000	-	-	-	-	-	-
10-Feb-2011	6 Months	218,000	-	218,000	-	-	-	-	-	-
24-Feb-2011	6 Months	30,000	-	30,000	-	-	-	-	-	-
24-Mar-2011	6 Months	50,000	-	50,000	-	-	-	-	-	-
7-Apr-2011	6 Months	80,000	-	80,000	-	-	-	-	-	-
21-Apr-2011	6 Months	100,000	-	100,000	-	-	-	-	-	-
5-May-2011	6 Months	70,000	-	70,000	-	-	-	-	-	-
19-May-2011	6 Months	50,000	-	50,000	-	-	-	-	-	-
2-Jun-2011	6 Months	50,000	30,000	80,000	-	-	-	-	-	-
16-Jun-2011	6 Months	140,000	60,000	200,000	-	-	-	-	-	-
30-Jun-2011	6 Months	60,000	-	60,000	-	-	-	-	-	-
14-Jul-2011	6 Months	-	90,000	-	90,000	89,651	89,679	28	6.14	7.08
28-Jul-2011	6 Months	-	155,000	-	155,000	153,760	153,748	(12)	10.53	12.15
11-Aug-2011	6 Months	-	282,000	200,000	82,000	80,937	80,970	33	5.54	6.40
25-Aug-2011	6 Months	-	75,000	-	75,000	73,644	73,725	81	5.05	5.82
8-Sep-2011	6 Months	-	125,000	-	125,000	122,190	122,326	136	8.37	9.66
6-Oct-2011	6 Months	-	160,000	-	160,000	155,063	155,174	111	10.62	12.26
20-Oct-2011	6 Months	-	125,000	-	125,000	120,808	120,693	(115)	8.26	9.53
3-Nov-2011	6 Months	-	205,000	-	205,000	197,311	197,045	(266)	13.49	15.57
25-Aug-2011	3 Months	-	75,000	75,000	-	-	-	-	-	-
21-Apr-2011	3 Months	-	90,000	90,000	-	-	-	-	-	-
19-May-2011	3 Months	50,000	-	50,000	-	-	-	-	-	-
2-Jun-2011	3 Months	200,000	-	200,000	-	-	-	-	-	-
16-Jun-2011	3 Months	115,000	-	115,000	-	-	-	-	-	-
11-Aug-2011	3 Months	-	140,000	140,000	-	-	-	-	-	-
<b>Total as at 31 December 2011</b>						<b>1,254,100</b>	<b>1,254,826</b>	<b>726</b>		
<b>Total as at 30 June 2011</b>						<b>1,234,407</b>	<b>1,233,747</b>	<b>(660)</b>		

**9. INCOME RECEIVABLE**

(Unaudited) (Audited)

31 December 2011 30 June 2011

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

Profit receivable on Term Finance Certificates  
Profit receivable on Bank Deposits

	-	253
	<b>1,286</b>	<b>81</b>
	<b>1,286</b>	<b>334</b>

## First Habib Income Fund

10. DEPOSITS AND PREPAYMENTS		(Unaudited)	(Audited)
		31 December 2011	30 June 2011
		----- (Rupees in '000) -----	
Deposit with National Clearing Company of Pakistan Limited	10.1	2,500	2,500
Deposit with Central Depository Company of Pakistan Limited	10.1	100	100
Prepayments	10.1	20	-
		<u>2,620</u>	<u>2,600</u>

10.1 These deposits are non remunerative.

### 11. WORKERS' WELFARE FUND

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

During the last year, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. This clarification was forwarded by Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) vide its letter dated October 06, 2010 to its members for necessary action. Based on this clarification, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. However, the FBR vide its letter dated January 04, 2011 have cancelled its earlier letter dated October 06, 2010 ab initio and issued show cause notices to certain mutual funds for collecting WWF. In respect of such show cause notices, certain mutual funds have been granted stay by Honorable High Court of Sindh on the basis of the pending constitutional petition in the said court as referred above.

During the period, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC will lend further support to the Constitutional Petition which is pending in the SHC.

However, keeping in view the uncertainty on the applicability of WWF to mutual fund, the management company as a matter of prudence has decided to continue to maintain the provision for WWF amounting to Rs. 10.839 million (30 June 2011 : Rs. 9.246 million) upto 31 December 2011.

### 12. EARNINGS PER UNIT

Earnings per unit (EPU) for the six months period ended 31 December 2011, has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

### 13. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule of the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders. Furthermore, 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 other than unrealized capital gains to the unit holders. The management intends to distribute at least 90% of the income earned by the year end by this Fund to the unit holders. Accordingly, no provision has been made in these condensed interim financial statements.

**14. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Fund's accounting policy on fair value measurements is disclosed in the financial statements for the year ended June 30, 2011.

**Fair value hierarchy**

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

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

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

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

As at 31 December 2011, the categorisation of investments is shown below:

	Level 1	Level 2	Level 3	Total
	(Rupees)			
Term finance certificates	-	-	10,991	10,991
Government securities	-	1,254,826	-	1,254,826
	-	1,254,826	10,991	1,265,817

The table below shows the reconciliation of all movements in the fair value of all financial instruments categorized within Level 3 between the beginning and end of the period.

	31 December 2011 (Rupees in '000)
<b>Opening balance</b>	17,005
Amortisation of discount / premium for the year - net	1,170
Revaluation gain / (loss) for the year	(632)
Purchase during the year (at cost)	-
Redemption during the year	(3,934)
Sale during the year	-
Provision made during the year	(2,618)
<b>Closing balance</b>	10,991

As at 30 June 2011, the categorisation of investments is shown below:

	Level 1	Level 2	Level 3	Total
	(Rupees)			
Term finance certificates	-	-	17,005	17,005
Government securities	-	1,233,747	-	1,233,747
	-	1,233,747	17,005	1,250,752

The table below shows the reconciliation of all movements in the fair value of all financial instruments categorized within Level 3 between the beginning and end of the year.

	30 June 2011 (Rupees in '000)
<b>Opening balance</b>	209,790
Amortisation of discount / premium for the year - net	6,949
Revaluation gain / (loss) for the year	(6,497)
Purchase during the year (at cost)	19,645
Redemption during the year	(20,032)
Sale during the year	(189,034)
Provision made during the year	(3,816)
<b>Closing balance</b>	17,005

## First Habib Income Fund

### 15. TRANSACTIONS WITH CONNECTED PERSONS

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

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

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

Details of the transactions with connected persons are as follows:

	Six months ended 31 December		Quarter ended 31 December	
	2011	2010	2011	2010
----- (Rupees in '000) -----				
<b>Habib Asset Management Limited - Management Company</b>				
Management fee	10,448	13,965	5,405	7,332
Term Finance Certificates sold	-	24,154	-	24,154
<b>First Habib Stock Fund - Associated Undertaking</b>				
Government security sold	-	19,960	-	-
<b>Central Depository Company of Pakistan Limited - Trustee</b>				
Remuneration	1,019	1,435	520	741

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

	(Unaudited) 31 December 2011	(Audited) 30 June 2011
	----- (Rupees in '000) -----	
<b>Habib Asset Management Limited - Management Company</b>		
Management fee payable	2,154	1,713
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	178	168

**15.1 Sale / Redemption of units for the period ended 31 December**

	Six months ended 31 December 2011		Six months ended 31 December 2010	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
<b>Units sold to:</b>				
<b>Management Company</b>				
Habib Asset Management Limited	80,053	8,100	39,205	4,000
<b>Associated Companies</b>				
Habib Insurance Company Limited	-	-	1,859,842	189,000
<b>Other related parties</b>				
Directors of the Management Company	1,480	150	1,954	200
Habib Asset Management Limited - Employees Provident Fund	-	-	2,898	293
<b>Bonus Units Issued:</b>				
<b>Management Company</b>				
Habib Asset Management Limited	11,214	1,125	36,300	3,634
<b>Associated Companies</b>				
Habib Insurance Company Limited	-	-	10,974	1,100
<b>Other related parties</b>				
Directors of the Management Company	561	56	1,030	103
Executives of the Management Company	150	15	181	18
Habib Insurance Company Limited				
Employees Provident Fund	3,638	365	2,745	275
Habib Asset Management Limited - Employees Provident Fund	358	36	207	21
Mrs. Shama Sajjad Habib	8,123	815	6,129	613
Mr. Salman Hussain D Habib	86	8	65	6
Mr. Imran Ali Habib	116	12	431	43
Mr. Murtaza Habib	612	62	462	46
Mr. Asghar D Habib	118	12	461	46
Mr. Qumail Habib	611	61	461	46
Mr. Abas D Habib	611	61	461	46
Mr. Ali Asad Habib	549	55	414	42
Mrs. Razia Ali Habib	385	39	291	29
<b>Units redeemed by:</b>				
<b>Management Company</b>				
Habib Asset Management Limited	94,284	9,610	327,370	33,500
<b>Associated Companies</b>				
Habib Insurance Company Limited	148,682	15,000	1,037,552	105,150
<b>Other related parties</b>				
Directors of the Management Company	9,977	1,000	-	-
Habib Asset Management Limited - Employees Provident Fund	1,328	135	308	31
<b>Units held by:</b>				
<b>Management Company</b>				
Habib Asset Management Limited	188,628	19,386	509,335	52,288
<b>Associated Companies</b>				
Bank AL Habib Limited	5,266,182	541,215	5,744,925	589,774
Habib Insurance Company Limited	79,253	8,145	833,265	85,543

## First Habib Income Fund

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### Other related parties

Directors of the Management Company	<u>6,434</u>	<u>661</u>	<u>23,517</u>	<u>2,414</u>
Executives of the Management Company	<u>2,743</u>	<u>282</u>	<u>3,209</u>	<u>329</u>
Habib Insurance Company Limited				
Employees Provident Fund	<u>66,739</u>	<u>6,859</u>	<u>59,925</u>	<u>6,152</u>
Habib Asset Management Limited -				
Employees Provident Fund	<u>5,737</u>	<u>590</u>	<u>6,788</u>	<u>697</u>
Mrs. Shama Sajjad Habib	<u>148,989</u>	<u>15,312</u>	<u>133,776</u>	<u>13,733</u>
Mr. Salman Hussain D Habib	<u>1,583</u>	<u>163</u>	<u>1,422</u>	<u>146</u>
Mr. Imran Ali Habib	<u>-</u>	<u>-</u>	<u>9,401</u>	<u>965</u>
Mr. Murtaza Habib	<u>11,221</u>	<u>1,153</u>	<u>10,075</u>	<u>1,034</u>
Mr. Asghar D Habib	<u>-</u>	<u>-</u>	<u>10,073</u>	<u>1,034</u>
Mr. Qumail Habib	<u>11,213</u>	<u>1,152</u>	<u>10,068</u>	<u>1,034</u>
Mr. Abas D Habib	<u>11,213</u>	<u>1,152</u>	<u>10,068</u>	<u>1,034</u>
Mr. Ali Asad Habib	<u>10,074</u>	<u>1,035</u>	<u>9,045</u>	<u>929</u>
Mrs. Razia Ali Habib	<u>7,062</u>	<u>726</u>	<u>6,341</u>	<u>651</u>

### 16. DATE OF AUTHORISATION FOR ISSUE

16.1 These condensed interim financial statements were authorised for issue by the Board of Directors of the Management Company on January 10, 2012.

### 17. GENERAL

17.1 Figures have been rounded off to the nearest thousands of rupee.

For Habib Asset Management Limited  
(Management Company)

Chief Executive

Director



# Habib Asset Management Limited

(An Associate Company of Bank AL Habib Ltd.)

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

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