

First Habib Income Fund

Third Quarterly Report

March 2012

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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

First Habib Income Fund

DIRECTORS' REPORT

The Board of Directors of Habib Asset Management Limited is pleased to present condensed interim financial statements of First Habib Income Fund (FHIF) for nine months ended March 31, 2012.

MARKET REVIEW

The State Bank of Pakistan (SBP) has maintained the discount rate at 12.00% with inflation controlled during the third quarter of financial year 2012. The current account deficit went further deep to US\$2.95 billion despite an impressive gain on workers' remittances which grew to US\$8.59 from US\$6.96 billion of the corresponding period of 8 months of the previous year. The T-Bill cutoffs of 3, 6 and 12 months stood at 11.87%, 11.94% and 11.94% respectively whereas one month and six month KIBOR remained almost flat at 12.04% and 11.97% respectively.

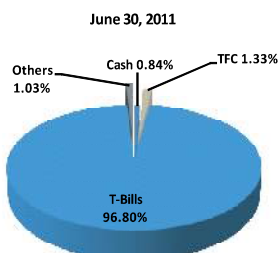
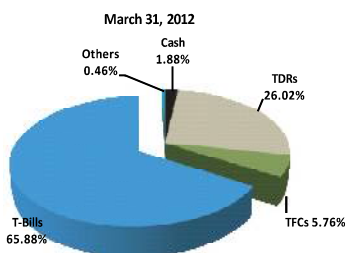
FUND'S PERFORMANCE

The net assets of the fund stood at Rs. 1,120 million as on March 31, 2012 which was mainly invested in government securities i.e. 65.88%. The placements with banks in TDRs increased to 26.02% from that of 13.56% at the end of Dec 31, 2011 due to better returns offered by banks. The fund earned net income of Rs. 102.57 million with an annualized return of 10.39% p.a. during the nine months ended March 31, 2011.

DIVIDEND DISTRIBUTION

The Board of Directors has approved third interim cash dividend of Rs.2.25 per Unit for unit holders having 'C' class of Units, while 2.2453 bonus units for every 100 Units for other unit holders.

ASSET ALLOCATION



FUTURE OUTLOOK

The discount rate is expected to be maintained at 12.00% despite the increase in government borrowings. The overall GDP growth in the financial year 2012 is expected to be in the range of 3% to 4%. Our investment policy is designed to provide consistent long term returns to the investors.

ACKNOWLEDGMENT

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

On behalf of the Board of
Habib Asset Management Limited

April 07, 2012
Karachi

Ali Raza D. Habib
Chairman

First Habib Income Fund

CONDENSED INTERIM STATEMENT OF ASSET AND LIABILITIES AS AT 31 MARCH 2012

		(Unaudited) 31 March 2012	(Audited) 30 June 2011
	Note (Rupees in '000)	
Assets			
Bank balances	7	303,657	10,598
Investments	8	826,071	1,250,752
Income receivable	9	1,952	334
Deposits and prepayments	10	3,114	2,600
Preliminary expenses and floatation costs		86	481
Total assets		1,134,880	1,264,765
Liabilities			
Payable to Habib Asset Management Limited - Management Company		1,959	1,713
Payable to Central Depository Company of Pakistan Limited - Trustee		168	168
Payable to Securities and Exchange Commission of Pakistan Workers' Welfare Fund	11	789	1,303
Accrued expenses and other liabilities		11,334	9,246
Total liabilities		15,227	13,302
Net assets		1,119,653	1,251,463
Unit holders' funds (as per the statement attached)		1,119,653	1,251,463
		(Number of Units)	
Number of units in issue		10,941,705	12,141,891
		(Rupees)	
Net asset value per unit		102.33	103.07

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 NINE MONTHS PERIOD ENDED 31 MARCH 2012

Note	Nine months ended 31 March		Quarter ended 31 March	
	2012	2011	2012	2011
----- (Rupees in '000) -----				
Income				
Profit on bank deposits	5,700	13,435	3,931	5,989
Income from term finance certificates	3,061	20,374	1,010	1,045
Income from certificate of investments	-	49	-	-
Income on government securities	125,488	141,766	37,959	49,570
Income from placements	376	842	78	353
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	862	(1,085)	36	352
-Net unrealized gain/ (loss) on revaluation of investments classified as held for trading	(1,691)	(6,931)	(1,379)	(1,790)
	(829)	(8,016)	(1,343)	(1,438)
Total income	133,796	168,450	41,635	55,519
Expenses				
Remuneration of Habib Asset Management Limited - Management Company	15,783	20,528	5,335	6,563
Sales tax on management fee	2,525	-	853	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee	1,533	2,017	514	582
Annual fee - Securities and Exchange Commission of Pakistan	789	1,026	267	328
Brokerage	193	350	93	90
Settlement and bank charges	143	280	50	92
Annual listing fee	30	30	10	10
Auditors' remuneration	266	259	89	85
Amortisation of preliminary expenses and floatation costs	395	392	131	128
Workers' Welfare Fund	2,089	2,569	496	875
Mutual fund rating fee	131	131	43	43
Legal expense	-	63	-	-
Printing charges	113	112	46	53
Provision against debt securities	4,595	2,518	1,769	(2,360)
Total expenses	28,585	30,275	9,696	6,489
	105,211	138,175	31,939	49,030
Element of income / (loss) and capital gain / (loss) included in prices of units issued less those in units redeemed - net	(2,634)	(12,268)	(7,260)	(6,132)
Net income for the period	102,577	125,907	24,679	42,898

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 NINE MONTHS PERIOD ENDED 31 MARCH 2012**

	Nine months ended 31 March		Quarter ended 31 March	
	2012	2011	2012	2011
	----- (Rupees in '000) -----			
Net income for the period	102,577	125,907	24,679	42,898
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	102,577	125,907	24,679	42,898

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 NINE MONTHS PERIOD ENDED 31 MARCH 2012

	Nine months ended 31 March		Quarter ended 31 March	
	2012	2011	2012	2011
	------(Rupees in '000)-----			
Undistributed income brought forward	37,267	41,856	39,251	43,159
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)	-	-
Final cash dividend for class 'C' unit holders @ Rs. 2.60/- per unit and bonus units @ 2.5969/- for class 'A' and 'B' unit holders for every 100 units held as at 3 January 2011	-	(42,114)	-	(42,114)
Final cash dividend for class 'C' unit holders @ Rs. 3.00/- per unit and bonus units @ 2.9979/- for class 'A' and 'B' unit holders for every 100 units held at 30 June 2011	(36,420)	-	-	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.70/- per unit and bonus units @ 2.6876/- for class 'A' and 'B' unit holders for every 100 units held as at 06 October 2011	(39,494)	-	-	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.70/- per unit and bonus units @ 2.6910/- for class 'A' and 'B' unit holders for every 100 units held as at 09 January 2012	(38,362)	-	(38,362)	-
Net income for the period	102,577	125,907	24,679	42,898
Undistributed income carried forward	25,568	43,943	25,568	43,943

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 STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUNDS (UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED 31 MARCH 2012

	Nine months ended 31 March		Quarter ended 31 March	
	2012	2011	2012	2011
------(Rupees in '000)-----				
Net assets at the beginning of the period	1,251,463	1,695,463	1,460,659	1,662,915
Amount received on sale of units	656,574	1,148,047	119,312	382,836
Amount paid on redemption of units	(838,965)	(1,343,227)	(474,317)	(496,830)
	(182,391)	(195,180)	(355,005)	(113,994)
Element of income / (loss) and capital gain / (loss) included in prices of units issued less those in units redeemed	2,634	12,268	7,260	6,132
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)	-	-
Final cash dividend for class 'C' unit holders @ Rs. 2.60/- per unit	-	(20,674)	-	(20,674)
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)	-	-	-
Interim cash dividend for class 'C' unit holders @ Rs. 2.70/- per unit	(17,940)	-	(17,940)	-
Net income for the period	102,577	125,907	24,679	42,898
Net assets at the end of the period	1,119,653	<u>1,577,277</u>	1,119,653	<u>1,577,277</u>
------(Number of Units) -----				
Units at the beginning of the period	12,141,891	16,536,076	14,212,624	16,197,553
Number of units issued	6,429,293	11,353,468	1,169,787	3,798,238
Number of units redeemed	(8,224,180)	(13,181,848)	(4,644,245)	(4,876,574)
	(1,794,887)	(1,828,380)	(3,474,458)	(1,078,336)
<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	-	-
Interim bonus units @ 2.5969 units for class 'A' and 'B' unit holders for every 100 units held as at 3 January 2011	-	214,140	-	214,140
Final bonus units on 4 July 2011 @ 2.9979 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	-	-	-
Interim bonus units distribution @ 2.6910/- for class 'A' and 'B' unit holders for every 100 units held as at 09 January 2012	203,539	-	203,539	-
Units at the end of the period	10,941,705	<u>15,333,357</u>	10,941,705	<u>15,333,357</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

First Habib Income Fund

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE NINE MONTHS PERIOD ENDED 31 MARCH 2012

	Nine months ended 31 March		Quarter ended 31 March	
	2012	2011	2012	2011
----- (Rupees in '000) -----				
CASH FLOW FROM OPERATING ACTIVITIES				
Net income for the period	102,577	125,907	24,679	42,898
Adjustments for non-cash items				
Unrealised loss on revaluation of investments at fair value through profit or loss - net	1,691	6,931	1,379	1,790
Workers' Welfare Fund	2,089	2,569	496	875
Net element of loss / (income) and capital loss / (gain) included in prices of units issued less those in units redeemed	2,634	12,268	7,260	6,132
Provision against debt securities	4,595	2,518	1,769	(2,360)
Amortisation of preliminary expenses and floatation costs	395	392	131	128
	<u>113,981</u>	<u>150,585</u>	<u>35,714</u>	<u>49,463</u>
(Increase) / decrease in assets				
Term deposit receipt	-	100,000	-	-
Investments	418,394	71,616	436,597	(67,891)
Certificates of investment and deposit	-	3,375	-	-
Income receivable	(1,618)	17,482	(666)	2,013
Advances, deposits, prepayments and other receivables	(514)	(10)	(494)	10
	<u>416,262</u>	<u>192,463</u>	<u>435,437</u>	<u>(65,868)</u>
Increase / (decrease) in liabilities				
Payable to Habib Asset Management Limited - Management Company	246	(41)	(195)	(238)
Payable to Central Depository Company of Pakistan Limited - Trustee	-	(34)	(10)	(50)
Payable to Securities and Exchange Commission of Pakistan	(514)	(382)	267	328
Payable on redemption of units	-	(46,668)	-	10,000
Accrued expenses and other liabilities	105	309	102	286
	<u>(163)</u>	<u>(46,816)</u>	<u>164</u>	<u>10,326</u>
Net cash flow from / (used in) operating activities	530,080	296,232	471,315	(6,079)
CASH FLOW FROM FINANCING ACTIVITIES				
Net receipts / (payments) from sale and redemption of units	(182,391)	(195,180)	(355,005)	(113,994)
Dividend paid during the period	(54,630)	(61,181)	(17,940)	(20,674)
Net cash flow from/ (used in) financing activities	<u>(237,021)</u>	<u>(256,361)</u>	<u>(372,945)</u>	<u>(134,668)</u>
Net increase in cash and cash equivalents during the period	293,059	39,871	98,370	(140,747)
Cash and cash equivalents at beginning of the period	10,598	64,847	205,287	245,465
Cash and cash equivalents at end of the period	<u>303,657</u>	<u>104,718</u>	<u>303,657</u>	<u>104,718</u>
Cash and cash equivalents at the end of the period comprise of :				
Cash and cash equivalents at end of the period	3,657	4,719	3,657	4,719
Term deposit receipts maturity of 3 months and less	300,000	100,000	300,000	100,000
	<u>303,657</u>	<u>104,719</u>	<u>303,657</u>	<u>104,719</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 (UN-AUDITED)
FOR THE NINE MONTHS PERIOD ENDED 31 MARCH 2012**

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 -' to the Management Company and fund stability rating of 'AA-(f)' to 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). 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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of the financial statements of the Fund as at and for the year ended 30 June 2011.

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.

First Habib Income Fund

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 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 lower by Rs. 84,013/-. 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.

7. BANK BALANCES

		31 March 2012 (Unaudited)	30 June 2011 (Audited)
Savings accounts	7.1	3,657	10,598
Term deposit receipts	7.2	300,000	-
		<u>303,657</u>	<u>10,598</u>

7.1 Savings accounts carry profit rates ranging between 5% to 10% (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 from 12% to 12.25% (30 June 2011: nil) per annum. These TDRs will mature up to 08 May 2012.

8. INVESTMENTS

At fair value through profit or loss - held for trading

Term Finance Certificates	8.3	87,548	33,540
Provision	8.3.1	(21,130)	(16,535)
		<u>66,418</u>	<u>17,005</u>
Government securities	8.4	759,653	1,233,747
		<u>826,071</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	13,942	(4,317)	9,625	0.85	0.86
Gharibwal Cement Limited	Term Finance Certificate	16,813	(16,813)	-	-	-

First Habib Income Fund

8.2 Net unrealised gain / (loss) in fair value of investments designated at fair value through profit or loss' - held for trading

	31 March 2012 (Rupees in '000) (Unaudited)	30 June 2011 (Audited)
Term Finance Certificates	(1,558)	(6,497)
Government Securities	(133)	(660)
	(1,691)	(7,157)

8.3 Term Finance Certificates

Name of the investee company	Status	Number of certificates			As at 31 March 2012		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 March 2012	Carrying value		
(Rupees in '000)								
Held for trading								
IGI Investment Bank Limited	Listed	5,379	-	5,379	-	-	-	-
Gharibwal Cement Limited	Unlisted	4,450	-	-	4,450	17,468	16,813	0.02
Saudi Pak Leasing Company Limited - III	Listed	5,999	-	-	5,999	14,758	13,942	0.01
Askari Bank Ltd -IV	Unlisted	-	15	-	15	15,262	15,210	0.01
Engro Fertilizers Limited Sukuk	Unlisted	-	5,300	-	5,300	26,500	26,500	0.02
United Bank Limited -IV	Listed	-	3,000	-	3,000	15,118	15,083	0.01
Total as at 31 March 2012						89,106	87,548	
Total as at 30 June 2011						40,037	33,540	

8.3.1 Provision

	31 March 2012 (Rupees in '000) (Unaudited)	30 June 2011 (Audited)
Opening balance	16,535	12,719
Provision for the period /year	4,595	3,816
Reversal of provision during the period /year	-	-
Closing balance	21,130	16,535

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 except Askari Bank Ltd IV having face value of Rs.1 million each.

8.3.3 Significant terms and conditions of Term Finance Certificates outstanding as at period ended 31 March 2012.

Name of the investee company	Note	Remaining principal (per TFC) as at 31 March 2012	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
Askari Bank Ltd -IV		1000,000.00	23-Dec-11	23-Dec-21	Performing	6 Months KIBOR + 1.75%	Un secured
Engro Fertilizers Limited Sukuk		5,000.00	22-Mar-12	22-Sep-12	Performing	6 Months KIBOR + 1.60%	Secured
United Bank Limited -IV		4,992.00	14-Feb-08	14-Feb-18	Performing	6 Months KIBOR + 0.85%	Un 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 land, building, plant and machinery with 25% margin.

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

- Tenor for repayment extended to 30 September 2016 from 18 January 2013 i.e. by four years.
- 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 from 31 March 2011 to 31 March 2012 amounting to Rs 2.223 million. Full provision amounting to Rs. 16,813 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.

First Habib Income Fund

- 8.3.3.1** - 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 from 13th of October 2011 to 13th March 2012 amounting to Rs. 1.873 million. A provision of Rs. 4.317 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 March 2012			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 March 2012	Carrying value	Market value		
(Rupees in '000)									
10-Feb-2011	1 Year	-	100,000	100,000	-	-	-	-	-
2-Jun-2011	1 Year	35,000	15,000	15,000	35,000	34,268	34,333	65	3.07
25-Aug-2011	1 Year	-	50,000	-	50,000	47,678	47,760	82	4.27
8-Sep-2011	1 Year	-	40,000	-	40,000	37,958	38,040	82	3.40
22-Sep-2011	1 Year	-	50,000	-	50,000	47,236	47,345	109	4.23
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	-	-	-	-	-
1-Dec-2011	3 Months	-	150,000	150,000	-	-	-	-	-
8-Mar-2012	3 Months	-	95,000	-	95,000	93,211	93,189	(22)	8.32
9-Feb-2012	3 Months	-	200,000	200,000	-	-	-	-	-
17-Nov-2011	3 Months	-	40,000	40,000	-	-	-	-	-
22-Mar-2012	3 Months	-	30,000	-	30,000	29,302	29,298	(4)	2.62
23-Feb-2012	3 Months	-	45,000	-	45,000	44,352	44,339	(13)	3.96
26-Jan-2012	3 Months	-	145,000	145,000	-	-	-	-	-
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	-	-	-	-	-
28-Jul-2011	6 Months	-	155,000	155,000	-	-	-	-	-
11-Aug-2011	6 Months	-	282,000	282,000	-	-	-	-	-
25-Aug-2011	6 Months	-	75,000	75,000	-	-	-	-	-
8-Sep-2011	6 Months	-	125,000	125,000	-	-	-	-	-
6-Oct-2011	6 Months	-	160,000	160,000	-	-	-	-	-
20-Oct-2011	6 Months	-	125,000	125,000	-	-	-	-	-
3-Nov-2011	6 Months	-	205,000	205,000	-	-	-	-	-
9-Feb-2012	6 Months	-	195,000	-	195,000	187,284	187,084	(200)	16.71
17-Nov-2011	6 Months	-	100,000	-	100,000	98,561	98,532	(29)	8.80
26-Jan-2012	6 Months	-	145,000	-	145,000	139,936	139,733	(203)	12.48
28-Jul-2011	6 Months	-	125,000	125,000	-	-	-	-	-
Total as at 31 March 2012					759,786	759,653	(133)		
Total as at 30 June 2011					1,234,407	1,233,747	(660)		

9. INCOME RECEIVABLE

Profit receivable on Term Finance Certificates
Profit receivable on Bank Deposits

31 March 2012	30 June 2011
(Rupees in '000)	
(Unaudited)	(Audited)
908	253
1,044	81
1,952	334

10. DEPOSITS AND PREPAYMENTS

Deposit with National Clearing Company of Pakistan Limited
Deposit with Central Depository Company of Pakistan Limited
Deposit with National Clearing Company of Pakistan Limited
Prepayments

10.1	2,500	2,500
10.1	100	100
10.2	504	-
10.1	10	-
	3,114	2,600

10.1 These deposits are non remunerative.
10.2 Cash margin carrying markup @ 7%

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. 11,334 million (30 June 2011 : Rs. 9,246 million) upto 31 March 2012.

EARNINGS PER UNIT

Earnings per unit (EPU) for the six months period ended 31 March 2012, has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

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 information.

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).

First Habib Income Fund

As at 31 March 2012, the categorisation of investments is shown below:

Level 1	Level 2	Level 3	Total
(Rupees)			
-	15,210	51,208	66,418
-	759,653	-	759,653
-	774,863	51,208	826,071

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 March 2012 (Rupees in '000)
Opening balance	17,005
Amortisation of discount / premium for the year - net	2,620
Revaluation gain / (loss) for the year	(1,506)
Purchase during the year (at cost)	41,618
Redemption during the year	(3,934)
Sale during the year	-
Provision made during the year	(4,595)
Closing balance	51,208

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

Level 1	Level 2	Level 3	Total
(Rupees)			
-	-	17,005	17,005
-	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)
Opening balance	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)
Closing balance	17,005

TRANSACTIONS WITH CONNECTED PERSONS

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:

	Nine months ended 31 March		Quarter ended 31 March	
	2012	2011	2012	2011
(Rupees in '000)				
Habib Asset Management Limited - Management Company				
Management fee	15,783	20,528	5,335	6,563
Term Finance Certificates sold	-	24,154	-	-
First Habib Stock Fund - Associated Undertaking				
Government security sold	-	19,960	-	-
Central Depository Company of Pakistan Limited - Trustee				
Remuneration	1,533	2,017	514	582

First Habib Income Fund

Details of the transactions with connected persons are as follows:

	31 March 2012	30 June 2011
	(Rupees in '000)	
	(Unaudited)	(Audited)
Habib Asset Management Limited - Management Company		
Management fee payable	1,959	1,713
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	168	168

15.1 Sale / Redemption of units for the period ended 31 March

	Nine months ended 31 March 2012		Nine months ended 31 March 2011	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Units sold to:				
Management Company				
Habib Asset Management Limited	96,759	9,800	88,993	9,000
Associated Companies				
Habib Insurance Company Limited	1,018,828	104,000	1,859,842	189,000
Other related parties				
Directors of the Management Company	1,480	150	1,954	200
Executives of the Management Company	-	-	698	70
Habib Asset Management Limited - Employees Provident Fund	-	-	5,372	543
Bonus Units Issued:				
Management Company				
Habib Asset Management Limited	16,290	1,634	49,527	4,959
Associated Companies				
Habib Insurance Company Limited	-	-	10,974	1,100
Other related parties				
Directors of the Management Company	734	73	1,640	164
Executives of the Management Company	224	22	265	26
Habib Insurance Company Limited				
Employees Provident Fund	5,434	545	4,301	431
Habib Asset Management Limited - Employees Provident Fund	512	51	383	39
Mrs. Shama Sajjad Habib	12,132	1,217	9,603	961
Mr. Salman Hussain D Habib	129	12	102	10
Mr. Imran Ali Habib	116	12	675	67
Mr. Murtaza Habib	914	92	723	72
Mr. Asghar D Habib	118	12	723	72
Mr. Qumail Habib	913	91	723	72
Mr. Abbas D Habib	913	91	723	72
Mr. Ali Asad Habib	821	83	649	66
Mrs. Razia Ali Habib	575	58	455	45
Units redeemed by:				
Management Company				
Habib Asset Management Limited	160,213	16,309	677,684	69,216
Associated Companies				
Bank AL Habib Limited	-	-	1,958,109	200,127
Habib Insurance Company Limited	1,138,178	104,000	1,037,552	105,150
Other related parties				
Directors of the Management Company	9,977	1,000	3,433	350
Executives of the Management Company	-	-	2,211	222
Habib Asset Management Limited - Employees Provident Fund	5,675	575	308	31
Mr. Asghar D Habib	4,040	408	-	-
Mr. Imran Ali Habib	3,972	401	-	-

First Habib Income Fund

	Nine months ended 31 March 2012		Nine months ended 31 March 2011	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Units held by:				
Management Company				
Habib Asset Management Limited	<u>144,481</u>	<u>14,785</u>	<u>222,037</u>	<u>22,841</u>
Associated Companies				
Bank AL Habib Limited	<u>5,266,182</u>	<u>538,883</u>	<u>5,266,182</u>	<u>541,732</u>
Habib Insurance Company Limited	<u>108,585</u>	<u>11,111</u>	<u>833,265</u>	<u>85,718</u>
Other related parties				
Directors of the Management Company	<u>6,608</u>	<u>676</u>	<u>20,694</u>	<u>2,129</u>
Executives of the Management Company	<u>2,817</u>	<u>288</u>	<u>2,527</u>	<u>260</u>
Habib Insurance Company Limited				
Employees Provident Fund	<u>68,535</u>	<u>7,013</u>	<u>61,481</u>	<u>6,325</u>
Habib Asset Management Limited -				
Employees Provident Fund	<u>1,543</u>	<u>158</u>	<u>9,438</u>	<u>971</u>
Mrs. Shama Sajjad Habib	<u>152,998</u>	<u>15,656</u>	<u>137,250</u>	<u>14,119</u>
Mr. Salman Hussain D Habib	<u>1,626</u>	<u>166</u>	<u>1,459</u>	<u>451</u>
Mr. Imran Ali Habib	<u>-</u>	<u>-</u>	<u>9,646</u>	<u>992</u>
Mr. Murtaza Habib	<u>11,523</u>	<u>1,179</u>	<u>10,337</u>	<u>1,063</u>
Mr. Asghar D Habib	<u>-</u>	<u>-</u>	<u>10,335</u>	<u>1,063</u>
Mr. Qumail Habib	<u>11,515</u>	<u>1,178</u>	<u>10,329</u>	<u>1,063</u>
Mr. Abbas D Habib	<u>11,515</u>	<u>1,178</u>	<u>10,329</u>	<u>1,063</u>
Mr. Ali Asad Habib	<u>10,345</u>	<u>1,059</u>	<u>9,280</u>	<u>955</u>
Mrs. Razia Ali Habib	<u>7,252</u>	<u>742</u>	<u>6,506</u>	<u>699</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 7 April 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