

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)**, **First Habib Stock Fund (FHSF)**, and **First Habib Cash Fund (FHCF)** for the quarter ended September 30, 2012.

MONEY MARKET REVIEW

The State Bank of Pakistan (SBP) sharply reduced the discount rate by 200bps from the beginning of the financial year 2012-13 in phases of 150bps in August 2012 and then by 50bps in October down to 10.00%. At the quarter end, the T-Bills yield of all tenures dropped to 10.23%. The 6 month KIBOR also declined by 184bps to 10.22%.

STOCK MARKET REVIEW

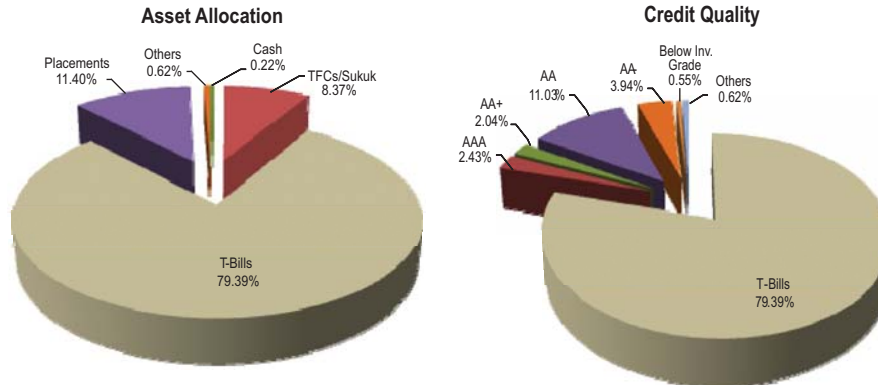
The KSE index which was at a depressed level at the close of Dec 2011 saw an upward trend during the last nine months of 2012 reaching 15445 points supported by a substantial turnover in shares averaging 128 million a day. During the first quarter of the financial year 2012-13, the foreign portfolio investment witnessed net inflow of \$92 million indicating foreign investors' confidence in the market as compared to net outflow of \$46 million during the same period last year.

FUNDS' PERFORMANCE

First Habib Income Fund (FHIF)

The gross and net income of the fund were Rs.36.48 million and Rs.28.21 million respectively for the quarter ended September 30, 2012. FHIF generated an annualized return of 10.50% for the quarter. The net assets of the Fund were at 1.03 billion on September 30, 2012 as compared to Rs. 1.02 billion on June 30, 2012. During the quarter under review, the Fund remained heavily invested in T-bills, however at the end of the quarter; some of the funds were shifted to Term Deposit Receipt (TDR) for better returns.

The asset allocation and credit quality of FHIF as on September 30, 2012, can be viewed as under



During the quarter under review, the fund distributed three monthly dividends amounting to Rs.2.45 per unit for class 'C' unit holders and 2.4485 bonus units per 100 units for all other unit holders. The breakup of dividend on monthly basis is given as under

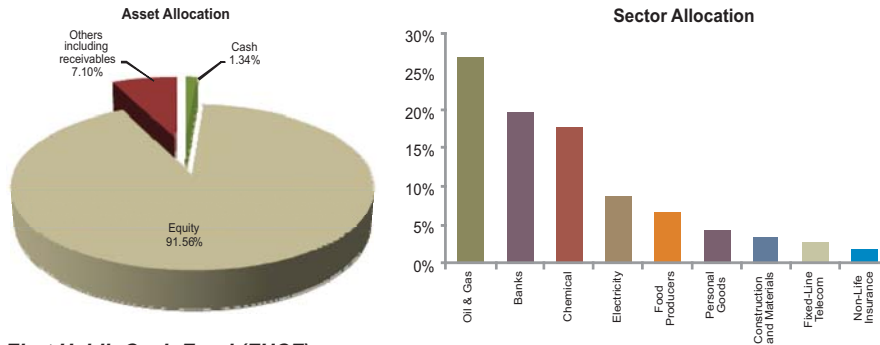
Month	Cash Dividend for Class 'C' Unit holders	Bonus Units for other Unit holders
July 2012	Rs. 0.70 per unit	0.6997 units per 100 units
August 2012	Rs. 0.95 per unit	0.9499 units per 100 units
September 2012	Rs. 0.80 per unit	0.7989 units per 100 units

First Habib Stock Fund (FHSF)

During the quarter under review, the net assets of the fund increased by 3.2% to Rs. 116.63 million on September 30, 2012. The investment committee increased the fund's exposure in oil & gas, commercial banks, and electricity sectors enabling the fund to generate a return of 6.48% during the quarter.

The fund's gross income during the quarter amounted to Rs.9.18 million mainly due to capital gain of Rs.6.72 million. The net income of the fund amounted to Rs.7.10 million for the quarter.

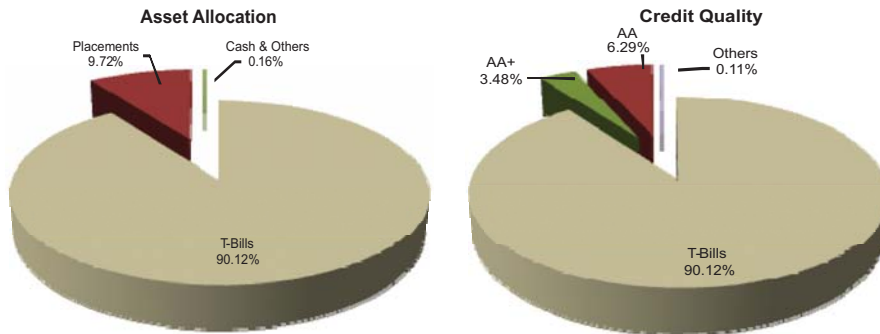
The asset allocation and sector allocation of FHSF as on September 30, 2012, can be viewed as under:



First Habib Cash Fund (FHCF)

FHCF generated an annualized return of 10.76% for the quarter ended September 30, 2012, outperforming the benchmark by 53 bps. The fund remained invested mainly in 3 and 6 months T-bills with weighted average time to maturity of net assets at 69 days on September 30, 2012. The net assets of the fund witnessed significant growth of 57% to Rs. 3.17 billion on September 30, 2012 from Rs. 2.02 billion on June 30, 2012. The gross and net income of the fund was Rs.92.77 million and Rs.84.24 million respectively for the quarter.

The asset allocation and credit quality of FHCF as on September 30, 2012, can be viewed as under:



During the quarter under review, the fund distributed three monthly dividends amounting to Rs. 2.55 per unit for class 'C' unit holders and 2.5485 bonus units per 100 units for all other unit holders. The breakup of dividend on monthly basis is given as under.

Month	Cash Dividend for Class 'C' Unit holders	Bonus Units for other Unit holders
July 2012	Rs. 0.75 per unit	0.7497 units per 100 units
August 2012	Rs. 1.00 per unit	0.9997 units per 100 units
September 2012	Rs. 0.80 per unit	0.7991 units per 100 units

Future Outlook

There are positive indicators in the Economy with continuing good payout likely to benefit from perhaps a further cut in the discount rate.

The Stock Exchange Index would likely to remain firm for the future but it is impossible to make any accurate forecast.

Acknowledgement

The Board is indeed thankful to all 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 Director
Habib Asset Management Limited

Ali Raza D. Habib
Chairman

October 22, 2012

First Habib Income Fund
First Quarterly Report
September 2012

First Habib Income Fund

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FUND'S INFORMATION

Management Company

Habib Asset Management Limited

Board of Directors of the Management Company

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

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,
P.O. Box 15541, Karachi-75530

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

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

CONDENSED INTERIM STATEMENT OF ASSET AND LIABILITIES AS AT 30 SEPTEMBER 2012

	Note	(Unaudited) 2012	(Audited) 2012
.....(Rupees in '000).....			
Assets			
Bank balances	6	102,338	210,334
Investments	7	916,225	817,456
Clean placement		19,000	-
Income receivable	8	3,080	3,673
Deposits & prepayment	9	3,134	3,104
Total assets		1,043,777	1,034,567
Liabilities			
Payable to Habib Asset Management Limited - Management Company		1,582	1,579
Payable to Central Depository Company of Pakistan Limited - Trustee		147	148
Payable to Securities and Exchange Commission of Pakistan		207	998
Provision for Workers' Welfare Fund	10	12,426	11,851
Dividend payable		88	-
Redemption payable		97	-
Accrued expenses and other liabilities		1,096	908
Total liabilities		15,643	15,484
Net assets		1,028,134	1,019,083
Unit holders' funds (as per statement attached)		1,028,134	1,019,083
(Number of Units)			
Number of units in issue		10,263,324	10,089,836
(Rupees)			
Net asset value per unit		100.18	101.00

The annexed notes 1 to 16 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**INCOME STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30 SEPTEMBER 2012**

	Quarter ended 30 September	
<i>Note</i>	2012	2011
	.....(Rupees in '000).....	
Income		
Profit on bank deposits	1,992	267
Income from term finance certificates	3,854	1,211
Income from government securities	26,699	43,836
Income from clean placements	21	138
Net gain / (loss) on investments designated at fair value through profit or loss		
- Net capital gain / (loss) on sale of investments classified as held for trading	514	304
- Net unrealised gain / (loss) on revaluation of investments classified as held for trading	3,401	2
	3,915	306
Total income	36,481	45,758
Expenses		
Remuneration of Habib Asset Management Limited - Management Company	4,147	5,850
Sales tax on management fee	664	-
Remuneration of Central Depository Company of Pakistan Limited - Trustee	449	499
Annual fee to Securities and Exchange Commission of Pakistan	207	252
Brokerage expense	12	21
Settlement and bank charges	86	54
Annual listing fee	10	10
Auditors' remuneration	105	90
Amortisation of preliminary expenses and floatation costs	-	132
Provision for Workers' Welfare Fund	576	690
Mutual fund rating fee	44	44
Printing charges	22	30
Provision against debt securities	1,585	139
Total expenses	7,907	7,811
Net income from operating activities	28,574	37,947
Net element of loss and capital loss included in prices of units issued less those in units redeemed	(368)	(4,122)
Net income for the period	8,206	33,825

The annexed notes 1 to 16 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 COMPREHENSIVE INCOME (UNAUDITED) FOR THE QUARTER ENDED 30 SEPTEMBER 2012

	Quarter ended 30 September	
	2012	2011
	.....(Rupees in '000).....	
Net income for the period	28,206	33,825
Other comprehensive income for the period	-	-
Total comprehensive income for the period	28,206	33,825

The annexed notes 1 to 16 form an integral part of these condensed interim financial statements.

For Habib Asset Management Limited
(Management Company)

Chief Executive

Director

**CONDENSED INTERIM DISTRIBUTION STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30 SEPTEMBER 2012**

	Quarter ended 30 September	
	2012	2011
	.....(Rupees in '000).....	
Undistributed income brought forward	10,243	37,267
Net income for the period	28,206	33,825
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 as at 30 June 2011	-	(36,420)
Final cash dividend for class 'C' unit holders @ Rs. 1.00/- per unit and bonus units @ 1.00/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2012	(10,090)	-
Interim cash dividend for class 'C' unit holders @ Rs. 0.70/- per unit and bonus units @ 0.6997/- for class 'A' and 'B' unit holders for every 100 units held as at 27 July 2012	(7,742)	-
Interim cash dividend for class 'C' unit holders @ Rs. 0.95/- per unit and bonus units @ 0.9499/- for class 'A' and 'B' unit holders for every 100 units held as at 25 August 2012	(10,541)	-
Interim cash dividend for class 'C' unit holders @ Rs. 0.80/- per unit and bonus units @ 0.7989/- for class 'A' and 'B' unit holders for every 100 units held as at 28 September 2012	(8,147)	-
Undistributed income carried forward	1,929	34,672

The annexed notes 1 to 16 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' FUND (UNAUDITED) FOR THE QUARTER ENDED 30 SEPTEMBER 2012

	Quarter ended 30 September	
	2012	2011
	.....(Rupees in '000).....	
Net assets at the beginning of the period	1,019,083	1,251,463
Amount received on sale of units	105,034	177,847
Amount paid on redemption of units	(124,138)	(240,653)
	(19,104)	(62,806)
Element of (income)/loss and capital (gains)/ loss included in prices of units issued less those in units redeemed	368	4,122
Final cash dividend for class 'C' unit holders @ Rs. 3.00/- per unit	-	(19,531)
Final cash dividend for class 'C' unit holders @ Rs. 1.00/- per unit	(122)	
Interim cash dividend for class 'C' unit holders @ Rs. 0.70/- per unit	(85)	-
Interim cash dividend for class 'C' unit holders @ Rs. 0.95/- per unit	(115)	-
Interim cash dividend for class 'C' unit holders @ Rs. 0.80/- per unit	(97)	-
Net income for the period	28,206	33,825
Net assets at the end of the period	1,028,134	1,207,073
	.....Number of Units.....	
Units at the beginning of the period	10,089,836	12,141,891
Number of Units Issued	1,044,921	1,767,242
Number of Units Redeemed	(1,232,284)	(2,353,665)
	(187,363)	(586,423)
Issue of bonus units on 4 July 2011 @ 2.9979 units for Class 'A' and 'B' unit holder for every 100 units held at 30 June 2011	-	168,830
Issue of bonus units on 5 July 2012 @ 1.00/- for class 'A' and 'B' unit holders for every 100 units held as at 30 June 2012	99,678	-
Issue of bonus units on 28 July 2012 @ 0.6997/- for class 'A' and 'B' unit holders for every 100 units held as at 27 July 2012	76,535	-
Issue of bonus units on 25 August 2012 @ 0.9499/- for class 'A' and 'B' unit holders for every 100 units held as at 25 August 2012	104,248	-
Issue of bonus units on 28 September 2012 @ 0.7989/- for class 'A' and 'B' unit holders for every 100 units held as at 28 September 2012	80,390	-
Units at the end of the period	10,263,324	11,724,298

The annexed notes 1 to 16 form an integral part of these condensed interim financial statements.

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

Chief Executive

Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED 30 SEPTEMBER 2012**

	Quarter ended 30 September	
	2012	2011
	.....(Rupees in '000).....	
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the period	28,206	33,825
Adjustments for non-cash items		
Unrealised loss on revaluation of investments classified as held for trading	(3,401)	(2)
Provision against debt securities and Certificate of Investment	1,585	139
Workers' Welfare Fund	576	690
Net element of loss and capital loss included in prices of units issued less those in units redeemed	368	4,122
Amortisation of preliminary expenses and floatation costs	-	132
	27,334	38,906
Decrease / (increase) in assets		
Placements	(19,000)	(8,000)
Investments	(96,953)	42,447
Income receivable	593	266
Security deposits and other receivables	(30)	(30)
	(115,390)	34,683
Increase / (decrease) in liabilities		
Payable to Habib Asset Management Limited - Management Company	3	206
Payable to Central Depository Company of Pakistan Limited - Trustee	(1)	(4)
Payable to Securities and Exchange Commission of Pakistan	(791)	(1,051)
Accrued expenses and other liabilities	178	138
	(611)	(711)
Net cash flow from operating activities	(88,667)	72,878
CASH FLOW FROM FINANCING ACTIVITIES		
Net payments from sale and redemption of units	(19,007)	(62,806)
Dividend paid during the period	(322)	(19,531)
Net (decrease) in cash and cash equivalents during the period	(107,996)	(9,459)
Cash and cash equivalents at beginning of the period	210,334	10,598
Cash and cash equivalents at the end of the period	102,338	1,139
Cash and cash equivalents at the end of the period comprise of :		
Cash at bank - saving account	2,338	1,139
Term deposit receipts	100,000	-
	102,338	1,139

The annexed notes 1 to 16 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 INFORMATION (UNAUDITED) FOR THE QUARTER ENDED 30 SEPTEMBER 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 the SECP. The registered office of the Management Company is situated at Imperial Court Building, Dr. Ziauddin Ahmed Road Karachi, Pakistan.

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

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

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

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

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

2. 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, 2012

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of these 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 2012.

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 2012.

5. 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 2012.

First Habib Income Fund

	(Unaudited)	(Audited)
	30 September	30 June
Note	2012	2012
	.....(Rupees in '000).....	

6. BANK BALANCES

Saving accounts	6.1	2,338	10,334
Term deposit receipts (TDRs)	6.2	100,000	200,000
		102,338	210,334

6.1 Savings accounts carry profit rates ranging from 5% to 9% (2012: 5% to 10%) per annum.

6.2 Term deposit receipt (TDR) have tenor of one month (30 June 2012: one month) and carry profit rate of 10.45% per annum. TDR will mature by 15 October 2012.

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

Term Finance Certificates	7.1	111,083	136,924
Provision	7.2	(23,738)	(22,153)
		87,345	114,771
Government securities	7.5	828,880	702,685
		916,225	817,456

7.1 Term Finance Certificates

Name of the Investee company	Number of certificate				As at 30 September 2012		Market value as a percentage of net assets	Market value as a percentage of total investments
	As at 1 July 2012	Acquired during the year	Sold during the year	As at 30 September 2012	Carrying value	Market value		
(Rupees in '000)								
Held for trading								
Engro Corporation Limited - Sukuk	5,300	-	5,300	-	-	-	-	-
Standard Chartered Bank PPTFC	5,000	-	-	5,000	25,000	25,322	2.46	2.76
Allied Bank Limited - II TFC	2,000	-	-	2,000	10,070	9,987	0.97	1.09
Askari Bank Limited - IV PPTFC	15	-	-	15	15,473	15,931	1.55	1.74
United Bank Limited - IV	3,000	-	-	3,000	15,095	15,141	1.47	1.65
Faysal Bank Limited	3,000	-	-	3,000	15,053	15,171	1.48	1.66
Saudi Pak Leasing Company Limited - III issue	5,999	-	-	5,999	12,818	12,579	1.22	1.37
Gharibwal Cement Limited	4,450	-	-	4,450	17,227	16,952	1.65	1.85
Total as at 30 September 2012					110,736	111,083		
Total as at 30 June 2012					139,376	136,924		

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

Name of the Investee company	Note	Remaining principal (per TFC) as at 30 September 2012	Start date	Maturity	Instalment payments	Credit rating	Mark-up Rate (per annum)	Secured / Unsecured
Term Finance Certificates - Held for trading								
Standard Chartered Bank PPTFC		5,000.00	29-Jun-12	29-Jun-22	Half yearly	AAA	6 Month KIBOR + 0.75	Unsecured
Allied Bank Limited - II TFC		4,994.00	28-Aug-09	28-Aug-19	Half yearly	AA	6 Month KIBOR + 0.85	Unsecured
Askari Bank Limited - IV PPTFC		999,800.00	23-Dec-11	23-Dec-21	Half yearly	AA-	6 Month KIBOR + 1.75	Unsecured
United Bank Limited - IV		4,991.00	14-Feb-08	14-Feb-18	Half yearly	AA	6 Month KIBOR + 0.85	Unsecured
Faysal Bank Limited		4,991.00	12-Nov-07	12-Nov-14	Half yearly	AA-	6 Month KIBOR + 1.40	Unsecured
Gharibwal Cement Limited PPTFC	7.1.1.1	4,246.60	18-Jan-08	30-Sep-16	Quarterly	D	3 Month KIBOR	Secured
Saudi Pak Leasing Company Limited - III issue	7.1.1.2	3,255.15	13-Mar-08	13-Mar-17	Monthly	D	Note 8.1.1.2	Secured

First Habib Income Fund

7.1.1.1 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. However, 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. 16.952 million has been made against these TFCs in accordance with provisioning policy of the Fund and circular 1 of 2009 dated 6 January 2009.

7.1.1.2 These Term Finance Certificates (TFCs) are secured by way of first exclusive charge on specific leases including lease rental and receivables against these leases with 25% margin.

The management has made a provision of Rs. 6.786 million in accordance with the provisioning policy of the fund and circular 01 of 2009 dated 6 January 2009.

		(Unaudited) 30 September 2012	(Audited) 30 June 2012
	Note	.....(Rupees in '000).....	
7.2 Provision			
Opening balance		22,153	16,535
Provision during the period	7.2.1	1,585	5,618
Reversal of provision		-	-
Closing balance		<u>23,738</u>	<u>22,153</u>

7.2.1 Provision has been made against Gharibwal Cement Limited and Saudi Pak Leasing Company Limited in accordance with the provisioning policy of the Fund approved by the Board of Directors of the Management Company and circular 01 of 2009 dated 6 January 2009 as mentioned in note 7.1.1.1 and 7.1.1.2 above.

7.3 Details of deviations from circular no. 07 of 2009 dated 6 March 2009 issued by SECP required vide circular no. 16 dated 7 July 2010 are as follows:

Name of Non-Compliant Investments	Type of Investments	Value of investments before provision	Provision held	Value of investments after provisioning	% of Gross Assets	% of Net Assets
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(Rupees in '000)

Non-investment grade debt securities

Saudi Pak Leasing Company Limited-III issue	Term Finance Certificate	12,579	6,786	5,793	0.56%	0.56%
Gharibwal Cement Limited	Term Finance Certificate	16,952	16,952	-	-	-

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

	(Unaudited) 30 September 2012	(Audited) 30 June 2012
	.....(Rupees in '000).....	
Term Finance Certificates	347	(2,452)
Government Securities	3,054	(261)
	<u>3,401</u>	<u>(2,713)</u>

First Habib Income Fund

7.5 Government Securities

Issue date	Tenor	Face Value				As at 30 September 2012		Market value as percentage of	
		As at 01 July 2012	Purchase during the period	Sold / Matured during the period	As at 30 September 2012	Carrying value	Market value	Net assets	Total investments
(Rupees in '000)									
03-May-11	3 Months	95,000	-	95,000	-	-	-	-	-
31-May-12	3 Months	66,000	-	66,000	-	-	-	-	-
14-Jun-12	3 Months	85,000	-	85,000	-	-	-	-	-
12-Jul-12	3 Months	-	100,000	-	100,000	-	-	-	-
17-May-12	3 Months	-	100,000	100,000	-	-	-	-	-
20-Sep-12	3 Months	-	60,000	-	60,000	58,801	58,797	5.72	6.42
06-Sep-12	6 Months	-	100,000	-	100,000	95,790	95,864	9.32	10.46
09-Aug-12	6 Months	-	290,000	-	290,000	279,317	280,062	27.24	30.57
23-Aug-12	6 Months	-	130,000	-	130,000	124,954	125,085	12.17	13.65
26-Jul-12	6 Months	-	135,000	-	135,000	130,240	130,848	12.73	14.28
26-Jan-12	6 Months	35,000	-	35,000	-	-	-	-	-
09-Feb-12	6 Months	195,000	-	195,000	-	-	-	-	-
22-Sep-11	1 Year	50,000	100,000	150,000	-	-	-	-	-
25-Aug-11	1 Year	50,000	-	50,000	-	-	-	-	-
03-Nov-11	1 Year	100,000	-	100,000	-	-	-	-	-
08-Sep-11	1 Year	40,000	-	40,000	-	-	-	-	-
09-Aug-12	1 Year	-	150,000	-	150,000	136,723	138,223	13.44	15.09
Total as at 30 September 2012						825,825	828,879		
Total as at 30 June 2012						702,947	702,685		

7.5.1 Rate of return on above government securities ranges from 9.79% to 11.19%

(Unaudited) (Audited)
30 September 2012 **30 June 2012**

Note(Rupees in '000).....

8. INCOME RECEIVABLE

Profit accrued on Term Finance Certificates	2,490	2,827
Profit receivable on Bank Deposits	173	186
Profit receivable on Clean Placement	16	-
Profit receivable on Term deposit receipts (TDRs)	401	660
	3,080	3,673

9. DEPOSITS & PREPAYMENTS

Deposit with National Clearing Company of Pakistan Limited	9.1	3,004	3,004
Deposit with Central Depository Company of Pakistan Limited	9.1	100	100
Lahore Stock Exchange (Guarantee) Limited		30	-
		3,134	3,104

9.1 These deposits are non remunerative.

10. WORKERS' WELFARE FUND

Through the Finance Act, 2008, an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment, it is alleged that all Collective Investment Schemes (CISs) / mutual funds 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 (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication.

In August 2011, the Lahore High Court issued a judgment in response to a petition in similar case whereby the amendments introduced in WWF Ordinance through Finance Acts, 2006 and 2008 have been declared unconstitutional and therefore struck down.

As the matter relating to levy of WWF is currently pending in the Court, the Management Company, as a matter of abundant caution, has decided to retain and continue with the provision for WWF amounting to Rs. 12.426 million (30 June 2012: Rs. 11.851 million) in these financial statements. Had the provision not been made, the net asset value of the Fund would be higher by Rs 1.21 per unit (30 June 2012: Rs.1.17 per unit).

11. EARNINGS PER UNIT

Earnings per unit (EPU) for the period ended 30 September 2012 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

First Habib Income Fund

12. 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.

13. 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, 2012.

Fair value hierarchy

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

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

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

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

As at 30 September 2012, the categorisation of investments is shown below:

	Level 1	Level 2	Level 3	Total
	.....(Rupees in '000).....			
Term finance certificates	-	81,552	5,793	87,345
Government securities	-	828,880	-	828,880
	<u>-</u>	<u>910,432</u>	<u>5,793</u>	<u>916,225</u>

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

	30 September 2012 (Rupees in '000)			
Balance as at 1 July 2012				32,717
Amortisation of discount / premium for the period - net				711
Revaluation gain / (loss) for the period				(514)
Purchase during the period (at cost)				-
Redemption during the period				(25,536)
Sale during the period				-
Provision made during the period				(1,585)
Balance as at 30 September 2012				5,793
30 June 2012	Level 1	Level 2	Level 3	Total
	.....(Rupees in '000).....			
Term finance certificates and sukuk certificates	-	82,054	32,717	114,771
Government securities	-	702,685	-	702,685
	<u>-</u>	<u>784,739</u>	<u>32,717</u>	<u>817,456</u>

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

	30 June 2012 (Rupees in '000)
Balance as at 1 July 2011	17,005
Amortisation of discount / premium for the year - net	3,462
Revaluation gain / (loss) for the year	(2,636)
Purchase during the year (at cost)	24,558
Redemption during the year	(4,054)
Sale during the year	-
Provision made during the year	(5,618)
Balance as at 30 June 2012	<u>32,717</u>

14. TRANSACTIONS WITH CONNECTED PERSONS

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

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

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

Details of of the transactions with connected persons are as follows:

	(Unaudited) 30 September	
	2012	2011
	.....(Rupees in '000).....	
Habib Asset Management Limited - Management Company		
Management fee	<u>4,811</u>	<u>5,850</u>
First Habib Cash Fund - Associated Undertaking		
Government security sold	<u>99,216</u>	<u>-</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	<u>449</u>	<u>499</u>
Bank AL Habib Limited		
Profit on bank balances	<u>472</u>	<u>267</u>

Details of balances with connected persons are as follows:

	(Unaudited) 30 September 2012	(Audited) 30 June 2012
Habib Asset Management Limited - Management Company		
Management Company fee payable	<u>1,582</u>	<u>1,579</u>
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	<u>147</u>	<u>148</u>
Security deposit - Non interest bearing	<u>100</u>	<u>100</u>
Bank AL Habib Limited		
-Bank Balance	<u>2,292</u>	<u>8,609</u>

	(Unaudited) 30 September 2012		(Unaudited) 30 September 2011	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
Units sold to:				
Management Company				
-Habib Asset Management Limited	<u>-</u>	<u>-</u>	<u>51,294</u>	<u>5,200</u>
Bonus Units Issued:				
Management Company				
-Habib Asset Management Limited	<u>3,484</u>	<u>349</u>	<u>5,745</u>	<u>575</u>
Associated Companies				
- Bank AL Habib Limited	<u>183,947</u>	<u>18,403</u>	<u>-</u>	<u>-</u>
Other related parties				
- Directors and executives of the Management Company	<u>359</u>	<u>102</u>	<u>509</u>	<u>51</u>
- Habib Insurance Company Limited- Employees Provident Fund	<u>2,482</u>	<u>247</u>	<u>1,892</u>	<u>189</u>

First Habib Income Fund

	(Unaudited) 30 September 2012		(Unaudited) 30 September 2011	
	(Units)	(Rupees in '000)	(Units)	(Rupees in '000)
- Habib Asset Management Limited - Employees Provident Fund	-	-	201	20
- Mrs. Shama Sajjad Habib	5,538	554	4,223	423
- Mr. Salman Hussain D Habib	45	5	45	4
- Mr. Imran Ali Habib	-	-	116	12
- Mr. Murtaza Habib	417	42	318	32
- Mr. Asghar D. Habib	-	-	118	12
- Mr. Qumail Habib	417	42	318	32
- Mr. Abas D. Habib	417	42	318	32
- Mr. Ali Asad Habib	375	38	286	29
- Mrs. Razia Ali Habib	262	26	200	20
Units redeemed by:				
Management Company				
Habib Asset Management Limited	19,937	2,000	45,220	4,610
Associated Companies				
- Habib Insurance Company Limited	-	-	148,682	15,000
Other related parties				
- Directors and executives of the Management Company	5,507	553	9,977	1,000
- Habib Asset Management Limited - Employees Provident Fund	-	-	1,053	107
- Mr. Imran Ali Habib	-	-	3,971	401
- Mr. Asghar D. Habib	-	-	4,040	408
- Mr. Salman Hussain D Habib	1,730	173	-	-
Units held by:				
Management Company				
Habib Asset Management Limited	93,326	9,349	203,465	20,941
Associated Companies				
- Bank AL Habib Limited	5,450,129	545,969	5,266,182	541,995
- Habib Insurance Company Limited	108,585	10,878	79,253	8,157
Other related parties				
- Directors and executives of the Management Company	7,619	763	7,496	772
- Habib Insurance Company Limited- Employees Provident Fund	73,504	7,363	64,993	6,689
- Habib Asset Management Limited - Employees Provident Fund	-	-	5,854	603
- Mrs. Shama Sajjad Habib	-	-	145,089	14,933
- Mr. Salman Hussain D Habib	-	-	1,542	159
- Mr. Imran Ali Habib	-	-	-	-
- Mr. Murtaza Habib	-	-	10,927	1,125
- Mr. Asghar D Habib	-	-	-	-
- Mr. Qumail Habib	-	-	10,919	1,124
- Mr. Abas D Habib	-	-	10,919	1,124
- Mr. Ali Asad Habib	-	-	9,810	1,010
- Mrs. Razia Ali Habib	-	-	6,878	708

15. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the Management Company on October 22, 2012.

16. GENERAL

Figures have been rounded off to the nearest thousand rupees.

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

Chief Executive

Director