

HBL

**ASSET
MANAGEMENT**

HBL IncomeFund

Annual Report 2013

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HBL INCOME FUND

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VISION / MISSION / VALUES

OUR VISION

Enabling people to advance with confidence and success.

OUR MISSION

To make our Investor(s) prosper, our staff excel and create value for our stakeholders.

OUR VALUES

Our values are based upon the fundamental principles that define our culture and are brought to life in our attitude and behavior. It is our values that make us unique and stem from five basic principles

- **Excellence**

The markets in which we operate are becoming increasingly competitive and our investors now have an abundance of choice. Only through being the very best - in terms of the service we offer, our product and premises - can we hope to be successful and grow.

- **Integrity**

We are an Asset Management Company in Pakistan and our success depends upon the performance of the Fund(s) which are under management and our investors and society in general expects us to possess an steadfastly adhere to high moral principle and professional standards.

- **Customer Focus**

We need to understand fully the need of our investors and to adopt our product and services to meet these. We must strive always to put the satisfaction of our investors first.

- **Meritocracy**

We believe in giving opportunities and advantage to our employees on the basis of their ability. We believe in rewarding achievement and in providing first class career opportunities for all.

- **Progressiveness**

We believe in the advancement of society through the adoption of enlightened working practice, innovative new products and processes and a sprit of enterprise.

CORPORATE INFORMATION

Management Company

HBL Asset Management Limited.

Board of Directors

Chairman	Mr. Towfiq Habib Chinoy	(Independent Non-Executive Director)
Chief Executive Officer	Mr. Rehan N.Shaikh	(Executive Director)
Directors	Mr. Aman Aziz Siddiqui	(Non-Executive Director)
	Mr. Rizwan Haider	(Non-Executive Director)
	Mr. Salahuddin Manzoor	(Non-Executive Director)
	Mr. Salim Amlani	(Non-Executive Director)
	Ms. Sadia Khan	(Independent Non-Executive Director)

Audit Committee

Chairperson	Ms. Sadia Khan	(Independent Non-Executive Director)
Members	Mr. Salim Amlani	(Non-Executive Director)
	Mr. Rizwan Haider	(Non-Executive Director)

Human Resource Committee

Chairman	Mr. Aman Aziz Siddiqui	(Non-Executive Director)
Members	Mr. Towfiq Habib Chinoy	(Independent Non-Executive Director)
	Mr. Salahuddin Manzoor	(Non-Executive Director)
	Mr. Rehan N.Shaikh	(Executive Director)

Company Secretary & Chief Financial Officer

Mr. Noman A. Soomro

External Auditors

KPMG Taseer Hadi & Co., Chartered Accountants,
Sheikh Sultan Trust Building No 02
Beaumont Road, Karachi-75530, Pakistan

Internal Auditors

A.F.Ferguson & Co., Chartered Accountants,
State Life Buliding No.1-C,I.I Chundrigar Road,
P.O.Box 4716, Karachi.

Trustee

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

Legal Advisors

Mandviwalla & Zafar, Advocates and Legal Consultants,
Mandviwalla Chambers, C-15, Block 2, Clifton, Karachi.

Website

www.hblasset.com

Head Office

24-C, Khayaban-e-Hafiz, Phase VI, D.H.A., Karachi.

Registered Office

24-C, Khayaban-e-Hafiz, Phase VI, D.H.A., Karachi.

FUND INFORMATION

NAME OF FUND	HBL Income Fund
FUND MANAGER	Mr. Muhammad Amir Khan
NAME OF AUDITORS	
External Auditors	KPMG Taseer Hadi & Co., Chartered Accountants.
Internal Auditors	A.F. Ferguson & Co., Chartered Accountants.
NAME OF BANKERS	Habib Bank Limited Bank Al-Habib Limited MCB Bank Limited JS Bank Limited The Bank of Punjab Standard Chartered Bank (Pakistan) Limited Habib Metropolitan Bank Limited Bank Al Falah Limited Faysal Bank Limited Barclays Bank Plc Pakistan Allied Bank Limited

FUND MANAGER REPORT

Type and Category of Fund

Open end Income Fund

Investment Objective and Accomplishment of Objective

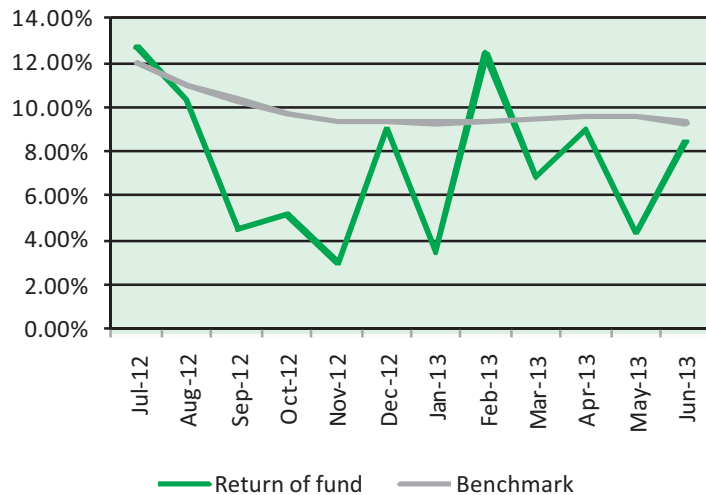
The investment objective of the Fund is to provide a stable stream of income with a moderate level of risk by investing in fixed income securities. The objective of the Fund has been achieved by developing portfolio of a wide range of fixed income securities. The diversification has been achieved by investing portfolio in various sectors, classes of securities and asset classes with varying maturities.

Benchmark and Performance Comparison with Benchmark

The Fund's benchmark is average six month KIBOR Offer rate.

The comparison of the fund return with benchmark is given below:

Month	Return of Fund	Benchmark
Jul-12	12.76%	12.02%
Aug-12	10.41%	11.00%
Sep-12	4.55%	10.39%
Oct-12	5.22%	9.82%
Nov-12	2.94%	9.44%
Dec-12	9.05%	9.46%
Jan-13	3.49%	9.36%
Feb-13	12.52%	9.42%
Mar-13	6.90%	9.50%
Apr-13	9.05%	9.59%
May-13	4.30%	9.60%
Jun-13	8.50%	9.40%

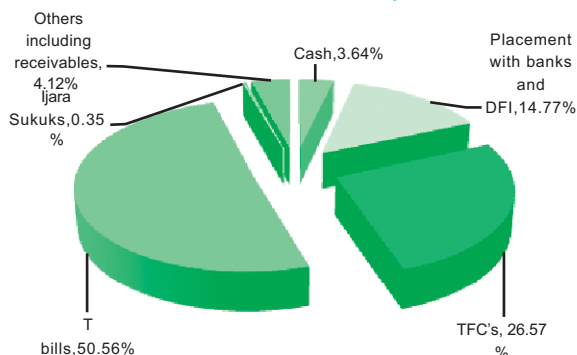


Strategies and Policies employed during the Year

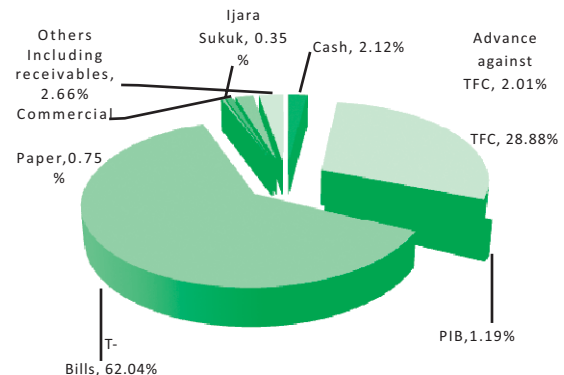
During the year under review, the exposure against TFCs decreased slightly from 29% as on June 30, 2012 to 27% as on June 30, 2013 mainly due to maturities. The Fund invested the matured amounts in Government Securities of various tenors. The Fund also continued its policy of holding quality TFCs of financial institutions in its portfolio. Further, bank deposits were maintained only with the high rated banks.

Asset Allocation

Asset Allocation June 30, 2013



Asset Allocation June 30, 2012



Significant Changes in Asset Allocation during the Year

During the year under review no significant changes in asset allocation were witnessed. The Fund's exposure in TFCs decreased marginally. The exposure in government securities was maintained during the year and was reduced in case better rates were available on placement with banks.

Fund Performance

The total income and net income of the Fund was Rs. 165.51 million and Rs. 123.78 million respectively during the year ended June 30, 2013. The Net Asset Value (NAV) per unit of the Fund was Rs 100.0648 per unit as on July 1, 2012. The NAV of the Fund was Rs 102.6114 per unit as on June 30, 2013 (after accounting for dividend of Rs 5.00 per unit); there by giving an annualized return of 7.70%. During the same period the bench mark (6 Month KIBOR) return was 9.92%. The return of the fund was adversely affected by provisioning against non performing TFCs.

Review of Market invested in

"During the year under review the economic conditions witnessed some improvement especially on the monetary front. The inflation rate throughout the year remained largely under control with the twelve months average rate of inflation falling to 7.44%. The State Bank of Pakistan (the SBP) continued to adjust policy discount rate considering inflation trend and policy discount rate was reduced from 12% to 9.00% translating in to a total reduction of 300 bps during the year under review.

As a result of declining policy discount rate, the T-bills & PIBs auction cut off rates declined by a total of 291, 293 and 295 bps for 3,6 and 12 months. The last auction cut off rates for 3, 6 and 12 month stood at 8.96%, 8.99% and 8.98% respectively."

Distribution

The Fund has distributed dividend at Rs. 7.00 in the form of Bonus units for Class "A" and Class "B" Units and cash dividend of Rs 7.00 per unit for Class"C" unit for the year ended June 30, 2013.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs during the year under review.

Breakdown of Unit Holding by Size

From – To (Number of units)	Number of Unit Holders	Total Number of Units Held
1 – 100	97	5,180
101 – 500	54	12,870
501 – 1,000	30	24,009
1,001 – 10,000	123	510,508
10,001 – 100,000	38	1,099,702
100,001 – 500,000	9	1,778,491
500,001 – 1,000,000	-	
1,000,001 – 5,000,000	3	4,984,036
5,000,001 and above	1	10,564,227
Total	355	18,979,023

Unit Splits

There were no unit splits during the year.

Circumstances materially affecting the Interest of Unit Holders

Investments are subject to market risk.

Soft Commission

The Management Company from time to time receives research reports and presentations from brokerage houses.

HBL INCOME PERFORMANCE TABLE

	For the year ended June 30,2013	For the year ended June 30,2012	For the year ended June 30,2011	For the year ended June 30,2010	For the year ended June 30,2009	For the year ended June 30,2008
NET ASSETS AND PRICES						
Net assets at the period end(Rs'000)	1,947,464	1,968,874	1,512,897	1,600,410	2,320,673	5,770,263
Net asset value per unit at the period end/period end(Rs)	102.6114	103.3147	101.7643	100.9400	96.4600	102.5700
Selling price/repurchasing price	102.6114	103.3147	101.7643	100.9400	96.4600	102.5700
Earning per unit(Rs) (note 3.10)						
Highest selling price per unit(Rs)	103.3155	104.0714	102.0700	101.0900	103.7000	107.7700
Lowest selling price per unit(Rs)	99.1319	98.7443	97.1300	93.9600	93.3600	100.0800
Highest repurchase price per unit(Rs)	103.3155	104.0714	102.0700	101.0900	103.7000	107.7700
Lowest repurchasing price per unit(Rs)	99.1319	98.7443	97.1300	93.9600	93.3600	100.0800
RETURN (%)						
Total return	7.70%	12.32%	13.49%	13.60%	4.03%	9.28%
Income distribution	7.00%	10.40%	11.80%	9.58%	10.23%	9.19%
Capital growth	0.70%	1.92%	1.69%	4.02%	-6.20%	0.09
DISTRIBUTION						
First Interin dividend distribution	1.75	2.00	2.25	2.25	2.75	6.80
Second Interin dividend distribution	1.50	2.50	3.00	1.50	2.75	-
Third Interin dividend distribution	1.75	2.50	3.00	1.75	2.25	-
Final dividend distribution	2.00	3.25	3.25	3.50	2.50	2.40
Total dividend distribution for the year/ period	7.00	10.25	11.50	9.00	10.25	9.20
AVERAGE RETURNS (%)						
Average annual return 1 year	7.70%	12.32%	13.49%	13.60%	4.03%	9.29%
Average annual return 2 year	10.01%	12.91%	13.55%	8.82%	6.66%	-
Average annual return 3 year	11.17%	13.14%	13.55%	8.97%	-	-
Average return since inception	13.12%	10.43%	10.05%	9.19%	7.63%	9.35%
Weighted average portfolio during (No. of days)	475	606	942	1,069	1,094	1,203

Disclaimer:

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

TRUSTEE REPORT TO THE UNIT HOLDERS

HBL INCOME FUND

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

We, Central Depository Company of Pakistan Limited, being the Trustee of **HBL Income Fund** (the Fund) are of the opinion that HBL Asset Management Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2013 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

Karachi, October 02, 2013

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2013.

This statement is being presented to comply with the Code of Corporate Governance contained in Chapter XI of Listing Regulations of the Lahore Stock Exchange for the purpose of establishing a framework of good Governance, whereby a listed Company is managed in compliance with the best practice of corporate governance.

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

HBL - Income Fund is an open ended mutual fund and was listed on Lahore Stock Exchange. The units of the Fund have been offered for public subscription on a continuous basis from March 15, 2007.


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

1. The Management Company encourages representation of independent non-executive directors. As on June 30, 2012 the Board consists of six directors with five non-executive directors including two independent directors. The detail is as follows:

Category	Names
Independent Directors	1.Towfiq Habib Chinnoy 2.Sadia Khan
Executive Directors	1.Rehan N. Shaikh
Non-Executive Directors	1.Aman Aziz Siddiqui 2.Rizwan Haider 3.Salahuddin Manzoor 4.Salim Amlani

The independent directors meet the criteria of independence under clause 1 (b) of CCG

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred during the year.
5. The Management Company has prepared a "Code of Conduct", and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures. Further; it has also been placed on the Company's website.
6. The Board has developed a vision/mission statement, over all corporate strategy and significant policies of the company. A complete record of the particulars along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman, when present and the Board met five times during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. Two of directors of the Company are pursuing the "Directors Training Certification" and such certification shall be completed in the ensuing year.
10. The Board has approved the appointment of Chief Financial Officer and Company Secretary including his terms of remuneration of employment.
11. Directors Report for the year ended June 30, 2013 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 18 to the financial statements "Transactions with Connected Persons".

- 
14. The Company has complied with the corporate and financial reporting requirements of the Code.
 15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors and the Chairperson of the Committee is an independent director.
 16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Fund, as required by the Code.
 17. The Board has formed an HR Committee. It comprises of three members, majority of whom are non-executive directors and the Chairman of the HR committee is a non-executive Director.
 18. The Company has outsourced its internal audit function to a reputable firm of Chartered Accountants who is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company. Further, the Company intends to designate Head of Internal Audit for the coordination between the firm and the Audit Committee of the Board.
 19. The Statutory Auditors of the fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
 20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
 21. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions, if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.

Rehan N. Shaikh
Chief Executive Officer

Date: September 27, 2013
Place: Karachi

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **HBL Asset Management Limited** ("the Management Company") for and on behalf of **HBL Income Fund** (the fund) to comply with the Listing Regulation No 35(Chapter xi) of Lahore Stock Exchange (Guarantee) Limited where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, sub-regulation (x) of Listing Regulations No 35 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

As more fully explained in paragraphs 4,5 and 18 there are certain non-compliances in respect of filling up of casual vacancy by the directors, placement of comprehensive code of conduct on website along with significant policies and appointment of head of internal audit.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Fund's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended 30 June 2013.

Date: September 27, 2013
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

Report on the Financial Statements

We have audited the accompanying financial statements of **HBL Income Fund** ("the Fund"), which comprise the statement of assets and liabilities as at June 30, 2013 and the related income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in Unit Holders' fund for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2013 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Report on Other Legal and Regulatory Requirements

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

Date: 27 September 2013

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Syed Iftikhar Anjum

HBL INCOME FUND
Statement of Assets and Liabilities
As at June 30, 2013

	Note	2013	2012
		(Rupees in '000)	
Assets			
Bank balances	4	375,795	37,701
Investments	5	1,573,484	1,858,831
Profit receivable	6	18,379	31,272
Advances, deposits, prepayments and other receivables	7	3,607	61,810
Total assets		1,971,265	1,989,614
Liabilities			
Payable to HBL Asset Management Limited - Management Company	8	3,214	2,682
Payable to Central Depository Company of Pakistan Limited - Trustee	9	227	201
Payable to Securities and Exchange Commission of Pakistan	10	1,473	1,241
Accrued expenses and other liabilities	11	18,887	16,616
Total liabilities		23,801	20,740
Net Assets		1,947,464	1,968,874
Unit holders' fund (as per statement attached)		1,947,464	1,968,874
		(Number of units)	
Number of units in issue		18,979,024	19,057,037
		(Rupees)	
Net assets value per unit		102.6114	103.3148

The annexed notes 1 to 29 form an integral part of these financial statements.

For HBL Asset Management Limited
 (Management Company)

 Chief Executive

 Director

HBL INCOME FUND

Income Statement

For the year ended June 30, 2013

	Note	2013	2012
		(Rupees in '000)	
Income			
Profit on bank deposits	12	29,756	11,548
Capital gain / (loss) on sale of investments - net		10,033	(2,432)
Mark-up / return on investments	13	179,689	204,847
Other income		-	831
		219,478	214,794
Provision against non-performing Term Finance Certificates and Sukuks	5.4	(50,079)	(7,532)
		169,399	207,262
Expenses			
Remuneration of HBL Asset Management Limited - Management Company		34,466	28,485
Remuneration of Central Depository Company of Pakistan Limited - Trustee		2,520	2,257
Annual fee to Securities and Exchange Commission of Pakistan		1,473	1,241
Settlement and bank charges		13	330
Auditors' remuneration	14	480	450
Amortisation of preliminary expenses and floatation costs		-	167
Other expenses		255	235
		39,207	33,165
Net income from operating activities		130,192	174,097
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net		(3,887)	10,717
Provision for Workers' Welfare Fund	15	(2,526)	(3,698)
Net income for the year before taxation		123,779	181,116
Taxation	16	-	-
Net income for the year after taxation		123,779	181,116

The annexed notes 1 to 29 form an integral part of these financial statements.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL INCOME FUND
Statement of Comprehensive Income
For the year ended June 30, 2013

	<i>Note</i>	2013	2012
		(Rupees in '000)	
Net income for the year		123,779	181,116
Other comprehensive income for the year			
<i>Items to be reclassified to income statement in subsequent periods:</i>			
Net unrealised appreciation in the market value of securities classified as 'available for sale'	5.3	16,747	21,766
Total comprehensive income for year		<u>140,526</u>	<u>202,882</u>

The annexed notes 1 to 29 form an integral part of these financial statements.

For HBL Asset Management Limited
 (Management Company)

 Chief Executive

 Director

HBL INCOME FUND

Distribution Statement

For the year ended June 30, 2013

	2013	2012
	(Rupees in '000)	
Undistributed income brought forward - realised	72,051	53,274
Net income for the year	123,779	181,116
Element of (income) / loss and capital (gains) / losses included in the prices of units issued less those in units redeemed - amount representing (loss) / income that form part of unit holders' fund	(41)	1,396
Final distribution for the year ended June 30, 2012: Rs. 3.25 per unit (Date of distribution: July 7, 2012) [(2011: Rs. 3.25 per unit) (Date of distribution: July 7, 2011)]		
- Cash distribution	-	(3,477)
- 618,953 bonus units (2012: 455,157 bonus units)	(61,935)	(44,840)
	(61,935)	(48,317)
First interim distribution for the year ended June 30, 2013: Rs. 1.75 per unit (Date of distribution: October 24, 2012) [(2012: Rs. 2.00 per unit) (Date of distribution: October 11, 2011)]		
- Cash distribution	-	(2,140)
- 307,591 bonus units (2012: 327,904 bonus units)	(31,064)	(32,641)
	(31,064)	(34,781)
Second interim distribution for the year ended June 30, 2013: Rs. 1.50 per unit (Date of distribution: February 25, 2013) [(2012: Rs. 2.50 per unit) (Date of distribution: January 20, 2012)]		
- Cash distribution	-	(2,675)
- 272,003 bonus units (2012: 362,501 bonus units)	(27,704)	(36,803)
	(27,704)	(39,478)
Third interim distribution for the year ended June 30, 2013: Rs. 1.75 per unit (Date of distribution: April 12, 2013) [(2011: Rs. 2.50 per unit) (Date of distribution: April 25, 2012)]		
- Cash distribution	-	(2,644)
- 332,974 bonus units (2012: 380,485 bonus units)	(33,655)	(38,515)
	(33,655)	(41,159)
Total distributions	(154,358)	(163,735)
Undistributed income carried forward - realised	41,431	72,051

The annexed notes 1 to 29 form an integral part of these financial statements.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL INCOME FUND

Statement of Movement in Unit Holders' Fund

For the year ended June 30, 2013

	2013	2012
	(Rupees in '000)	
Net assets at beginning of the year [Rs. 103.3148 per unit (2012: Rs. 101.7643 per unit)]	1,968,874	1,512,897
Issue of 7,718,130 units (2012: 7,232,279 units)	786,474	737,551
Redemption of 9,327,664 units (2012: 4,575,251 units)	(952,297)	(462,803)
Issue of 1,531,521 bonus units (2012: 1,526,047 bonus units)	154,358	152,799
	(11,465)	427,547
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - transferred to income statement	3,887	(10,717)
Net income for the year	123,779	181,116
Net unrealised appreciation in the market value of securities classified as 'available for sale'	16,747	21,766
Total comprehensive income for the year	140,526	202,882
Final distribution for the year ended June 30, 2012: Rs. 3.25 per unit (Date of distribution: July 7, 2012) [(2011: Rs. 3.25 per unit) (Date of distribution: July 7, 2011)]		
- Cash distribution	-	(3,477)
- 618,953 bonus units (2012: 455,157 bonus units)	(61,935)	(44,840)
	(61,935)	(48,317)
First interim distribution for the year ended June 30, 2013: Rs. 1.75 per unit (Date of distribution: October 24, 2012) [(2012: Rs. 2.00 per unit) (Date of distribution: October 11, 2011)]		
- Cash distribution	-	(2,140)
- 307,591 bonus units (2012: 327,904 bonus units)	(31,064)	(32,641)
	(31,064)	(34,781)
Second interim distribution for the year ended June 30, 2013: Rs. 1.50 per unit (Date of distribution: February 25, 2013) [(2012: Rs. 2.50 per unit) (Date of distribution: January 20, 2012)]		
- Cash distribution	-	(2,675)
- 272,003 bonus units (2012: 362,501 bonus units)	(27,704)	(36,803)
	(27,704)	(39,478)
Third interim distribution for the year ended June 30, 2013: Rs. 1.75 per unit (Date of distribution: April 12, 2013) [(2011: Rs. 2.50 per unit) (Date of distribution: April 25, 2012)]		
- Cash distribution	-	(2,644)
- 332,974 bonus units (2012: 380,485 bonus units)	(33,655)	(38,515)
	(33,655)	(41,159)
Total distributions	(154,358)	(163,735)
Net assets at end of the year [Rs. 102.6114 per unit (2012: Rs. 103.3148 per unit)]	<u>1,947,464</u>	<u>1,968,874</u>

The annexed notes 1 to 29 form an integral part of these financial statements.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL INCOME FUND

Cash Flow Statement

For the year ended June 30, 2013

	Note	2013	2012
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the year		123,779	181,116
Adjustments			
Amortisation of preliminary expenses and floatation costs		-	167
Provision against non-performing Term Finance Certificates and Sukuks	5.4	50,079	7,532
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net		3,887	(10,717)
		<u>177,745</u>	<u>178,098</u>
(Increase) / Decrease in assets			
Investments - net		252,015	(402,199)
Profit receivable		12,893	3,874
Advances, deposits, prepayments and other receivables		58,203	(26,709)
		<u>323,111</u>	<u>(425,034)</u>
Increase in liabilities			
Payable to HBL Asset Management Limited - Management Company		532	639
Payable to Central Depository Company of Pakistan Limited - Trustee		26	26
Payable to Securities and Exchange Commission of Pakistan		232	96
Accrued expenses and other liabilities		2,271	3,836
		<u>3,061</u>	<u>4,597</u>
Net cash flows generated from / (used) in operating activities		<u>503,917</u>	<u>(242,339)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Amount received on issue of units		786,474	737,551
Payment against redemption of units		(952,297)	(462,803)
Cash dividend paid		-	(10,936)
Net cash flows (used in) / generated from financing activities		<u>(165,823)</u>	<u>263,812</u>
Net increase in cash and cash equivalents		<u>338,094</u>	<u>21,473</u>
Cash and cash equivalents at beginning of the year		37,701	16,228
Cash and cash equivalents at end of the year		<u><u>375,795</u></u>	<u><u>37,701</u></u>

The annexed notes 1 to 29 form an integral part of these financial statements.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL INCOME FUND

Notes To The Financial Statements

For the year ended June 30, 2013

1. LEGAL STATUS AND NATURE OF BUSINESS

HBL Income Fund (the Fund) was established under a Trust Deed, dated September 06, 2006, executed between HBL Asset Management Limited as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Fund was authorised by the Securities and Exchange Commission of Pakistan (SECP) as a unit trust scheme on July 25, 2006.

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 24-C, Khayaban-e-Hafiz, Phase-VI, D.H.A, Karachi, Pakistan.

The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can also be redeemed by surrendering to the Fund. The Fund is listed on the Lahore Stock Exchange. The units of the Fund were initially offered for public subscription at par from March 15, 2007 to March 17, 2007.

The principal activity of the Fund is to make investments in fixed income securities. Other avenues of investments include ready future arbitrage in listed securities and transactions under Continuous Funding System.

JCR-VIS Credit Rating Agency has assigned an asset manager rating of 'AM3+' to the Management Company and fund stability rating of A(f) to the Fund.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Standards, interpretations and amendments which became effective during the year

Following are the amendments of approved accounting standards which became effective for the current period:

- IAS 1 - Presentation of Financial Statements – Presentation of items of other comprehensive income (Amendment)
- IAS 12 - Deferred tax on investment property (Amendment)

The adoption of the above amendments of the standards did not have any impact on the financial statements except for additional disclosures as required by IAS 1 amendment.

2.3 Standards, interpretations and amendments to approved accounting standards, that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after July 01, 2013:

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 01, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments have no impact on financial statements of the Fund.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 -Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective January 01, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Fund.

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Fund.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after January 01, 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.
- Annual Improvements 2009–2011 (effective for annual periods beginning on or after January 01, 2013). The new cycle of improvements contains amendments to the following four standards, with consequential amendments to other standards and interpretations.
- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the ‘third statement of financial position’, when required, is only required if the effect of restatement is material to statement of financial position.
- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of ‘property, plant and equipment’ in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories. The amendment has no impact on Fund’s financial statements.
- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.
- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The amendments have no impact on financial statements of the Fund.
- IFRIC 20 Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after January 01, 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Fund.
- IFRIC 21- Levies ‘an Interpretation on the accounting for levies imposed by governments’ (effective for annual periods beginning on or after January 01, 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
- IAS 39 Financial Instruments: Recognition and Measurement- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after January 01, 2014). The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).
- Amendment to IAS 36 “Impairment of Assets” Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 01, 2013). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise their judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments and impairment there against (note 3.2 and 5).

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which are carried at fair value.

2.6 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Fund's functional and presentation currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated:

3.1 Cash and cash equivalents

Cash and cash equivalents include bank balances, demand deposits with banks and other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

3.2 Financial assets

3.2.1 Classification

The management determines the appropriate classification of its financial assets in accordance with the requirements of International Accounting Standards (IAS) 39: 'Financial Instruments: Recognition and Measurement', at the time of initial recognition.

The Fund classifies its financial assets in the following categories:

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the 'Financial assets at fair value through profit or loss' category.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

c) Available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

3.2.2 Regular way contracts

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell assets.

3.2.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

3.2.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as 'at fair value through profit or loss' and 'available for sale' are valued as follows:

a) Basis of valuation of Debt Securities (other than government)

The debt securities are valued on the basis of rates determined by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its Circular No. 33 of 2012 dated October 24, 2012 (which is essentially the same as contained in Circular No. 1 of 2009, previously used). In the determination of the rates, MUFAP

takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

b) Basis of valuation of Government Securities

The government securities are valued on the basis of rates announced by the Financial Markets Association of Pakistan.

Net gains and losses arising from changes in fair value of available for sale financial assets are taken to the 'statement of comprehensive income' until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised directly in the 'statement of comprehensive income' is transferred to the 'income statement'.

Net gains and losses arising from changes in the fair value of financial assets carried at fair value through profit or loss are taken to the income statement.

Subsequent to initial recognition, financial assets classified as 'loans and receivables' are carried at amortised cost using the effective interest method.

3.2.5 Impairment of financial assets

The carrying value of the Fund's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Provision for non-performing debt securities and other exposures is made in accordance with the criteria specified in Circular No. 33 dated October 24, 2012 issued by SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of Management Company.

3.2.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and where the Fund has transferred substantially all risks and rewards of ownership.

3.2.7 Offsetting of financial instruments

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

3.3 Financial liabilities

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

3.4 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to the bankers to the issue, brokerage paid to the members of the stock exchanges and other expenses. These costs are being amortised over a period of five years starting from the end of the initial offering period as per the requirements set out in the Trust Deed of the Fund and NBFC regulations.

3.5 Provisions

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

3.6 Taxation

The income of the Fund is exempt from Income Tax as per clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders.

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

The Fund provides for deferred taxation using the balance sheet liability method on all major temporary differences between the amounts used for financial reporting purposes and amounts used for taxation purposes. In addition, the Fund also records deferred tax asset on unutilised tax losses to the extent that it is no longer probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue availing the tax exemption in future years by distributing at least ninety percent of its accounting income for the year as reduced by capital gains, whether realised or unrealised, to its unit holders every year.

3.7 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Management Company for the applications received by the distributors / Management Company during business hours on the date on which the funds are actually realized against application. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors / Management company receive redemption requests during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

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

The element of income and capital gains included in the prices of units issued less those in units redeemed to the extent that it is represented by distributable income earned during the year is recognised in the income statement and the element of income and capital gains represented by distributable income carried forward from prior periods is included in the distribution statement.

3.9 Net asset value per unit

The Net Asset Value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities, is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

3.10 Earnings per unit (EPU)

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

3.11 Revenue recognition

- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on marking to market of investments classified as 'Financial assets at fair value through profit or loss' are included in the Income Statement in the year in which they arise.
- Dividend income is recognised when the right to receive dividend is established i.e. on the date of book closure of the investee company / institution declaring the dividend.
- Profit on bank deposits and mark-up / return on investments are recognised using effective yield method.

3.12 Proposed distribution

Distributions declared subsequent to the balance sheet date are considered as non-adjusting events and are recognised in the financial statements in the period in which such distributions are declared.

4. BANK BALANCES	Note	2013	2012
(Rupees in '000)			
Current accounts		16	16
Savings accounts	4.1	75,779	37,685
Term Deposit Receipts (TDRs)	4.2	300,000	-
		<u>375,795</u>	<u>37,701</u>

4.1 This represents bank accounts held in different banks. Profit rates on these accounts range between 5.5% - 8% (2012: 5.5% - 8%) per annum.

4.2 This represents investment in TDRs of less than three months issued by Bank Al-Falah Limited maturing on July 05, 2013 and carry a profit rate of 9.95% per annum.

5. INVESTMENTS	Note	2013	2012
(Rupees in '000)			
Available for sale			
- Term Finance Certificates - Listed	5.1.1	372,410	372,773
- Term Finance Certificates and sukus - Unlisted	5.1.2	167,235	203,161
- Government Securities	5.2	1,033,839	1,267,897
- Privately placed sukuk certificates		-	15,000
		<u>1,573,484</u>	<u>1,858,831</u>

5.1 Available for sale investments

All Term Finance Certificates have a face value of Rs. 5,000 each unless stated otherwise.

5.1.1 Term Finance Certificates - Listed

Name of the Investee Company	Number of certificates				Market value/ Carrying value* as at June 30, 2013	Market value as a percentage of	
	As at July 1, 2012	Purchases during the period	Sales / Matured during the period	As at June 30, 2013		Total Investments	Net Assets
(Rupees in '000)							
Financial Services							
Saudi Pak Leasing Company Limited - note 5.1.3	2,000	-	-	2,000	-	-	-
	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Banks							
Bank Alfalah Limited-II	4,000	-	4,000	-	-	-	-
Standard Chartered Bank Limited	-	8,000	-	8,000	39,740	2.53%	2.04%
Faysal Bank Limited	12,758	-	-	12,758	48,068	3.05%	2.47%
NIB Bank Limited	30,600	-	-	30,600	152,294	9.68%	7.82%
United Bank Limited	22,200	-	-	22,200	111,813	7.11%	5.74%
	<u>69,558</u>	<u>8,000</u>	<u>4,000</u>	<u>73,558</u>	<u>351,915</u>	<u>22.37%</u>	<u>18.07%</u>
Fixed Line Telecommunication							
Worldcall Telecom Limited 5.1.4	23,750	-	-	23,750	20,495	1.30%	1.05%
	<u>95,308</u>	<u>8,000</u>	<u>4,000</u>	<u>99,308</u>	<u>372,410</u>	<u>23.67%</u>	<u>19.12%</u>
Cost of investments at June 30, 2013	<u><u>408,247</u></u>						

5.1.2 Term Finance Certificates and Sukuk bonds - Unlisted

Name of the Investee Company	Number of certificates				Market value/ Carrying value* as at June 30, 2013	Market value as a percentage of	
	As at July 1, 2012	Purchases during the period	Sales / Matured during the period	As at June 30, 2013		Total Investments	Net Assets
(Rupees in '000)							
Banks							
Bank Al Habib Limited	6,000	-	-	6,000	33,826	2.15%	1.74%
Food Producers							
Al-Abbas Sugar Mills Limited	7,000	-	-	7,000	3,488	0.22%	0.18%
Chemicals							
Engro Fertilizer Limited - Perpetual I	21,000	-	-	21,000	98,438	6.26%	5.05%
Engro Fertilizer Limited - Perpetual II	7,000	-	-	7,000	31,483	2.00%	1.62%
Agriotech Limited - note 5.1.5	2,000	-	-	2,000	-	-	-
	30,000	-	-	30,000	129,921	8.26%	6.67%
Construction and Materials							
Maple Leaf Cement Factory Limited - Sukuk - note 5.1.6	7,000	-	-	7,000	-	-	-
Gas Water and Multiutilities							
Sui Southern Gas Company Limited - Sukuk	3,000	-	3,000	-	-	-	-
Others							
New Allied Electronics Industries (Pvt) Limited - note 5.1.5	9,000	-	-	9,000	-	-	-
New Allied Electronics Industries (Pvt) Limited -Sukuk - note 5.1.5	9,000	-	-	9,000	-	-	-
Eden Housing Limited - note 5.1.7	4,000	-	-	4,000	-	-	-
	22,000	-	-	22,000	-	-	-
	75,000	-	3,000	72,000	167,235	10.63%	8.59%
Cost of investments at June 30, 2013					282,733		

* In case of debt securities against which a provision has been made, these are carried at amortised cost less provision. For non-performing securities market value / valuation by MUFAP is not available.

5.1.3 Saudi Pak Leasing Company Limited defaulted towards payment falling due in September 2010. Accordingly, the exposure was classified as non-performing and provision was recognised in accordance with the SECP's provisioning guidelines.

Subsequently, on the request of the Issuer, TFC holders approved the restructuring of the facility by extending repayment period from 5 years to 9 years and by reducing mark-up rate to 6% for 24 months from restructuring date and 8% for next 24 months and thereafter fixing the mark-up rate at 1 month KIBOR. Further, half of the accrued mark-up is to be paid in cash and the balance is being deferred.

The Issuer defaulted again in the payment of principal and mark-up due on September 13, 2011. In accordance with the requirements of Circular No. 33 of 2012 dated October 24, 2012 issued by the Securities Exchange Commission of Pakistan (SECP), the exposure has been classified as non-performing and no further mark-up is being accrued after classification as non performing exposure. A provision of Rs. 6.110 million equivalent to 100% of the amount outstanding has been made. During the year Rs. 0.568 million were received from the Company.

5.1.4 Worldcall Telecom Limited requested an extension in payment date for payment due on April 7, 2012. An extension of 75 days was granted. However, on expiry of the extension period, the Issuer was not able to make the payment. MUFAP, on July 6, 2012, classified the TFCs as non-performing. However, payment for overdue instalment was received on July 31, 2012 and accordingly the TFC was reclassified as performing. The Issuer defaulted on the payment of Rs. 20.420 million due on October 07, 2012 and accordingly the Fund classified the TFC as non-performing. MUFAP also classified the TFC as non-performing on November 08, 2012.

A restructuring agreement was signed on December 26, 2012. The restructuring included the extension of repayment period by 2 years, deferral of principal instalments till October 07, 2014 and payment of regular mark-up during the restructuring period. The TFCs continue to be classified as non-performing by MUFAP. In accordance with Circular No. 33 of 2012 dated October 24, 2012, a provision of Rs. 30.366 million has been made in respect of the amount outstanding against this exposure.

5.1.5 These represent investments in privately placed Term Finance Certificates and Sukuk bonds of the investee company. These investments have been fully provided.

5.1.6 Maple Leaf Cement Factory Limited defaulted for the second time in the payment of principal and mark-up due on September 03, 2011 (earlier default on December 03, 2009). In accordance with the requirements of Circular No. 33 of 2012 dated October 24, 2012 issued by SECP, the exposure has been classified as non-performing (both by the fund and MUFAP). During the year, recoveries amounting to Rs. 3.507 million were received including the full recovery of Sukuk-II. A provision of 100% i.e. Rs. 31.425 million has been made in respect of the amount outstanding against this exposure and no further mark-up is being accrued.

5.1.7 Eden Housing Limited defaulted in payment falling due in July 2010 and on the request of the Issuer, TFC holders approved the restructuring of the facility in July 2010. After the restructuring the issue was classified as performing on January 10, 2012.

The Issuer defaulted again in the payment of principal and mark-up due on December 29, 2012. The payment was subsequently received on January 23, 2013 i.e. after the end of grace period (15 days) allowed by SECP. In accordance with the requirements of Circular No. 33 of 2012 dated October 24, 2012 issued by SECP, the exposure has been classified as non-performing by MUFAP on January 15, 2013. A provision of 100% i.e. Rs. 6.372 million has been made in respect of the amount outstanding against this exposure.

5.1.8 The Term Finance Certificates and Sukuk bonds held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the issuer.

5.1.9 Instalments amounting to Rs. 2.004 million have become due for payment of the following TFCs / sukuks and are reflected in note 7.

	2013	2012
	(Rupees in '000)	
Sui Southern Gas Company Limited	-	1,500
Bank Al Habib Limited	6	6
Worldcall Telecom Limited	-	16,954
Eden Housing Limited	-	936
Agritech Limited	1,998	1,998
	<u>2,004</u>	<u>21,394</u>

5.1.10 Significant terms and conditions of Term Finance Certificates outstanding as at June 30, 2013 are as follows:

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
Term Finance Certificates - Listed				
Faysal Bank Limited	3,743	1.40% + 6 Month KIBOR	12-Nov-07	12-Nov-14
United Bank Limited	4,990	0.65% + 6 Month KIBOR	14-Feb-08	14-Feb-18
NIB Bank Limited	4,990	1.15% + 6 Month KIBOR	5-Mar-08	5-Mar-16
Saudi Pak Leasing Company Limited	3,055	6% Fixed Rate	13-Mar-08	13-Mar-17
World Call Telecom Limited	2,142	1.60% + 6 Month KIBOR	7-Oct-08	7-Oct-15
Standard Chartered Bank Limited	5,000	0.75% + 6 Month KIBOR	29-Jun-12	29-Jun-22
Term Finance Certificates - Unlisted and Sukuks				
New Allied Electronics Industries (Pvt) Limited - Sukuk	4,905	2.50% + 6 Month KIBOR	15-May-07	15-May-11
Al Abbas Sugar Mills Limited	498	1.75% + 6 Month KIBOR	21-Nov-07	21-Nov-13
Agritech Limited	3,996	1.75% + 6 Month KIBOR	30-Nov-07	30-Nov-14
Maple Leaf Cement Factory Limited - Sukuk	4,489	1.00% + 3 Month KIBOR	3-Dec-07	3-Dec-18
New Allied Electronics Industries (Pvt) Limited	2,114	2.20% + 6 Month KIBOR	3-Dec-07	3-Dec-12
Eden Housing Limited	1,593	2.50% + 6 Month KIBOR	31-Dec-07	29-Jun-14
Engro Fertilizer Limited - Perpetual I	5,000	1.70% + 6 Month KIBOR	18-Mar-08	18-Mar-18
Engro Fertilizer Limited - Perpetual II	5,000	1.25% + 6 Month KIBOR	18-Mar-08	18-Mar-18
Bank Al Habib Limited	4,996	15% Fixed Rate	30-Jun-11	30-Jun-21

5.2 Investment in government securities - Available for sale

Issue Date	Tenor	Face value			Market Value		Market Value as a percentage of	
		As at July 1, 2012	Purchases during the period	Sales / Matured during the period	As at June 30, 2013	as at June 30, 2013	Total Investments	Net Assets
------(Rupees in '000)-----								
Treasury bill								
August 25, 2011	1 year	200,000	-	200,000	-	-	-	-
September 22, 2011	1 year	95,000	200,000	295,000	-	-	-	-
November 3, 2011	1 year	-	240,000	240,000	-	-	-	-
December 1, 2011	1 year	-	55,500	55,500	-	-	-	-
February 9, 2012	1 year	-	100,000	100,000	-	-	-	-
April 19, 2012	3 months	40,000	-	40,000	-	-	-	-
May 03, 2012	3 months	225,000	-	225,000	-	-	-	-
May 17, 2012	3 months	395,000	-	395,000	-	-	-	-
May 31, 2012	3 months	300,000	-	300,000	-	-	-	-
July 12, 2012	3 months	-	140,000	140,000	-	-	-	-
July 12, 2012	1 year	-	211,000	100,000	111,000	110,723	7.04%	5.7%
July 26, 2012	3 months	-	75,000	75,000	-	-	-	-
July 26, 2012	6 months	-	300,000	300,000	-	-	-	-
July 26, 2012	1 year	-	258,000	175,000	83,000	82,505	5.24%	4.2%
August 9, 2012	6 months	-	280,000	280,000	-	-	-	-
August 9, 2012	1 year	-	250,000	250,000	-	-	-	-
August 23, 2012	6 months	-	100,000	100,000	-	-	-	-
August 23, 2012	1 year	-	250,000	250,000	-	-	-	-
September 06, 2012	6 months	-	35,000	35,000	-	-	-	-
September 06, 2012	1 year	-	70,000	-	70,000	68,871	4.38%	3.5%
September 20, 2012	1 year	-	250,000	240,000	10,000	9,807	0.62%	0.5%
October 4, 2012	1 year	-	140,000	140,000	-	-	-	-
October 18, 2012	3 months	-	155,000	155,000	-	-	-	-
November 1, 2012	3 months	-	250,000	250,000	-	-	-	-
November 1, 2012	6 months	-	80,000	80,000	-	-	-	-
November 29, 2012	3 months	-	70,000	70,000	-	-	-	-
November 29, 2012	6 months	-	65,000	65,000	-	-	-	-
December 13, 2012	6 months	-	100,000	100,000	-	-	-	-
January 10, 2013	3 months	-	50,000	50,000	-	-	-	-
January 24, 2013	3 months	-	250,000	250,000	-	-	-	-
January 24, 2013	6 months	-	50,000	-	50,000	49,702	3.16%	2.6%
February 7, 2013	3 month	-	225,000	225,000	-	-	-	-
February 21, 2013	3 month	-	220,000	220,000	-	-	-	-
March 7, 2013	3 months	-	50,000	50,000	-	-	-	-
March 21, 2013	3 months	-	200,000	200,000	-	-	-	-
April 18, 2013	3 months	-	250,000	250,000	-	-	-	-
May 02, 2013	3 months	-	355,000	110,000	245,000	243,539	15.48%	12.5%
May 30, 2013	1 year	-	250,000	-	250,000	231,203	14.69%	11.9%
June 13, 2013	1 year	-	250,000	-	250,000	230,478	14.65%	11.8%

Issue Date	Tenor	Face value			Market Value as at June 30, 2013	Market Value as a percentage of	
		As at July 1, 2012	Purchases during the period	Sales / Matured during the period		As at June 30, 2013	Total Investments
------(Rupees in '000)-----							
		1,255,000	5,824,500	6,010,500	1,069,000	1,026,828	65.26% 52.73%
Pakistan Investment Bonds							
August 30, 2008	10 years	25,000	-	25,000	-	-	-
August 18, 2011	10 years	-	25,000	25,000	-	-	-
July 19, 2012	3 years	-	25,000	25,000	-	-	-
July 19, 2012	5 years	-	100,000	100,000	-	-	-
July 19, 2012	10 years	-	50,000	50,000	-	-	-
		25,000	200,000	225,000	-	-	-
GoP Ijara Sukuks							
November 15, 2010	3 years	7,000	-	-	7,000	7,011	0.45% 0.36%
		7,000	-	-	7,000	7,011	0.45% 0.36%
Grand total		1,287,000	6,024,500	6,235,500	1,076,000	1,033,839	65.26% 52.73%

Cost of investments at June 30, 2013

1,032,428

5.3 Net unrealised appreciation in fair value of investments classified as 'available for sale'

	Note	2013 (Rupees in '000)	2012
Market value of investments	5.1.1, 5.1.2 & 5.2	1,573,484	1,843,831
Less: Cost of investments	5.1.1, 5.1.2 & 5.2	(1,723,408)	(1,959,236)
		(149,924)	(115,405)
Provision against non-performing TFCs and sukuks		145,748	94,482
		(4,176)	(20,923)
Less: Net unrealised diminution in fair value of investments classified as 'available for sale' at beginning of the year		20,923	42,689
		16,747	21,766

5.4 Movement in provision against investments

Opening balance		97,667	90,135
Add: Charge for the period		54,147	46,490
Less: Reversals / write-offs		(4,068)	(38,958)
Net charge		50,079	7,532
Closing balance		147,746	97,667
Classified under investments		145,748	94,482
Classified under other receivables		1,998	3,185
		147,746	97,667

6. PROFIT RECEIVABLE

Profit receivable on saving accounts and term deposits		1,190	891
Mark-up / return accrued on Term Finance Certificates		17,104	28,473
Mark-up / return accrued on Government Securities		85	1,106
Mark-up / return accrued on sukuk under Musharakah agreement		-	802
		18,379	31,272

7. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Security deposit with National Clearing Company of Pakistan Limited		3,500	3,500
Security deposit with Central Depository Company of Pakistan Limited		100	100
Receivable against investments of Term Finance Certificates and Sukuks		2,004	21,394
Advance against subscription of Term Finance Certificates		-	40,000
Others		1	1
		5,605	64,995
Less: Provision against overdue instalments of Term Finance Certificates and Sukuks	5.4	(1,998)	(3,185)
		3,607	61,810

8. PAYABLE TO HBL ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY	Note	2013	2012								
		(Rupees in '000)									
Management fee	8.1	<u>3,214</u>	<u>2,682</u>								
<p>8.1 Under the provisions of the Non-Banking Finance Companies & Notified Entities Regulations 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of one and a half percent per annum for the current period. Last year, the Sindh government had levied General Sales Tax at the rate of 16% on the remuneration of the Management Company through Sindh Sales Tax on Services Act 2011 effective from July 1, 2011. During the current year the Federal Government has now levied additional Federal Excise Duty (FED) at the rate of 16% through the Finance Act 2013 effective from June 13, 2013. Accordingly, the management fee charged during the year includes General Sales Tax and FED.</p>											
9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	Note	2013	2012								
		(Rupees in '000)									
Trustee's remuneration		<u>227</u>	<u>201</u>								
<p>9.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified there in, based on the daily Net Asset Value (NAV) of the Fund.</p> <p>Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2013 is as follows:</p> <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Amount of Funds Under Management (Average NAV)</th> <th style="text-align: left;">Tariff per annum</th> </tr> </thead> <tbody> <tr> <td>Up to Rs. 1,000 million</td> <td>Rs. 0.6 million or 0.17% per annum of Net Asset Value whichever is higher</td> </tr> <tr> <td>Exceeding Rs. 1,000 million upto Rs. 5,000 million</td> <td>Rs. 1.7 million plus 0.085% per annum of Net Asset Value exceeding Rs. 1,000 million</td> </tr> <tr> <td>Exceeding Rs. 5,000 million</td> <td>Rs. 5.1 million plus 0.07% per annum of Net Asset Value exceeding Rs. 5,000 million</td> </tr> </tbody> </table> <p>The remuneration is paid to the trustee monthly in arrears.</p>				Amount of Funds Under Management (Average NAV)	Tariff per annum	Up to Rs. 1,000 million	Rs. 0.6 million or 0.17% per annum of Net Asset Value whichever is higher	Exceeding Rs. 1,000 million upto Rs. 5,000 million	Rs. 1.7 million plus 0.085% per annum of Net Asset Value exceeding Rs. 1,000 million	Exceeding Rs. 5,000 million	Rs. 5.1 million plus 0.07% per annum of Net Asset Value exceeding Rs. 5,000 million
Amount of Funds Under Management (Average NAV)	Tariff per annum										
Up to Rs. 1,000 million	Rs. 0.6 million or 0.17% per annum of Net Asset Value whichever is higher										
Exceeding Rs. 1,000 million upto Rs. 5,000 million	Rs. 1.7 million plus 0.085% per annum of Net Asset Value exceeding Rs. 1,000 million										
Exceeding Rs. 5,000 million	Rs. 5.1 million plus 0.07% per annum of Net Asset Value exceeding Rs. 5,000 million										
10. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN		2013	2012								
		(Rupees in '000)									
Annual fee		<u>1,473</u>	<u>1,241</u>								
<p>10.1 Under the provisions of the Non Banking Finance Companies & Notified Entities Regulations, 2008, a collective investment scheme categorised as income scheme is required to pay as annual fee to the SECP, an amount equal to 0.075% of the average annual net assets of the scheme. HBL Income Fund has been categorised as an income scheme by the management company.</p>											
11. ACCRUED EXPENSES AND OTHER LIABILITIES	Note	2013	2012								
		(Rupees in '000)									
Auditors' remuneration		184	354								
Brokerage payable		8	73								
Payable to unit holders against redemption of units		1	71								
Provision for Workers' Welfare Fund	15	18,526	16,000								
Other payables		<u>168</u>	<u>118</u>								
		<u>18,887</u>	<u>16,616</u>								

	2013	2012
	(Rupees in '000)	
12. PROFIT ON BANK DEPOSITS		
Profit on saving accounts	5,114	2,610
Profit on term deposit receipts	24,642	8,938
	<u>29,756</u>	<u>11,548</u>
13. MARK-UP / RETURN ON INVESTMENTS		
Term Finance Certificates - Listed	43,003	63,388
Term Finance Certificates and sukuks - Unlisted	30,304	42,895
Government Securities	106,205	97,762
Privately placed sukuk certificates	177	802
	<u>179,689</u>	<u>204,847</u>
14. AUDITORS' REMUNERATION		
Statutory audit fee	317	285
Half yearly review fee	83	75
Reporting on compliance with the Code of Corporate Governance	25	25
Out of pocket expenses	55	65
	<u>480</u>	<u>450</u>

15. PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

During 2010, 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) 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. Notices of demand have also been issued to several other mutual funds and the matter has been taken up by the respective mutual funds with the FBR for their withdrawal on the basis of the above referred clarification of the Ministry.

Furthermore, in 2011, the Honourable 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, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs. 18.526 million (including Rs. 2.526 million for the current year).

16. TAXATION

The Fund's income is exempt from Income Tax as per clause (99) of part I of the Second Schedule to 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 / loss to the unit holders. The Fund has not recorded any tax liability in respect of income relating to the current period as the management company intends to distribute at least 90 percent of the Fund's accounting income for the year ending June 30, 2013 as reduced by capital gains (whether realised or unrealised) to its unit holders. Accordingly, no tax liability has been recorded in the current period.

17. FINANCIAL INSTRUMENTS BY CATEGORY

	2013			Total
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	
	----- (Rupees in '000) -----			
Financial assets				
Bank balances	375,795	-	-	375,795
Investments	-	-	1,573,484	1,573,484
Profit receivable	18,379	-	-	18,379
Advances, deposits and other receivables	3,607	-	-	3,607
	<u>397,781</u>	<u>-</u>	<u>1,573,484</u>	<u>1,971,265</u>

	2013			Total
		Liabilities at fair value through profit or loss	Other financial liabilities	
	----- (Rupees in '000) -----			
Financial liabilities				
Payable to HBL Asset Management Limited - Management Company		-	3,214	3,214
Payable to Central Depository Company of Pakistan Limited - Trustee		-	227	227
Payable to Securities and Exchange Commission of Pakistan		-	1,473	1,473
Accrued expenses and other liabilities		-	361	361
		<u>-</u>	<u>5,275</u>	<u>5,275</u>

	2012			Total
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	
	----- (Rupees in '000) -----			
Financial assets				
Bank balances	37,701	-	-	37,701
Investments	-	-	1,858,831	1,858,831
Profit receivable	31,272	-	-	31,272
Advances, deposits and other receivables	61,810	-	-	61,810
	<u>130,783</u>	<u>-</u>	<u>1,858,831</u>	<u>1,989,614</u>

	2012			Total
		Liabilities at fair value through profit or loss	Other financial liabilities	
	----- (Rupees in '000) -----			
Financial liabilities				
Payable to HBL Asset Management Limited - Management Company		-	2,682	2,682
Payable to Central Depository Company of Pakistan Limited - Trustee		-	201	201
Payable to Securities and Exchange Commission of Pakistan		-	1,241	1,241
Accrued expenses and other liabilities		-	616	616
		<u>-</u>	<u>4,740</u>	<u>4,740</u>

18. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons include HBL Asset Management Limited being the Management Company, Habib Bank Limited being the Sponsor, Central Depository Company of Pakistan Limited, being the Trustee of the Fund, other collective investment schemes managed by the Management Company, directors and officers of the Management Company.

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

Remuneration payable to Management Company and Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

Details of the transactions with connected persons and balances with them, if not disclosed elsewhere in these financial statements are as follows:

	2013	2012
	(Rupees in '000)	
18.1 Transactions during the year		
HBL Asset Management Limited - Management Company		
Management fee	34,466	28,485
Issue of 979,663 units (2012: 1,039,346 units)	100,000	106,000
Issue of 78,367 bonus units (2012: 90,651 bonus units)	7,927	9,077
Redemption of 980,033 units (2012: 1,023,745 units)	100,005	104,599
Profit earned on units redeemed	11,313	10,791
Habib Bank Limited - Sponsor		
Issue of 821,264 bonus units (2012: 936,623 units)	93,784	93,784
Bank charges paid	7	30
Placement in Term Deposits Receipts	1,000,000	150,000
Maturity of Term Deposits Receipts	1,000,000	150,000
Profit on bank deposits earned	26,395	7,094
Profit received on bank deposits	26,415	6,911
Directors and Executives of the Management Company and their relatives		
Directors		
Mr. Salim Amlani *		
Issue of 9,962 units	1,000	-
Issue of 2,867 bonus units	289	-
Mr. Shahid Ghaffar		
Issue of 1,037 bonus units (2012: 1,183 bonus units)	105	118
Mr. Sohail Malik		
Issue of Nil units (2012: 196,427 units)	-	19,498
Issue of 15,533 bonus units (2012: 12,402 bonus units)	1,566	1,252
Redemption of Nil units (2012: 24,560 units)	-	2,500
Profit earned on units redeemed	-	157,171
Mr. Rehan Nabi Shaikh - Chief Executive Officer		
Issue of Nil units (2012: 15,189 units)	-	1,550
Issue of Nil bonus units (2012: 697 bonus units)	-	70
Redemption of Nil units (2012: 21,435 units)	-	2,202
Profit earned on units redeemed	-	152
	2013	2012
	(Rupees in '000)	
Relatives of Directors		
Issue of 3,903 units (2012: Nil units)	400	-
Issue of 7912 bonus units (2012: 4,218 bonus units)	797	904

	2013	2012
	(Rupees in '000)	
Executives and their relatives		
Redemption of Nil units (2012: 10,644 units)	-	1,082
Profit earned on units redeemed	-	13,243
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	2,520	2,257
Central Depository System charges	6	5
Directors of connected persons		
Issue of 81,067 bonus units (2012: 39,528 bonus units)	8,189	3,965
Issue of 788,830 units (2012: 291,853 units)	80,270	30,300
Redemption of Nil units (2012: 10,119 units)	-	1,027
Profit earned on units redeemed	-	196

18.2 Balances outstanding as at year end

HBL Asset Management Limited - Management Company		
Investment held by the management company in the Fund: 1,011,303 units (2012: 933,036 units)	103,771	96,396
Management fee payable	3,214	2,682
Habib Bank Limited - Sponsor		
Investment held in the Fund: 10,564,227 units (2012: 9,742,963 units)	1,084,010	1,006,592
Profit receivable on bank deposits	143	163
Bank balances including TDRs	304,397	25,033
Directors and Executives of the Management Company and their relatives		
Directors and their relatives		
Investment held in the Fund: 359,729 units (2012: 290,436 units)	36,912	30,193
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	227	201
Directors of connected persons		
Investment held in the Fund: 1,499,384 units (2012: 629,487 units)	153,646	450

* Mr. Salim Amlani is appointed as a director in the current year.

19. PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

	Designation	Qualification	Experience in years	
1	Rehan N. Shaikh	Chief Executive Officer	B.Com	18
2	Amir Khan	Fund Manager	MBA	20
3	Umar Farooq	Fund Manager	MBA	13
4	Wasim Akram	Fund Manager	MBA	11
5	Noman Qurban	Head of Compliance & Risk Management	ACA	5
6	Rabia Mir	Head of Research	BSc.	6

19.1 Amir Khan is the Manager of the Fund. He has obtained a Masters Degree in Business Administration. He is also the Fund Manager of HBL Money Market Fund and HBL Islamic Money Market Fund.

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

Top ten brokers during the year ended June 30, 2013

- 1 BMA Capital Management Limited
- 2 Global Securities Limited
- 3 Invest and Finance Securities Limited
- 4 JS Global Capital Limited
- 5 KASB Securities Limited

The Fund has less than ten brokers in its approved list of brokers.

Top ten brokers during the year ended June 30, 2012

- 1 BMA Capital Management Limited
- 2 Elixir Securities (Private) Limited
- 3 Global Securities Limited
- 4 Invest and Finance Securities Limited
- 5 Invisor Securities (Private) Limited
- 6 JS Global Capital Limited

The Fund has less than ten brokers in its approved list of brokers.

21. PATTERN OF UNIT HOLDING

	2013		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	339	341,531	17.54%
Associated companies	2	1,187,781	60.99%
Directors	1	4,198	0.22%
Retirement funds	5	29,928	1.54%
Public limited companies	1	270,299	13.88%
Others	7	113,727	5.84%
	355	1,947,464	100%
	2012		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	365	217,968	11.07%
Associated companies	2	1,102,989	56.02%
Directors	2	20,309	1.03%
Insurance companies	1	258	0.01%
Banks / DFIs	2	113,921	5.79%
Retirement funds	6	62,658	3.18%
Public limited companies	3	203,505	10.34%
Others	6	247,266	12.56%
	387	1,968,874	100%

22. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 34th, 35th, 36th, 37th and 38th board meetings were held on July 6, 2012, August 15, 2012, October 23, 2012, February 25, 2013 and April 12, 2013 respectively. Information in respect of attendance by Directors in the meetings is as follows:

Name of Director	Number of meetings			Meeting not attended
	Held	Attended	Leave granted	
1 Mr. Towfiq H. Chinoy	5	4	1	34th meeting
2 Mr. Shahid Ghaffar	5	5	-	
3 Mr. Sohail Malik	5	5	-	
4 Mr. Abid Sattar	5	4	1	34th meeting
5 Mr. Rehan N. Shaikh	5	5	-	
6 Ms. Sadia Khan	5	4	1	34th meeting

23. FINANCIAL RISK MANAGEMENT

The Fund primarily invests in a portfolio of money market investments such as investment-grade debt securities, government securities, spread transactions, continuous funding system transactions and in other money market instruments. These activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

23.1 Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

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

Market risk comprises of three types of risk; currency risk, interest rate risk and other price risk.

23.1.1 Currency risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund, at present is not exposed to currency risk as its operations are geographically restricted to Pakistan and all transactions are carried out in Pak Rupees.

23.1.2 Interest rate risk

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

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates and Sukuks that expose the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2013, with all other variables held constant, the net assets and net income of the Fund for the year would have been higher / lower by Rs. 1,525,472 (2012: Rs 1,918,361).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2013, the Fund holds Treasury Bills and Ijara sukuk which are classified as available for sale, exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Market Association on June 30, 2013, with all other variables held constant, the net assets would be lower by Rs. 4,327,097 (2012: Rs. 2,571,624). In case of 100 basis points decrease in rates announced by the Financial Market Association on June 30, 2013, with all other variables held constant, the net assets would be higher by Rs. 4,430,523 (2012: Rs. 2,554,796).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Therefore, the sensitivity analysis prepared as of June 30, 2013 is not necessarily indicative of the effect on the Fund's net assets due to future movements in interest rates.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

2013					
Yield / interest rate (%)	Exposed to Yield/Interest rate risk				Not exposed to Yield/ Interest rate risk
	Total	Upto three months	More than three months and upto one year	More than one year	
----- (Rupees in '000) -----					
On-balance sheet financial instruments					
Financial assets					
Bank balances	5.5 - 9.95	375,795	375,779	-	16
Investments	9.08 - 14.47	1,573,484	565,147	486,519	521,818
Profit receivable		18,379	-	-	18,379
Advances, deposits and other receivables		3,607	-	-	3,607
		1,971,265	940,926	486,519	521,818
Financial liabilities					
Payable to HBL Asset Management Limited - Management Company		3,214	-	-	3,214
Payable to Central Depository Company of Pakistan Limited - Trustee		227	-	-	227
Payable to Securities and Exchange Commission of Pakistan		1,473	-	-	1,473
Accrued expenses and other liabilities		361	-	-	361
		5,275	-	-	5,275
On-balance sheet gap		1,965,990	940,926	486,519	521,818
Off-balance sheet financial instruments		-	-	-	-
Off-balance sheet gap		-	-	-	-

2012					
Yield / interest rate (%)	Exposed to Yield/Interest rate risk				Not exposed to Yield/ Interest rate risk
	Total	Upto three months	More than three months and upto one year	More than one year	
----- (Rupees in '000) -----					
On-balance sheet financial instruments					
Financial assets					
Bank balances	5.5 - 8	37,701	37,685	-	16
Investments	11.92 - 15.44	1,858,831	1,231,859	71,038	555,934
Profit receivable		31,272	-	-	31,272
Advances, deposits and other receivables		61,810	-	-	61,810
		1,989,614	1,269,544	71,038	555,934
Financial liabilities					
Payable to HBL Asset Management Limited - Management Company		2,682	-	-	2,682
Payable to Central Depository Company of Pakistan Limited - Trustee		201	-	-	201
Payable to Securities and Exchange Commission of Pakistan		1,241	-	-	1,241
Accrued expenses and other liabilities		616	-	-	616
		4,740	-	-	4,740
On-balance sheet gap		1,984,874	1,269,544	71,038	555,934
Off-balance sheet financial instruments		-	-	-	-
Off-balance sheet gap		-	-	-	-

23.1.3 Price Risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Fund is not exposed to any price risk as on June 30, 2013.

23.2 Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due. Credit risk arises from the inability of the relevant brokerage house or the counter party to fulfil their obligations. There is a possibility of default by participants or failure of the financial markets / stock exchanges, the depositories, the settlements or clearing system, etc.

The Fund's credit risk is primarily attributable to its investment in debt securities and government securities, balances with banks and advances, deposits and other receivables. The credit risk of the Fund is limited as the investments are made and balances are maintained with counter parties that are financial institutions with reasonably high credit ratings. Risk attributable to investment in government securities is limited as these are guaranteed by the Federal Government.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. In addition, the risk is managed through the assignment of credit limits and by following strict credit evaluation criteria laid down by the Management Company.

The analysis below summarises the credit quality of the Fund's investment in bank balances and term finance certificates as at June 30, 2013 and June 30, 2012:

	2013	2012
	(Rupees in '000)	
Bank balances by rating category		
A1+	20,109	37,697
A1	1	1
A-1+	353,348	-
A-1	436	-
A-2	3	3
	<u>373,897</u>	<u>37,701</u>
Term finance certificates by rating category		
AAA	39,740	-
A+	155,783	162,552
A	129,920	-
AA+	-	-
AA	145,639	146,685
AA-	48,068	204,210
Non-investment grade	-	45,079
Non-performing accounts	20,495	17,408
	<u>539,645</u>	<u>575,934</u>

The maximum exposure to credit risk before any credit enhancement as at June 30, 2013 is the carrying amount of the financial assets.

Aging analysis of impaired accounts that are not fully provided are as follows:

	2013		2012	
	Carrying Amount (Rupees in '000)	Provision held	Carrying Amount (Rupees in '000)	Provision held
Not Past due	-	-	-	-
Past due 91 days - 1 year	50,862	30,367	34,933	17,525

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligation in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions of units. The Management Company manages the liquidity risk by monitoring maturities of financial assets and financial liabilities and investing a major portion of the Fund's assets in highly liquid financial assets.

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

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

	2013			
	Total	Upto three months	Over three months and upto one year	Over one year
	----- (Rupees in '000) -----			
Financial liabilities				
Payable to HBL Asset Management Limited - Management Company	3,214	3,214	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	227	227	-	-
Payable to Securities and Exchange Commission of Pakistan	1,473	1,473	-	-
Accrued expenses and other liabilities	361	361	-	-
	5,275	5,275	-	-
Unit holders' fund	1,947,464	1,947,464	-	-
	2012			
	Total	Upto three months	Over three months and upto one year	Over one year
	----- (Rupees in '000) -----			
Financial liabilities				
Payable to HBL Asset Management Limited - Management Company	2,682	2,682	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	201	201	-	-
Payable to Securities and Exchange Commission of Pakistan	1,241	1,241	-	-
Accrued expenses and other liabilities	616	616	-	-
	4,740	4,740	-	-
Unit holders' fund	1,968,874	1,968,874	-	-

24. UNITS HOLDERS' FUND RISK MANAGEMENT

The units holders' fund is represented by redeemable units. These units are entitled to distributions and to payment of a proportionate share, based on the Fund's net asset value per unit on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Fund has no restrictions on the subscription and redemption of units. There is no specific capital requirement which is applicable on the Fund.

The Fund's objectives when managing unit holders' funds are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets under management.

In accordance with the risk management policies stated in note 23, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by short term borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

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

The fair value of financial assets and liabilities traded in active markets are based on the quoted market prices at the close of trading on the year end date. The Fund does not hold any securities that are based on quoted market prices.

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

The fair value of financial assets (e.g. Treasury bills, Terms finance certificates and Sukuks) that are not traded in an active market is determined with reference to the rates quoted by Financial Market Association of Pakistan and MUFAP. The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular No. 33 of 2012 dated October 24, 2012 issued by the Securities and Exchange Commission of Pakistan (SECP).

If a security is not quoted by MUFAP due to it being 'non-performing status', its value is determined by making provisions in accordance with Circular No. 33 of 2012 issued by the SECP.

The estimated fair value of other financial assets and liabilities is considered not significantly different from carrying values as the items are either short term in nature or periodically repriced.

IFRS 7, 'Financial instruments: Disclosures' requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or Liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	2013			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Assets				
Financial assets available for sale				
- Debt securities		519,148	20,495	539,643
- Government treasury bills		1,033,839	-	1,033,839
	2012			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Assets				
Financial assets available for sale				
- Debt securities		558,526	17,408	575,934
- Government treasury bills		1,267,897	-	1,267,897
- Privately placed sukuk certificates		-	15,000	15,000

26. DISCLOSURE UNDER CIRCULAR 16 OF 2010 ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - CATEGORISATION OF OPEN END SCHEME

The Securities and Exchange Commission of Pakistan vide Circular 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. HBL Asset Management Limited (Management Company) classified HBL Income Fund (the Fund) as 'Income Scheme' in accordance with the said circular. As at June 30, 2013, the Fund is compliant with all the requirements of the said circular except for clause 9 (v) which requires that the rating of any security in the portfolio shall not be lower than the investment grade.

Name of Non-Complaint Investment	Type of Investment	Value of Investment before Provision	Provision held (if any)	Value of Investment after Provision	% of Net Assets	% of Gross Assets
----- (Rupees in '000) -----						
New Allied Electronics Industries (Private) Limited	TFC	19,330	19,330	-	-	-
New Allied Electronics Industries (Private) Limited	Sukuk	44,149	44,149	-	-	-
Eden Housing Limited	Sukuk	6,372	6,372	-	-	-
Agritech Limited	TFC	9,992	9,992	-	-	-
Maple Leaf Cement Factory Limited	Sukuk	31,426	31,426	-	-	-
Saudi Pak Leasing Company Limited	TFC	6,110	6,110	-	-	-
Worldcall Telecom Limited	TFC	50,862	30,367	20,495	1.05%	1.04%

27. NON-ADJUSTING EVENT AFTER THE REPORTING DATE

The Board of Directors of the Management Company in their meeting held on July 08, 2013 have declared final dividend of Rs. 2.00 per unit (2012: Rs. 3.25 per unit) in the form of bonus units for Class 'A' and Class 'B'. The financial statements of the Fund for the year ended June 30, 2013 do not include the effect of the final dividend which will be accounted for in the financial statements of the Fund for the year ending June 30, 2014.

28. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company in their meeting held on September 27, 2013.

29. GENERAL

Figures have been rounded off to the nearest thousand rupees.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

For further details please call (92-21) 35290171-86
or visit www.hblasset.com

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