HBL ASSET MANAGEMENT

HBL IncomeFund

Annual Report 2012

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HBL INCOME FUND

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. Sohail Malik	(Non-Executive Director)
	Mr. Abid Sattar	(Non-Executive Director)
	Mr. Shahid Ghaffar	(Non-Executive Director)
	Ms. Sadia Khan	(Independent Non-Executive Director)

Audit Committee

Chairperson	Ms. Sadia Khan	(Independent Non-Executive Director)
Members	Mr. Sohail Malik	(Non-Executive Director)
	Mr. Abid Sattar	(Non-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 Limtied (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,Clifiton,Karachi.
Website	www.hblasset.com
Head Office	8B, 8th Floor, Executive Tower, Dolmen City, Block 4, Clifton,Karachi.
Registered Office	8B, 8th Floor, Executive Tower, Dolmen City, Block 4, Clifton,Karachi.

FUND INFORMATION

NAME OF FUND	HBL Income Fund
FUND MANAGER	Mr. Muhammad Amir Khan
NAME OF AUDIOTRS	
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

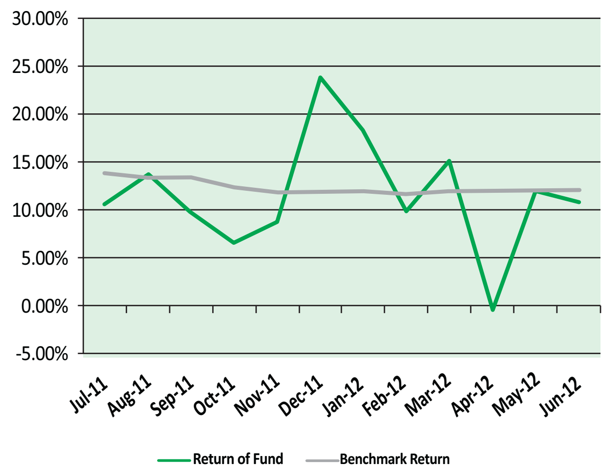
The investment objective of the Fund is to provide a stable stream of income with a moderate level of risk by investing in fixed income securities. The objective of the Fund has been achieved by developing portfolio of a wide range of fixed income securities. The diversification has been achieved by investing portfolio in various sectors, classes of securities and 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-11	10.72%	13.80%
Aug-11	13.78%	13.37%
Sep-11	9.77%	13.38%
Oct-11	6.52%	12.38%
Nov-11	8.73%	11.91%
Dec-11	23.98%	11.98%
Jan-12	18.35%	11.92%
Feb-12	9.83%	11.70%
Mar-12	15.30%	11.95%
Apr-12	-0.66%	12.00%
May-12	12.00%	12.00%
Jun-12	10.93%	12.03%

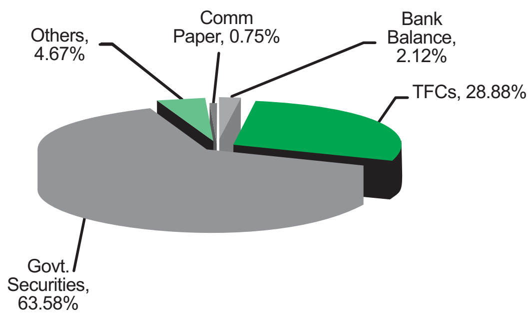


Strategies and Policies employed during the Year

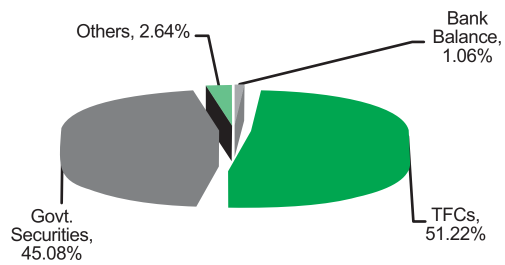
During the year under review, the exposure against TFCs decreased significantly from 51% as on June 30, 2011 to 29% as on June 30, 2012 mainly due to maturities. The Fund invested the matured amounts in Government Securities of various tenors. The Fund also continued its policy of holding quality TFCs of financial institutions in its portfolio. Further, bank deposits were maintained only with the high rated banks.

Asset Allocation

Asset Allocation June 30, 2012



Asset Allocation June 30, 2011



Significant Changes in Asset Allocation during the Year

During the year under review significant change in asset allocation were witnessed. The Fund's exposure in TFCs decreased from 51% in 2011 to 29% in 2012 mainly due to maturity of TFCs. The exposure in government securities increases from 45% as on June 2011 to 62% in June 2012.

Fund Performance

The total income and net income of the Fund was Rs. 217.98 million and Rs. 181.12 million respectively during the year ended June 30, 2012. The Net Asset Value (NAV) per unit of the Fund was Rs 98.5413 per unit as on July 1, 2011. The NAV of the Fund was Rs 100.0647 per unit as on June 30, 2012 (after accounting for dividend of Rs 10.25 per unit); there by giving an annualized return of 12.29%. During the same period the bench mark (6 Month KIBOR) return was 12.37%. The size of Fund increased from RS 1.51 billion as on June 30, 2011 to Rs1.97 billion as on June 30, 2012 showing an increase of 30%.

Review of Market invested in

During the year under review money market remained illiquid. During the year, Pakistan Bureau of Statistics has amended CPI calculation methodology by rebasing it to 2006-07 from 1999-2000; as a result headline inflation declined to 9.75% in December 2011. Hence, the State Bank of Pakistan reduced its benchmark interest rate by a cumulative 200 basis points to 12.00%, on August 1, 2011 by 50 bps and on October 1, 2011 by 150 bps, as compared to 14% at the end of the previous year.

The average six month KIBOR has decreased from 13.78% in June 2011 to as low as 11.70% in February 2012 and closed at 12.03% in June 2012.

Distribution

The Fund has distributed dividend at Rs. 10.25 in the form of Bonus units for Class "A" and Class "B" Units and Cash Dividend of Rs. 10.25 per unit for Class "C" Unit for the year ended June 30, 2012.

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	98	4,967
101 – 500	58	14,200
501 – 1,000	26	20,959
1,001 – 10,000	160	605,526
10,001 – 100,000	32	1,060,803
100,001 – 500,000	6	1,441,637
500,001 – 1,000,000	3	2,067,163
1,000,001 – 5,000,000	3	4,098,820
5,000,001 and above	1	9,742,963
Total	**387**	**19,057,037**

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 30,2012	For the year ended June 30,2011	For the year ended June 30,2010
NET ASSETS AND PRICES			
Net assets at the period end(Rs'000)	1,968,874	1,512,897	1,600,410
Net asset value per unit at the period end/period end(Rs)	103.3147	101.7643	100.94
Selling price/repurchasing price	103.3147	101.7643	100.94
Earning per unit(Rs) (note 3.8)	-	-	-
Highest selling price per unit(Rs)	104.0714	102.0700	101.09
Lowest selling price per unit(Rs)	98.7443	97.1300	93.96
Highest repurchase price per unit(Rs)	104.0714	102.0700	101.09
Lowest repurchasing price per unit(Rs)	98.7443	97.1300	93.96
RETURN (%)			
Total return	12.29	13.49	13.60
Income distribution	10.40	11.80	9.58
Capital growth	1.92	1.69	4.02
DISTRIBUTION			
First Interin dividend distribution	2.00	2.25	2.25
Second Interin dividend distribution	2.50	3.00	1.50
Third Interin dividend distribution	2.50	3.00	1.75
Final dividend distributation	3.25	3.25	3.50
Total dividend distribution for the year/ period	10.25	11.50	9.00
AVERAGE RETURNS (%)			
Average annual return 1 year	12.29	13.49	13.60
Average annual return 2 year	12.91	13.55	13.60
Average annual return 3 year	13.14	13.55	13.60
Average return since inception	10.43	10.05	9.19
Weighted average portfolio during (No. of days)	606	942	1,094

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, 2012 in accordance with the provisions of the following:

(i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;

(ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and

(iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

Aftab Ahmed Diwan
Officiating Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi, September 20, 2012

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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.Mr.Towfiq Habib Chinoy 2.Ms. Sadia Khan
Executive Directors	1.Rehan N. Shaikh
Non-Executive Directors	1.Mr. Sohail Malik 2.Mr. Abid Sattar 3.Mr. Shahid Ghaffar

2. None of directors is serving as a director in seven or more 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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. Mr. R. Zakir Mahmood resigned from the Board as both the Chairman and member with effect from March 31, 2011 and the casual vacancy was filled up by the directors on April 21, 2012.

5. The Management Company has adopted a "Code of Conduct", which has been distributed to employees of the Company and it is also placed on the website of the Company. . However, the management company in process to develop comprehensive " Code of Conduct" as stipulated in code of Corporate Governance, 2012

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. All the members of the Board are well aware of operations of the fund and the Management Company, therefore no orientation courses were arranged during the year ended June 30, 2012.

10. The Board has approved the appointment of CFO and Company Secretary including their remuneration and term and conditions of employment.

11. Directors Report for the year ended June 30, 2012 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, all of whom are non-executive directors and the Chairman of the audit committee is an independent 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 appoint 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: August 15, 2012
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 2012.

Date: 15 August 2012

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi

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 of the statement of assets and liabilities as at June 30, 2012 and the 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 of the financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of the financial statements that is 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 schedule, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation 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, 2012 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Other matters

The financial statements of the Fund for the year ended June 30, 2011 were audited by another firm of auditors whose report dated October 25, 2011 expressed an unqualified opinion thereon.

Report on Other Legal and Regulatory Requirements

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

Date: August 15, 2012

Karachi.

KPMG Taseer Hadi & Co.
Chartered Accountants
Syed Iftikhar Anjum

HBL INCOME FUND
Statement of Assets and Liabilities
As at June 30, 2012

	Note	2012	2011
		(Rupees in '000)	
Assets			
Bank balances	*4*	**37,701**	16,228
Investments	*5*	**1,858,831**	1,442,398
Profit receivable	*6*	**31,272**	35,146
Preliminary expenses and floatation costs	*7*	**-**	167
Advances, deposits, prepayments and other receivables	*8*	**61,810**	35,101
Total assets		**1,989,614**	1,529,040
Liabilities			
Payable to HBL Asset Management Limited - Management Company	*9*	**2,682**	2,043
Payable to Central Depository Company of Pakistan Limited - Trustee	*10*	**201**	175
Payable to Securities and Exchange Commission of Pakistan	*11*	**1,241**	1,145
Accrued expenses and other liabilities	*12*	**16,616**	12,780
Total liabilities		**20,740**	16,143
Net Assets		**1,968,874**	1,512,897
Unit holders' fund (as per statement attached)		**1,968,874**	1,512,897
		(Number of units)	
Number of units in issue		**19,057,037**	14,866,697
		(Rupees)	
Net assets value per unit		**103.3148**	101.7643

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

For HBL Asset Management Limited
(Management Company)

Chief Executive **Director**

HBL INCOME FUND
Income Statement
For the year ended June 30, 2012

	Note	2012	2011
		(Rupees in '000)	
Income			
Profit on bank deposits	13	**11,548**	12,189
Income from Term Finance Certificates		**106,283**	135,297
Capital loss on sale of investments - net		**(2,432)**	(1,659)
Income from reverse repurchase and money market investments		**98,564**	64,730
Other income		**831**	-
		214,794	210,557
Provision against non-performing Term Finance Certificates and sukuks	5.5	**(7,532)**	(1,847)
		207,262	208,710
Expenses			
Remuneration of HBL Asset Management Limited - Management Company		**28,485**	22,906
Remuneration of Central Depository Company of Pakistan Limited - Trustee		**2,257**	2,341
Annual fee to Securities and Exchange Commission of Pakistan		**1,241**	1,145
Settlement and bank charges		**330**	283
Auditors' remuneration	14	**450**	367
Amortisation of preliminary expenses and floatation costs		**167**	227
Legal and professional charges		**-**	92
Other expenses		**235**	212
		33,165	27,573
Net income from operating activities		**174,097**	181,137
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net		**10,717**	(4,721)
Provision for Workers' Welfare Fund	15	**(3,698)**	(3,530)
Net income for the year before taxation		**181,116**	172,886
Taxation	16	**-**	-
Net income for the year after taxation		**181,116**	172,886

The annexed notes 1 to 29 form an integral part of the 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, 2012

	Note	**2012**	2011
		(Rupees in '000)	
Net income for the year		**181,116**	172,886
Other comprehensive income for the year			
Net unrealised appreciation in the market value of securities classified as available for sale	*5.4*	**21,766**	14,006
Total comprehensive income for year		**202,882**	186,892

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

For HBL Asset Management Limited
(Management Company)

Chief Executive **Director**

HBL INCOME FUND
Distribution Statement
For the year ended June 30, 2012

	2012	2011
	(Rupees in '000)	
Undistributed income brought forward - realised	**53,274**	58,611
Net income for the year	**181,116**	172,886
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - amount representing income / (loss) that form part of unit holders' fund	**1,396**	(194)
Final distribution for the year ended June 30, 2011: Rs. 3.25 per unit (Date of distribution: July 7, 2011) [(2010: Rs. 3.50 per unit) (Date of distribution: July 7, 2010)]		
- Cash distribution	**(3,477)**	(10,599)
- 455,157 bonus units (2011: 460,738 bonus units)	**(44,840)**	(44,894)
	(48,317)	(55,493)
First interim distribution for the year ended June 30, 2012: Rs. 2.00 per unit (Date of distribution: October 11, 2011) [(2011: Rs. 2.25 per unit) (Date of distribution: October 28, 2010)]		
- Cash distribution	**(2,140)**	(5,660)
- 327,904 bonus units (2011: 298,593 bonus units)	**(32,641)**	(29,337)
	(34,781)	(34,997)
Second interim distribution for the year ended June 30, 2012: Rs. 2.50 per unit (Date of distribution: January 20, 2012) [(2011: Rs. 3.00 per unit) (Date of distribution: February 11, 2011)]		
- Cash distribution	**(2,675)**	(4,532)
- 362,501 bonus units (2011: 403,252 bonus units)	**(36,803)**	(39,406)
	(39,478)	(43,938)
Third interim distribution for the year ended June 30, 2012: Rs. 2.50 per unit (Date of distribution: April 18, 2012) [(2011: Rs. 3.00 per unit) (Date of distribution: April 25, 2011)]		
- Cash distribution	**(2,644)**	(3,210)
- 380,485 bonus units (2011: 408,347 bonus units)	**(38,515)**	(40,391)
	(41,159)	(43,601)
Total Distributions	**(163,735)**	(178,029)
Undistributed income carried forward - realised	**72,051**	53,274

The annexed notes 1 to 29 form an integral part of the 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, 2012

	2012	2011
	(Rupees in '000)	
Net assets at beginning of the year	**1,512,897**	1,600,410
Issue of 7,232,279 units (2011: 1,678,490 units)	**737,551**	167,346
Redemption of 4,575,251 units (2011: 4,237,988 units)	**(462,803)**	(422,471)
Issue of 1,526,047 bonus units (2011: 1,570,930 bonus units)	**152,799**	154,028
	427,547	(101,097)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to income statement	**(10,717)**	4,721
Total comprehensive income for the year	**202,882**	186,892
Final distribution for the year ended June 30, 2011: Rs. 3.25 per unit (Date of distribution: July 7, 2011) [(2011: Rs. 3.50 per unit) (Date of distribution: July 7, 2010)]		
- Cash distribution	**(3,477)**	(10,599)
- 455,157 bonus units (2011: 460,738 bonus units)	**(44,840)**	(44,894)
	(48,317)	(55,493)
First interim distribution for the year ended June 30, 2012: Rs. 2.00 per unit (Date of distribution: October 11, 2011) [(2011: Rs. 2.25 per unit) (Date of distribution: October 13, 2010)]		
- Cash distribution	**(2,140)**	(5,660)
- 327,904 bonus units (2011: 298,593 bonus units)	**(32,641)**	(29,337)
	(34,781)	(34,997)
Second interim distribution for the year ended June 30, 2012: Rs. 2.50 per unit (Date of distribution: January 20, 2012) [(2011: Rs. 3.00 per unit) (Date of distribution: February 11, 2011)]		
- Cash distribution	**(2,675)**	(4,532)
- 362,501 bonus units (2011: 403,252 bonus units)	**(36,803)**	(39,406)
	(39,478)	(43,938)
Third interim distribution for the year ended June 30, 2012: Rs. 2.50 per unit (Date of distribution: April 18, 2012) [(2011: Rs. 3.00 per unit) (Date of distribution: April 25, 2011)]		
- Cash distribution	**(2,644)**	(3,210)
- 380,485 bonus units (2011: 408,347 bonus units)	**(38,515)**	(40,391)
	(41,159)	(43,601)
Total Distributions	**(163,735)**	(178,029)
Net assets at end of the year	**1,968,874**	1,512,897

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

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL INCOME FUND
Cash Flow Statement
For the year ended June 30, 2012

	Note	2012	2011
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the year		**181,116**	172,886
Adjustments			
Amortisation of preliminary expenses and floatation costs		**167**	227
Provision against non-performing Term Finance Certificates and sukuks	*5.5*	**7,532**	1,847
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net		**(10,717)**	4,721
		178,098	179,681
(Increase) / Decrease in assets			
Investments - net		**(402,199)**	131,028
Profit receivable		**3,874**	3,224
Advances, deposits, prepayments and other receivables		**(26,709)**	(22,440)
		(425,034)	111,812
Increase / (Decrease) in liabilities			
Payable to HBL Asset Management Limited - Management Company		**639**	(3,114)
Payable to Central Depository Company of Pakistan Limited - Trustee		**26**	(300)
Payable to Securities and Exchange Commission of Pakistan		**96**	(494)
Accrued expenses and other liabilities		**3,836**	3,561
		4,597	(347)
Net cash flows from operating activities		**(242,339)**	291,146
CASH FLOW FROM FINANCING ACTIVITIES			
Amount received on issue of units		**737,551**	167,346
Payment against redemption of units		**(462,803)**	(441,981)
Cash dividend paid		**(10,936)**	(24,001)
Net cash flows from financing activities		**263,812**	(298,636)
Net decrease in cash and cash equivalents		**21,473**	(7,490)
Cash and cash equivalents at beginning of the year		**16,228**	23,718
Cash and cash equivalents at end of the year		**37,701**	16,228

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

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

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 8B-8th Floor, Executive Tower, Dolmen City, Block 4, Clifton, 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 prevail.

2.2 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, 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 01, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset’s economic benefits over the life of the asset. The amendment has no impact on financial statements of the Fund.

- 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.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 01, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments would result in increased disclosures in the 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 1 January 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. This amendment is not likely to have any impact on Fund's financial statements.

- 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 amendment may result in modified disclosure in the interim financial statements.

- 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.

2.3 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 thereagainst (note 3.2 and 5).

2.4 Accounting convention

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

2.5 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 Standard (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

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.1 of 2009 dated January 6, 2009. 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 1 dated January 6, 2009 and circular No. 13 dated May 4, 2009 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. 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 period 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, investments in debt securities and income from government securities is recognised using the effective interest 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

		2012	2011
		(Rupees in '000)	
Current accounts		**382**	16
Savings accounts		**37,319**	16,212
		37,701	16,228

5. INVESTMENTS

	Note	2012	2011
Available for sale			
- Term Finance Certificates - Listed	*5.1.1*	**372,773**	477,842
- Term Finance Certificates and sukuks - Unlisted	*5.1.2*	**203,161**	275,288
- Government Securities	*5.2*	**1,267,897**	689,268
- Privately placed sukuk certificates	*5.3*	**15,000**	-
		1,858,831	1,442,398

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, 2012	Market value as a percentage of	
	As at July 1, 2011	Purchases during the period	Sales / Matured during the period	As at June 30, 2012		Total Investments	Net Assets
					(Rupees in '000)		
Financial Services							
Orix Leasing Pakistan Limited	28,300	-	28,300	-	-	-	-
Jahangir Siddiqui & Company Limited	2,000	-	2,000	-	-	-	-
Saudi Pak Leasing Company Limited - note 5.1.3	2,000	-	-	2,000	-	-	-
	32,300	-	30,300	2,000	-	-	-
Banks							
Bank Alfalah Limited-II	4,000	-	-	4,000	6,674	0.36%	0.34%
Faysal Bank Limited	12,758	-	-	12,758	64,120	3.45%	3.26%
NIB Bank Limited	30,600	-	-	30,600	152,068	8.18%	7.72%
United Bank Limited	22,200	-		22,200	111,764	6.01%	5.68%
	69,558	-	-	69,558	334,626	18.00%	17.00%
Fixed Line Telecommunication							
Worldcall Telecom Limited 5.1.4	23,750	-	-	23,750	38,147	2.05%	1.94%
	125,608	**-**	**30,300**	**95,308**	**372,773**	**20.05%**	**18.94%**
Cost of investments at June 30, 2012					**384,827**		

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, 2012	Market value as a percentage of	
	As at July 1, 2011	Purchases during the period	Sales / Matured during the period	As at June 30, 2012	(Rupees in '000)	Total Investments	Net Assets
Banks							
Bank Al Habib Limited	-	6,000	-	6,000	31,919	1.72%	1.62%
Food Producers							
Al-Abbas Sugar Mills Limited	7,000	-	-	7,000	10,484	0.56%	0.53%
Chemicals							
Engro Fertilizer Limited - Perpetual I	41,000	-	20,000	21,000	99,855	5.37%	5.07%
Engro Fertilizer Limited - Perpetual II	7,000	-	-	7,000	33,561	1.81%	1.70%
Agritech Limited (Formerly Pak American Fertilizers Limited) - note 5.1.5	2,000	-	-	2,000	-	-	-
	50,000	-	20,000	30,000	133,416	7.18%	6.78%
Construction and Materials							
Maple Leaf Cement Factory Limited - Sukuk - note 5.1.6	7,000	-	-	7,000	17,408	0.94%	0.88%
Gas Water and Multiutlities							
Sui Southern Gas Company Limited - Sukuk	3,000	-	-	3,000	3,002	0.16%	0.15%
Others							
New Allied Electronics Industries (Pvt) Limited - note 5.1.7	9,000	-	-	9,000	-	-	-
New Allied Electronics Industries (Pvt) Limited -Sukuk - note 5.1.7	9,000	-	-	9,000	-	-	-
Eden Housing Limited	4,000	-	-	4,000	6,932	0.37%	0.35%
	22,000	-	-	22,000	6,932	0.37%	0.35%
	89,000	**6,000**	**20,000**	**75,000**	**203,161**	**10.93%**	**10.32%**
Cost of investments at June 30, 2012					**306,295**		

*** In case of debt securities against which a provision has been made, these are carried at amortised cost less provision.**

5.1.3 The Issuer of TFCs 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 markup rate to 6% for 24 months from restructuring date and 8% for next 24 months and thereafter fixing the markup rate at 1 month KIBOR. Further, half of the accrued markup 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 1 of 2009 and Circular 3 of 2010 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. In addition, provision of 100% amounting to Rs. 6.670 million has been made in respect of the amount outstanding against this exposure.

5.1.4 The Issuer of TFCs 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. As at the year end, the TFCs were performing, no provision was made against the Certificates in terms of circular 3 of 2010 issued by the Securities and Exchange Commission of Pakistan (SECP). The provision made on July 6, 2012 amounted to Rs. 36.041 million and reduced the net asset value by Rs. 1.1617 per unit. However payment for overdue installment has been made on July 31, 2012.

5.1.5 Agritech Limited defaulted in payment of principal and mark-up due on May 30, 2010. In accordance with the requirements of Circular 1 of 2009 and Circular 3 of 2010 issued by the Securities and Exchange Commission of Pakistan (SECP), the security has been classified as non-performing from June 15, 2010 (i.e from 15th day of the date of default) and no further mark-up is being accrued after the said date. A provision of 100% i.e Rs. 9.992 million has been made in respect of the amount outstanding against this exposure.

5.1.6 The sukuks of Maple Leaf Cement Factory Limited were restructured last year. In accordance with the terms of restructuring, the amount of markup due on December 3, 2009 was partially off-set through issuance of new sukuks, "Maple Leaf Cement Facility Limited Sukuk II". The management has not recognised the amount of Sukuks in their financial statements on a prudent basis and in accordance with the guidance specified by the SECP which require overdue mark-up to be recognised on cash basis.

Subsequently, the Issuer defaulted again in the payment of principal and mark-up due on September 03, 2011. In accordance with the requirements of Circular 1 of 2009 and Circular 3 of 2010 issued by the Securities and 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. 17.524 million has been made in respect of the amount outstanding against this exposure.

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

5.1.9 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.

5.1.10 Installments amounting to Rs. 21,394 thousand have become due for payment of the following TFCs / sukuks and are reflected in note 8.

	2012	2011
	(Rupees in '000)	
Sui Southern Gas Company Limited	**1,500**	1,500
Bank Al Habib Limited	**6**	-
Worldcall Telecom Limited	**16,954**	-
Eden Housing Limited	**936**	1,762
Agritech Limited (Formerly Pak American Fertilizers Limited)	**1,998**	999
	21,394	4,261

5.1.11 Significant terms and conditions of Term Finance Certificates outstanding as at June 30, 2012 are as follows:

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
Term Finance Certificates - Listed				
Saudi Pak Leasing Company Limited	3,325	6% Fixed Rate	13-Mar-08	13-Mar-17
Bank Alfalah Limited-II	1,662	1.50% + 6 Month KIBOR	23-Nov-04	23-Nov-12
Faysal Bank Limited	4,991	1.40% + 6 Month KIBOR	12-Nov-07	12-Nov-14
NIB Bank Limited	4,992	1.15% + 6 Month KIBOR	5-Mar-08	5-Mar-16
United Bank Limited	4,992	0.65% + 6 Month KIBOR	14-Feb-08	14-Feb-18
World Call Telecom Limited	2,142	1.60% + 6 Month KIBOR	7-Oct-08	7-Oct-13

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
Term Finance Certificates - Unlisted and Sukuks				
Al Abbas Sugar Mills Limited	1,498	1.75% + 6 Month KIBOR	21-Nov-07	21-Nov-13
Bank Al Habib Limited	4,998	15% Fixed Rate	30-Jun-11	30-Jun-21
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
Agritech Limted (Formerly Pak American Fertilizers Limited)	3,996	1.75% + 6 Month KIBOR	30-Nov-07	30-Nov-14
Maple Leaf Cement Factory Limited -Sukuk	4,990	1.00% + 3 Month KIBOR	3-Dec-07	3-Dec-18
Sui Southern Gas Company Limited- Sukuk	1,000	0.20% + 3 Month KIBOR	31-Dec-07	31-Dec-12
New Allied Electronics Industries (Pvt) Limited	2,114	2.20% + 6 Month KIBOR	3-Dec-07	3-Dec-12
New Allied Electronics Industries (Pvt) Limited - Sukuk	4,905	2.50% + 6 Month KIBOR	15-May-07	15-May-11
Eden Housing Limited	2,436	2.50% + 6 Month KIBOR	31-Dec-07	31-Dec-12

5.2 Investment in government securities - Available for sale

Issue Date	Tenor	---------------------- Face value ----------------------				Market Value as at June 30, 2012	Market Value as a percentage of	
		As at July 1, 2011	Purchases during the period	Sales / Matured during the period	As at June 30, 2012		Total Investments	Net Assets
		---------------------------------(Rupees in '000)---------------------------------						
Treasury bill								
February 10, 2011	6 months	-	15,000	15,000	-	-	-	-
March 10, 2011	6 months	-	20,000	20,000	-	-	-	-
April 21, 2011	3 months	85,000	-	85,000	-	-	-	-
April 21, 2011	6 months	-	90,000	90,000	-	-	-	-
May 05, 2011	6 months	-	30,000	30,000	-	-	-	-
May 19, 2011	1 year	-	200,000	200,000	-	-	-	-
June 02, 2011	3 months	110,000	-	110,000	-	-	-	-
June 02, 2011	6 months	-	135,000	135,000	-	-	-	-
June 02, 2011	1 year	320,000	-	320,000	-	-	-	-
June 16, 2011	3 months	180,000	-	180,000	-	-	-	-
June 30, 2011	3 months	15,000	-	15,000	-	-	-	-
July 14, 2011	3 months	-	85,000	85,000	-	-	-	-
August 11, 2011	6 months	-	45,000	45,000	-	-	-	-
August 25, 2011	3 months	-	110,000	110,000	-	-	-	-
August 25, 2011	1 year	-	200,000	-	200,000	196,599	10.6%	10.0%
September 08, 2011	3 months	-	185,000	185,000	-	-	-	-
September 08, 2011	6 months	-	10,000	10,000	-	-	-	-
September 22, 2011	1 year	-	325,000	230,000	95,000	92,547	5.0%	4.7%
October 06, 2011	6 months	-	90,000	90,000	-	-	-	-
October 20, 2011	6 months	-	40,000	40,000	-	-	-	-
November 03, 2011	3 months	-	30,000	30,000	-	-	-	-
November 17, 2011	3 months	-	110,000	110,000	-	-	-	-
November 17, 2011	6 months	-	50,000	50,000	-	-	-	-
December 01, 2011	3 months	-	250,000	250,000	-	-	-	-
December 01, 2011	6 months	-	250,000	250,000	-	-	-	-
February 09, 2012	3 months	-	175,000	175,000	-	-	-	-
February 23, 2012	3 months	-	170,000	170,000	-	-	-	-
March 08, 2012	3 months	-	50,000	50,000	-	-	-	-
April 19, 2012	3 months	-	40,000	-	40,000	39,857	2.14%	2.0%
May 03, 2012	3 months	-	225,000	-	225,000	223,170	12.01%	11.3%
May 17, 2012	3 months	-	395,000	-	395,000	390,046	20.98%	19.8%
May 31, 2012	3 months	-	300,000	-	300,000	294,898	15.86%	15.0%
		710,000	3,625,000	3,080,000	1,255,000	1,237,117	66.55%	62.83%
Pakistan Investment Bonds								
August 30, 2008	10 years	25,000	-	-	25,000	23,810	1.28%	1.21%
		25,000	-	-	25,000	23,810	1.28%	1.21%
Ijara Sukuks								
November 15, 2010	3 years	-	7,000	-	7,000	6,970	0.37%	0.35%
		-	7,000	-	7,000	6,970	0.37%	0.35%
Grand total		735,000	3,632,000	3,080,000	1,287,000	1,267,897	67.83%	64.04%
Cost of investments at June 30, 2012						1,268,114		

5.3 This represents investment in privately placed sukuk certificates based on Musharakah issued by the Hub Power Company Limited on February 03, 2012 at a profit rate of 1.25% per annum above six months KIBOR (2011: Nil). The certificates will mature on August 03, 2012.

	Note	2012	2011
5.4 Net unrealised appreciation in fair value of investments classified as 'available for sale'		**(Rupees in '000)**	
Market value of investments	*5.1.1, 5.1.2 & 5.2*	**1,843,831**	1,442,398
Less: Cost of investments	*5.1.1, 5.1.2 & 5.2*	**(1,959,236)**	(1,572,462)
		(115,405)	(130,064)
Provision against non-performing TFCs and sukuks		**94,482**	87,375
		(20,923)	(42,689)
Less: Net unrealised dimunition in fair value of investments classified as 'available for sale' at beginning of the year		**42,689**	56,695
		21,766	14,006

5.5 Movement in provision against investment

	2012	2011
Opening balance	**90,135**	88,288
Add: Charge for the period	**46,490**	19,682
Less: Reversals / write-offs	**(38,958)**	(17,835)
Net charge	**7,532**	1,847
Closing balance	**97,667**	90,135
Classified under investments	**94,482**	87,375
Classified under other receivables	**3,185**	2,761
	97,667	90,136

6. PROFIT RECEIVABLE

	2012	2011
Profit receivable on saving accounts and term deposits	**891**	72
Income accrued on Term Finance Certificates	**28,473**	34,071
Income accrued on Government Securities	**1,106**	1,003
Income accrued on sukuk under Musharakah agreement	**802**	-
	31,272	35,146

7. PRELIMINARY EXPENSES AND FLOATATION COSTS

	2012	2011
	(Rupees in '000)	
Opening balance	**167**	394
Less: amortised during the year	**(167)**	(227)
Closing balance	**-**	167

7.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and are being amortised over a period of five years commencing from the end of the initial offering period as per the requirements set out in the Trust Deed of the Fund and NBFC regulations.

8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2012	2011
		(Rupees in '000)	
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		**21,394**	4,261
Advance against subscription of Term Finance Certificates	*8.1*	**40,000**	30,000
Others		**1**	1
		64,995	37,862
Less: Provision against overdue installments of Term Finance Certificates and Sukuks	*5.5*	**(3,185)**	(2,761)
		61,810	35,101

8.1 This represents advance against Rated and Unsecured Privately Placed Term Finance Certificate issue of Standard Chartered Bank (Pakistan) Limited. These certificates carry markup at the rate of 0.75% per annum above six months KIBOR. The Fund has subscribed in 8,000 certificates with each certificate having a face value of Rupees 5,000.

9. PAYABLE TO HBL ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY

	Note	2012	2011
		(Rupees in '000)	
Management fee	*9.1*	**2,682**	1,858
Preliminary expenses and floatation costs on behalf of the Fund		**-**	185
		2,682	2,043

9.1 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. During the current period, the Sindh government has 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. Accordingly, the Management fee charged during the period includes General Sales Tax.

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

	Note	2012	2011
		(Rupees in '000)	
Trustee's remuneration	*10.1*	**201**	175

10.1 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.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2012 is as follows:

Amount of Funds Under Management (Average NAV)	Tariff per annum
Upto Rs. 1,000 million	Rs. 0.7 million or 0.20% p.a. of NAV, whichever is higher
On an amount exceeding Rs 1,000 million	Rs. 2.0 million plus 0.10% p.a. of NAV exceeding Rs. 1,000 million

However, the above tariff structure has been revised by the Central Depository Company of Pakistan Limited with effect from January 1, 2012. The revised tariff structure is as follows:

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

The remuneration is paid to the trustee monthly in arrears.

11. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

	2012	2011
	(Rupees in '000)	
Annual fee	**1,241**	1,145

11.1 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.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2012	2011
		(Rupees in '000)	
Auditors' remuneration		**354**	321
Brokerage payable		**35**	71
Payable to unit holders against redemption of units		**71**	15
Provision for Workers' Welfare Fund	*15.*	**16,000**	12,301
Other payables		**156**	72
		16,616	12,780

13. PROFIT ON BANK DEPOSITS

	2012	2011
	(Rupees in '000)	
Profit on saving accounts	**2,610**	871
Profit on term deposit receipts	**8,938**	11,318
	11,548	12,189

14. AUDITORS' REMUNERATION

Statutory audit fee	**285**	250
Half yearly review fee	**75**	75
Reporting on compliance with the Code of Corporate Governance	**25**	25
Out of pocket expenses	**65**	17
	450	367

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 Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, 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. 16 million (including Rs. 3.698 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, 2012 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

	------------------ As at June 30, 2012 -----------------			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
	--------------------- (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
	130,783	-	1,858,831	1,989,614

	------------------ As at June 30, 2012 -----------------		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	--------------------- (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

	As at June 30, 2011			
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
	(Rupees in '000)			
Financial assets				
Bank balances	16,228	-	-	16,228
Investments	-	-	1,442,398	1,442,398
Profit receivable	35,146	-	-	35,146
Advances, deposits and other receivables	35,101	-	-	35,101
	86,475	-	1,442,398	1,528,873

	As at June 30, 2011		
	Liabilities at fair value through profit or loss	Other financial liabilities	Total
	(Rupees in '000)		
Financial liabilities			
Payable to HBL Asset Management Limited - Management Company	-	2,043	2,043
Payable to Central Depository Company of Pakistan Limited - Trustee	-	175	175
Payable to Securities and Exchange Commission of Pakistan	-	1,145	1,145
Accrued expenses and other liabilities	-	479	479
	-	3,842	3,842

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:

18.1 Transactions during the period

	2012	2011
	(Rupees in '000)	
HBL Asset Management Limited - Management Company		
Management fee	**28,485**	22,906
Issue of 1,039,346 units (2011: 699,580 units)	**106,000**	70,000
Issue of 90,651 bonus units (2011: 67,568 bonus units)	**9,077**	9,737
Redemption of 1,023,745 units (2011: 829,198 units)	**104,599**	82,945
Habib Bank Limited - Sponsor		
Issue of 936,623 bonus units (2011: 980,561 units)	**93,784**	96,150
Bank charges paid	**30**	96
Placement in Term Deposits Receipts	**150,000**	350,000
Maturity of Term Deposits Receipts	**150,000**	350,000
Profit on bank deposits earned	**7,094**	11,895
Profit received on bank deposits	**6,911**	11,914

	2012	2011
Directors and Executives of the Management Company and their relatives	**(Rupees in '000)**	
Directors and their relatives		
Issue of 211,616 units (2011: 97,437 units)	**21,048**	9,600
Issue of 23,305 bonus units (2010: 9,664 bonus units)	**2,344**	949
Redemption of 45,995 units (2011: 88,347 units)	**4,702**	8,852
Executives and their relatives		
Issue of nil units (2011: 5,108 units)	**-**	500
Issue of nil bonus units (2010: 441 bonus units)	**-**	43
Associated companies		
Profit earned on Term Finance Certificates	**-**	23
Profit received on Term Finance Certificates	**-**	156
Central Depository Company of Pakistan Ltd. - Trustee		
Remuneration	**2,257**	2,341
Central Depository System Charges	**5**	3

18.2 Amount outstanding as at period end

	2012	2011
HBL Asset Management Limited - Management Company		
Investment held by the management company in the Fund (933,036 units; June 30, 2011: 826,484 units)	**96,396**	84,103
Management fee payable	**2,682**	1,858
Preliminary expenses and floatation cost payable	**-**	185
Habib Bank Limited - Sponsor		
Investment held in the Fund (9,742,963 units ; June 30, 2011: 8,806,339 units)	**1,006,592**	896,170
Profit receivable on bank deposits including TDRs	**226**	43
Bank balances	**25,033**	6,228
Directors and Executives of the Management Company and their relatives		
Directors and their relatives		
Investment held in the Fund (290,436 units ; June 30, 2011: 97,267 units)	**30,006**	9,898
Executives and their relatives		
Investment held in the Fund: (nill units; June 30, 2011: 5,459)	**-**	565
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	**201**	175

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	M.Com	17
2	Amir Khan	Fund Manager	MBA	19
3	Umar Farooq	Fund Manager	MBA	12
4	Wasim Akram	Fund Manager	MBA	10
5	Noman Qurban	Manager Compliance	ACA	4

19.1 Mr. 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 BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Top brokers during the year ended June 30, 2012

1 BMA Capital Market 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

Top brokers during the year ended June 30, 2011

1 Alfalah Securities (Private) Limited
2 BMA Capital Market Limited
3 Elixir Securities (Private) Limited
4 Invest Capital and Securities (Private) Limited
5 Invisor Securities (Private) Limited
6 JS Global Capital Limited
7 Summit Capital (Private) Limited

The Fund has entered into transactions with less than ten brokers during the year ended June 30, 2012 and June 30, 2011.

21. PATTERN OF UNIT HOLDING

	---------------- As at June 30, 2012 ---------------		
	Number of unit holders	Investment amount	Percentage investment
	----------------- (Rupees in '000) -----------------		
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%**

	---------------- As at June 30, 2011 ---------------		
	Number of unit holders	Investment amount	Percentage investment
	------------------ (Rupees in '000) ------------------		
Individuals	402	167,805	11.09%
Associated companies	2	980,277	64.79%
Directors	1	1,132	0.07%
Insurance companies	1	248	0.02%
Banks / DFIs	3	139,100	9.19%
Retirement funds	5	13,415	0.89%
Public limited companies	2	17,267	1.15%
Others	5	193,653	12.80%
	421	1,512,897	100%

22. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 29th, 30th, 31st, 32nd and 33rd board meetings were held on July 7, 2011, October 11, 2011, January 20, 2012, February 15, 2012 and April 19, 2012 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	31st meeting
2 Mr. Shahid Ghaffar	5	5	-	
3 Mr. Sohail Malik	5	5	-	
4 Mr. Abid Sattar	5	3	2	31st meeting and 33rd meeting
5 Mr. Rehan N. Shaikh*	5	-	-	
6 Ms. Sadia Khan	5	5	-	

* Mr. Rehan N.Shaikh has taken the charge as CEO of HBL Asset Management Limited on April 21,2012, and therefore did not attend any meeting held during 2011-12.

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, 2012, 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. 1,918,361 (2011: Rs 2,317,585).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2012, the Fund holds Treasury Bills, Pakistan Investment Bonds 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, 2012, with all other variables held constant, the net assets would be lower by Rs. 2,571,624 (2011: 3,869,582). In case of 100 basis points decrease in rates announced by the Financial Market Association on June 30, 2011, with all other variables held constant, the net assets would be higher by Rs. 2,554,796 (2011: 3,929,512).

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, 2012 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.

	As at June 30, 2012					
			-- Exposed to Yield/Interest rate risk --			
	Yield / interest rate (%)	Total	Upto three months	More than three months and upto one year	More than one year	Not exposed to Yield/ Interest rate risk
On-balance sheet financial instruments		(Rupees in '000)				
Financial assets						
Bank balances	5.5 - 8	**37,701**	**37,701**	-	-	-
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	**1,269,560**	**71,038**	**555,934**	**93,082**
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 2012		**1,984,874**	**1,269,560**	**71,038**	**555,934**	**88,342**
Off-balance sheet financial instruments		-	-	-	-	-
Off-balance sheet gap 2012		-	-	-	-	-

	Yield / interest rate (%)	Total	Upto three months	More than three months and upto one year	More than one year	Not exposed to Yield/ Interest rate risk
	---- As at June 30, 2011 ----					
			-- Exposed to Yield/Interest rate risk --			
		---- (Rupees in '000) ----				
On-balance sheet financial instruments						
Financial assets						
Bank balances	5 - 6.5	16,228	16,212	-	-	16
Investments	12.00 - 14.75	1,442,398	926,918	492,722	22,758	-
Profit receivable		35,146	-	-	-	35,146
Advances, deposits and other receivables		35,101	-	-	-	35,101
		1,528,873	943,130	492,722	22,758	70,263
Financial liabilities						
Payable to HBL Asset Management Limited - Management Company		2,043	-	-	-	2,043
Payable to Central Depository Company of Pakistan Limited - Trustee		175	-	-	-	175
Payable to Securities and Exchange Commission of Pakistan		1,145	-	-	-	1,145
Accrued expenses and other liabilities		479	-	-	-	479
		3,842	-	-	-	3,842
On-balance sheet gap 2011		1,525,031	943,130	492,722	22,758	66,421
Off-balance sheet financial instruments		-	-	-	-	-
Off-balance sheet gap 2011		-	-	-	-	-

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, 2012.

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 fulfill 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, 2012 and June 30, 2011:

Bank balances by rating category	2012	2011
	(Rupees in '000)	
A1+	**42,195**	16,224
A1	**1**	1
A2	**3**	3
	42,199	16,228

Term finance certificates by rating category		
A+	**162,552**	164,481
A	**-**	77,523
AA+	**-**	45,361
AA	**146,685**	355,733
AA-	**204,210**	84,449
Non-investment grade	**45,079**	25,583
Non-performing accounts	**17,408**	-
	575,934	753,130

The maximum exposure to credit risk before any credit enhancement as at June 30, 2012 is the carrying amount of the financial assets.

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

	2011		2010	
	Carrying Amount	**Provision held**	Carrying Amount	Provision held
	(Rupees in '000)		(Rupees in '000)	
Not Past due	-	-	7,062	3,401
Past due 91 days - 1 year	**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.

23.3 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 request 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.

	As at June 30, 2012			
	Total	**Upto three months**	**Over three months and upto one year**	**Over one year**
	(Rupees in '000)			
Financial liabilities (excluding unit holders' fund)				
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**	**-**	**-**

	As at June 30, 2011			
	Total	Upto three months	Over three months and upto one year	Over one year
	(Rupees in '000)			
Financial liabilities (excluding unit holders' fund)				
Payable to HBL Asset Management Limited - Management Company	2,043	2,043	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	175	175	-	-
Payable to Securities and Exchange Commission of Pakistan	1,145	1,145	-	-
Accrued expenses and other liabilities	479	479	-	-
	3,842	3,842	-	-
Unit holders' fund	1,512,897	1,512,897	-	-

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 shortterm 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 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 1 of 2009 dated January 6, 2009 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 values is determined by applying discount in accordance with Circular No. 1 of 2009 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 liablities (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).

	-------------------------- As at June 30, 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**

	-------------------------- As at June 30, 2011			--------------------------
	Level 1	Level 2	Level 3	Total
	---------------------------- (Rupees in '000)			----------------------------
Assets				
Financial assets available for sale				
- Debt securities	-	753,130	-	753,130
- Government treasury bills	-	689,268	-	689,268

26. DISCLOURE 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 December 31, 2011, 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	19,331	19,331	-	-	-
New Allied Electronics Industries (Private) Limited	Sukuk	44,149	44,149	-	-	-
Eden Housing Limited	Sukuk	9,744	2,812	6,932	0.35%	0.35%
Agritech Limited (Formerly Pak American Fertilizers Limited)	TFC	9,992	9,992	-	-	-
Maple Leaf Cement Factory Limited	Sukuk	34,933	17,525	17,408	0.88%	0.87%
Saudi Pak Leasing Company Limited	TFC	6,671	6,671	-	-	-
Engro Fertilizers Limited	TFC	140,000	6,584*	133,416	6.78%	6.71%
Worldcall Telecom Limited	TFC	67,816	13,902*	53,914	2.74%	2.71%

* This represents unrealized diminution in price of Engro Fertilizer P-I, Engro Fertilizer P-II and Worldcall Telecom Limited amounting to PKR 20.486 million.

27. NON-ADJUSTING EVENT AFTER THE REPORTING DATE

The Board of Directors of the Management Company in their meeting on July 06, 2012 has declared final dividend of Rs. 3.25 per unit (2011: Rs. 3.25 per unit) in the form of bonus units for Class 'A' and Class 'B' and cash dividend of Rs. Nil (2011: 3.25 per unit) for Class 'C' units for the year ended June 30, 2012. The financial statements of the Fund for the year ended June 30, 2012 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, 2013.

28. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Management Company on August 15, 2012.

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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