

HBL

**ASSET
MANAGEMENT**

HBL IslamicMoneyMarketFund

Annual Report 2012

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ISLAMIC MONEY MARKET FUND

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VISION / MISSION / VALUES

OUR VISION

Enabling people to advance with confidence and success.

OUR MISSION

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

OUR VALUES

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

- **Excellence**

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

- **Integrity**

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

- **Customer Focus**

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

- **Meritocracy**

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

- **Progressiveness**

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

CORPORATE INFORMATION

Management Company

HBL Asset Management Limited.

Board of Directors

| | | |
|-------------------------|-------------------------|--------------------------------------|
| Chairman | Mr. Towfiq Habib Chinoy | (Independent Non-Executive Director) |
| Chief Executive Officer | Mr. Rehan N.Shaikh | (Executive Director) |
| Directors | Mr. 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 Limited (CDC)
CDC House,99- B, Block "B" ,S.M.C.H.S, Main Shahra-e-Faisal, Karachi

Legal Advisors

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

Website

www.hblasset.com

Head Office

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 Islamic Money Market Fund |
| FUND MANAGER | Mr. Muhammad Amir Khan |
| NAME OF AUDITORS | |
| External Auditors | KPMG Taseer Hadi & Co., Chartered Accountants. |
| Internal Auditors | A.F. Ferguson & Co., Chartered Accountants. |
| NAME OF BANKERS | |
| | Habib Bank Limited |
| | National Bank of Pakistan |

FUND MANAGER REPORT

Type and Category of Fund

Open end Islamic Money Market Fund

Investment Objective and Accomplishment of Objective

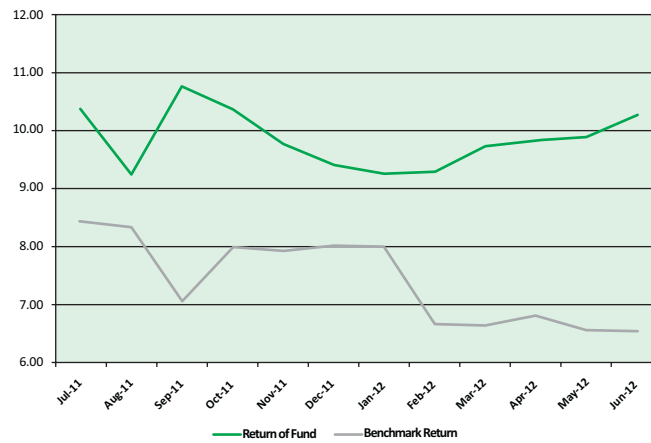
The investment objective of the Fund is to seek high liquidity, competitive return and maximum possible preservation of Capital for investors by investing in low risk Shariah Compliant securities.

Benchmark and Performance Comparison with Benchmark

The Fund's benchmark is average 3 Months deposit rates offered by any three Islamic Banks.

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

| Month | Return of Fund | Benchmark |
|--------|----------------|-----------|
| Jul-11 | 10.36 | 8.43 |
| Aug-11 | 9.24 | 8.33 |
| Sep-11 | 10.77 | 7.05 |
| Oct-11 | 10.37 | 7.98 |
| Nov-11 | 9.77 | 7.92 |
| Dec-11 | 9.41 | 8.01 |
| Jan-12 | 9.26 | 8.00 |
| Feb-12 | 9.29 | 6.66 |
| Mar-12 | 9.73 | 6.64 |
| Apr-12 | 9.83 | 6.81 |
| May-12 | 9.89 | 6.56 |
| Jun-12 | 10.26 | 6.54 |

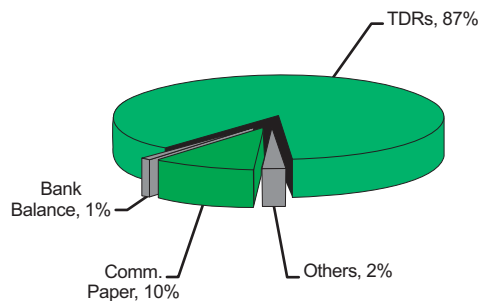


Strategies and Policies employed during the Period

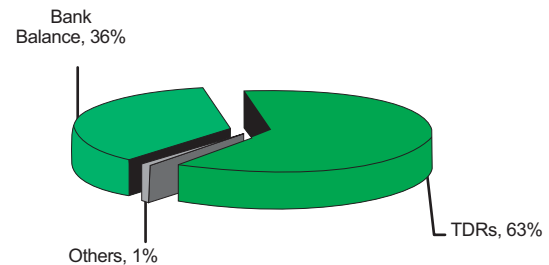
The Fund is in the process of building quality portfolio of eligible investments. Accordingly, new investment was made in Islamic Commercial Papers and exposure was increased in short term fixed deposits with high rated banks to avail better returns.

Asset Allocation

Asset Allocation June 30, 2012



Asset Allocation June 30, 2011



Fund Performance

The total income and net income of the Fund was Rs. 46.27 million and Rs. 39.01 million respectively during the year ended June 30, 2012. The Net Asset Value (NAV) of the Fund increased from Rs 100.0012 per unit as on July 1, 2011 to Rs 100.0235 per unit as on June 30, 2012 giving an annualized return of 10.31% during the period under review. During the same period the benchmark return (3 Month bank deposit rates) was 7.41%.

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. 10.00 in the form of Bonus units for Class "A" and Class "B" Units and Cash Dividend of Rs. 10.00 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 period under review.

Breakdown of Unit Holding by Size

| From – To (Number of units) | Number of Unit Holders | Total Number of Units Held |
|--------------------------------|---------------------------|-------------------------------|
| 1 – 100 | 24 | 926 |
| 101 – 500 | 10 | 2,603 |
| 501 – 1,000 | 4 | 3,431 |
| 1,001 – 10,000 | 47 | 149,866 |
| 10,001 – 100,000 | 3 | 62,779 |
| 100,001 – 500,000 | 1 | 324,166 |
| 1,000,001 – 5,000,000 | 2 | 2,789,822 |
| Total | 90 | 3,333,593 |

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 ISLAMIC MONEY MARKET PERFORMANCE TABLE

| | For the year ended June 30, 2012 | For the year ended June 30, 2011 |
|---|--|--|
| NET ASSETS AND PRICES | | |
| Net assets at the period end(Rs'000) | 343,438 | 397,438 |
| Net asset value per unit at the period end/period end(Rs) | 103.0235 | 101.4612 |
| Selling price/repurchasing price | 103.0235 | 101.4612 |
| Earning per unit(Rs) (note 3.8) | - | - |
| Highest selling price per unit(Rs) | 103.4576 | 101.4322 |
| Lowest selling price per unit(Rs) | 100.2278 | 100.00 |
| Highest repurchase price per unit(Rs) | 103.4576 | 101.4322 |
| Lowest repurchasing price per unit(Rs) | 100.2278 | 100.00 |
| RETURN (%) | | |
| Total return | 10.31 | 10.46 |
| Income distribution | 10.00 | 10.45 |
| Capital growth | 0.33 | 0.01 |
| DISTRIBUTION | | |
| First Interin dividend distribution | 2.25 | - |
| Second Interin dividend distribution | 2.25 | - |
| Third Interin dividend distribution | 2.50 | - |
| Final dividend distributatio | 3.00 | 1.46 |
| Total dividend distribution for the year/ period | 10.00 | 1.46 |
| AVERAGE RETURNS (%) | | |
| Average annual return 1 year | 10.31 | 10.46 |
| Average annual return 2 year | 10.40 | - |
| Average return since inception | 10.40 | 10.46 |
| Weighted average portfolio during (No. of days) | 45 | 26 |

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 ISLAMIC MONEY MARKET 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 Islamic Money Market 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

REVIEW REPORT OF THE SHARIAH ADVISOR

As a Shariah Adviser of the **HBL Islamic Money Market Fund**, I am issuing this report in accordance with clause 8.2.9 of the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shariah compliance of the Fund's activities.

It is the responsibility of HBL Asset Management Limited, the management company of the Fund, to establish and maintain a system of internal controls to ensure compliance with the Shariah guidelines. As a Shariah Adviser my responsibility is to express an opinion based on my review of the representations made by the management, to the extent where such compliance can be objectively verified.

As part of my mandate as the Shariah Adviser to the Fund, I have reviewed the following, during the period:

- The modes of investment of Fund's property and its compliance with Shariah guidelines.
- The process of deployment of Fund's property and its compliance with Shariah guidelines.
- The process of purification of income and its compliance with Shariah guidelines.

In light of the above scope, I hereby certify that all the provisions of the scheme and investments made by HBL Islamic Money Market Fund for the period ended 30 June 2012 are in compliance with the Shariah principles.

Mufti Yahya Asim
Shariah Advisor

STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

HBL Islamic Money Market Fund (the Fund) has fully complied with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for its operations, investments and placements made during for the year June 30, 2012. This has been duly confirmed by the Shariah Advisor of the Fund.

Rehan N.Shaikh

Chief Executive Officer

Date: August 15 ,2012

INDEPENDENT ASSURANCE REPORT TO THE UNIT HOLDERS ON THE STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

We were engaged by the Board of directors of HBL Asset Management Limited, Management Company of **HBL Islamic Money Market Fund** (the Fund), to report on Fund's Compliance with the Shariah principles as set out in the annexed statement prepared by the management company for the year ended June 30, 2012 in the form of an independent reasonable assurance conclusion about whether the annexed statement presents fairly, in all material respects, the status of the Fund's compliance with Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor as required under clause 8.3.1 of the Trust Deed of the Fund.

Management Company's Responsibilities

The management company of the fund is responsible for preparing the annexed statement that is free from material misstatement in accordance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor. This responsibility includes designing, implementing and maintaining internal control relevant to the operations of the Fund in accordance with the Shariah principles and to ensure that Fund's investments and placements are made in compliance with Shariah principles.

Our Responsibilities

Our responsibility is to examine the annexed statement prepared by the Management Company and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE 3000) 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board. That standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain reasonable assurance about whether the annexed statement fairly presents the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor.

The procedures selected depend on our judgment, including the assessment of the risks of material non-compliance with Shariah principles whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the operations of the Fund in accordance with the Shariah principles in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Fund's internal control.

The procedures performed included:

1. Checking compliance of specific guidelines issued by the Shariah Advisor relating to charity, maintaining bank accounts and for making investments of the Fund.
2. Check that the Shariah Advisor has certified that investments made by the Fund during the period ended June 30, 2012 are in compliance with the Shariah principles and where required purification of income from non-compliant sources has been made in consultation with the Shariah Advisor.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the annexed statement, in all material respects, presents fairly the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for the year ended June 30, 2012.

Date: 15 August 2012

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

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 - Islamic Money Market 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 - Islamic Money Market 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 May 09, 2011.

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 NBFIs, 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 Islamic Money Market 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

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

Report on the Financial Statements

We have audited the accompanying financial statements of **HBL Islamic Money Market 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 period ended June 30, 2011 were audited by another firm of auditors whose report dated October 24, 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 ISLAMIC MONEY MARKET FUND
Statement of Assets and Liabilities
As at June 30, 2012

| | Note | 2012 | 2011 |
|--|------|-------------------|------------------|
| | | (Rupees in '000) | |
| ASSETS | | | |
| Bank balances | 4 | 303,141 | 392,469 |
| Investments | 5 | 36,396 | - |
| Profit receivable | 6 | 5,718 | 5,615 |
| Preliminary expenses and floatation costs | 7 | 887 | 1,118 |
| Total assets | | <u>346,142</u> | <u>399,202</u> |
| LIABILITIES | | | |
| Payable to HBL Asset Management Limited - Management Company | 8 | 1,261 | 1,504 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 9 | 52 | 55 |
| Payable to Securities and Exchange Commission of Pakistan | 10 | 314 | 41 |
| Accrued expenses and other liabilities | 11 | 1,077 | 164 |
| Total liabilities | | <u>2,704</u> | <u>1,764</u> |
| NET ASSETS | | <u>343,438</u> | <u>397,438</u> |
| UNIT HOLDERS' FUND (AS PER STATEMENT ATTACHED) | | <u>343,438</u> | <u>397,438</u> |
| | | (Number of units) | |
| NUMBER OF UNITS IN ISSUE | | <u>3,333,593</u> | <u>3,917,140</u> |
| | | (Rupees) | |
| NET ASSET VALUE PER UNIT | | <u>103.0235</u> | <u>101.4612</u> |

The annexed notes 1 to 28 form an integral part of the financial statements.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL ISLAMIC MONEY MARKET FUND

Income Statement

For the year ended June 30, 2012

| | | For the year ended June 30, 2012 | For the period from February 15, 2011 to June 30, 2011 |
|--|------|--|---|
| | Note | (Rupees in '000) | |
| INCOME | | | |
| Profit on bank deposits | 12 | 46,429 | 6,605 |
| Income on Privately placed sukuk certificates | | 1,870 | - |
| Income on Ijarah sukuk | | 57 | - |
| Capital loss on sale of Ijarah sukuk | | (5) | - |
| | | 48,351 | 6,605 |
| EXPENSES | | | |
| Remuneration of HBL Asset Management Limited - Management Company | | 4,798 | 549 |
| Remuneration of Central Depository Company of Pakistan Limited - Trustee | | 711 | 93 |
| Annual fee to Securities and Exchange Commission of Pakistan | | 314 | 41 |
| Auditors' remuneration | 13 | 214 | 25 |
| Settlement and bank charges | | 11 | 1 |
| Amortisation of preliminary expenses and floatation costs | | 231 | 32 |
| Other expenses | | 184 | 51 |
| | | 6,463 | 792 |
| Net income from operating activities | | 41,888 | 5,813 |
| Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net | | (2,085) | 28 |
| Provision for Workers' Welfare Fund | 14 | (796) | (117) |
| Net income for the year / period before taxation | | 39,007 | 5,724 |
| Taxation | 15 | - | - |
| Net income for the year / period after taxation | | 39,007 | 5,724 |

The annexed notes 1 to 28 form an integral part of the financial statements.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL ISLAMIC MONEY MARKET FUND
Statement of Comprehensive Income
For the year ended June 30, 2012

| | For the year ended June 30, 2012 | For the period from February 15, 2011 to June 30, 2011 |
|---|---|---|
| | (Rupees in '000) | |
| Net income for the year / period | 39,007 | 5,724 |
| Other comprehensive income for the year / period | | |
| Net unrealised diminution in the market value of securities classified as 'available for sale' | (5) | - |
| Total comprehensive income for the year / period | <u><u>39,002</u></u> | <u><u>5,724</u></u> |

The annexed notes 1 to 28 form an integral part of the financial statements.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL ISLAMIC MONEY MARKET FUND

Distribution Statement

For the year ended June 30, 2012

| | For the year ended June 30, 2012 | For the period from February 15, 2011 to June 30, 2011 |
|--|--|---|
| | (Rupees in '000) | |
| Undistributed income brought forward - realised | 5,724 | - |
| Net income for the year / period | 39,007 | 5,724 |
| Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing income / (loss) that form part of the unit holder's fund | (1) | - |
| Final distribution for the period ended June 30, 2011: Rs. 1.46 per unit (Date of distribution : July 7, 2011) - issue of 57,189 bonus units | (5,719) | - |
| First interim distribution for the year ending June 30, 2012 : Rs. 2.25 per unit (Date of distribution : October 7, 2011) (2011: Nil) | (2,315) | - |
| - Cash distribution | (6,695) | - |
| - 66,500 bonus units | (9,010) | - |
| Second interim distribution for the year ending June 30, 2012 : Rs. 2.25 per unit (Date of distribution : January 20, 2012) (2011: Nil) | (2,315) | - |
| - Cash distribution | (6,985) | - |
| - 69,045 bonus units | (9,300) | - |
| Third interim distribution for the year ending June 30, 2012 : Rs. 2.5 per unit (Date of distribution : April 19, 2012) (2011: Nil) | (2,572) | - |
| - Cash distribution | (8,064) | - |
| - 79,877 bonus units | (10,636) | - |
| Total Distributions | (34,665) | - |
| Undistributed income carried forward - realised | 10,065 | 5,724 |

The annexed notes 1 to 28 form an integral part of the financial statements.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL ISLAMIC MONEY MARKET FUND
Statement of Movement in Unit Holders' Fund
For the year ended June 30, 2012

| | For the year ended June 30, 2012 | For the period from February 15, 2011 to June 30, 2011 |
|--|--|---|
| | (Rupees in '000) | |
| Net Assets at beginning of the year / period | 397,438 | - |
| Issue of 833,155 units (2011: 3,917,160 units) | 84,865 | 391,744 |
| Redemption of 1,689,314 units (2011: 20 units) | (172,750) | (2) |
| Issue of 272,613 bonus units | 27,463 | - |
| | (60,422) | 391,742 |
| Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - transferred to income statement | 2,085 | (28) |
| Total comprehensive income for the year / period | 39,002 | 5,724 |
| Final distribution for the period ended June 30, 2011: Rs. 1.46 per unit (Date of distribution : July 7, 2011) - Issue of 57,189 bonus units | (5,719) | - |
| First interim distribution for the year ending June 30, 2012 : Rs. 2.25 per unit (Date of distribution : October 7, 2011) (2011: Nil) | | |
| - Cash distribution | (2,315) | - |
| - 66,500 bonus units | (6,695) | - |
| | (9,010) | - |
| Second interim distribution for the year ending June 30, 2012 : Rs. 2.25 per unit (Date of distribution : January 20, 2012) (2011: Nil) | | |
| - Cash distribution | (2,315) | - |
| - 69,045 bonus units | (6,985) | - |
| | (9,300) | - |
| Third interim distribution for the year ending June 30, 2012 : Rs. 2.5 per unit (Date of distribution : April 19, 2012) (2011: Nil) | | |
| - Cash distribution | (2,572) | - |
| - 79,877 bonus units | (8,064) | - |
| | (10,636) | - |
| Total Distributions | (34,665) | - |
| Net assets at end of the year / period | 343,438 | 397,438 |

The annexed notes 1 to 28 form an integral part of the financial statements.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL ISLAMIC MONEY MARKET FUND

Cash Flow Statement

For the year ended June 30, 2012

| | For the year ended June 30, 2012 | For the period from February 15, 2011 to June 30, 2011 |
|--|--|---|
| | (Rupees in '000) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for the year / period | 39,007 | 5,724 |
| Adjustments for non-cash and other items: | | |
| Amortisation of preliminary expenses and floatation costs | 231 | 32 |
| Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net | 2,085 | (28) |
| | 41,323 | 5,728 |
| (Increase) / Decrease in assets | | |
| Investments | (36,401) | - |
| Profit receivable | (103) | (5,615) |
| | (36,504) | (5,615) |
| Increase / (Decrease) in liabilities | | |
| Payable to HBL Asset Management Limited - Management Company | (243) | 354 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | (3) | 55 |
| Payable to Securities and Exchange Commission of Pakistan | 273 | 41 |
| Accrued expenses and other liabilities | 913 | 164 |
| | 940 | 614 |
| Net cash generated from operating activities | 5,759 | 727 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Amount received on issue of units | 84,865 | 391,744 |
| Payment against redemption of units | (172,750) | (2) |
| Cash dividend paid | (7,202) | - |
| Net cash flow from financing activities | (95,087) | 391,742 |
| Net (decrease) / increase in cash and cash equivalents during the year / period | (89,328) | 392,469 |
| Cash and cash equivalents at beginning of the year / period | 392,469 | - |
| Cash and cash equivalents at end of the year / period | 303,141 | 392,469 |

The annexed notes 1 to 28 form an integral part of the financial statements.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL ISLAMIC MONEY MARKET FUND

Notes To The Financial Statements

For the year ended June 30, 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

HBL Islamic Money Market Fund (the Fund) was established under a Trust Deed, dated November 23, 2010, 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 December 10, 2010.

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 the 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 May 9, 2011 to May 10, 2011.

The principal activity of the Fund is to seek high liquidity and comparative Shariah Compliant return for investors by investing in low risk securities of shorter duration and maturity.

JCR-VIS Credit Rating Agency has assigned management quality rating of 'AM3+' to the Management Company and the fund stability rating of AA(f) to the Fund.

Title to the assets of the Fund are held in the name of Central Depository Company of Pakistan Limited as a 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 the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, 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 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 assets and liabilities

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 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 under clause 99 of Part I of the Second schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders.

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

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

3.7 Issue and redemption of units

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

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

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

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

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

3.9 Net Asset Value per unit

The Net Asset Value per unit as disclosed in 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 period 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

Profit on bank deposits, investments in debt securities and income from government securities is recognised using the effective interest method.

3.12 Proposed distributions

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

4. BANK BALANCES

| | Note | 2012 | 2011 |
|------------------------------|------|------------------|----------------|
| | | (Rupees in '000) | |
| Savings accounts | | 3,141 | 142,469 |
| Term Deposit Receipts (TDRs) | 4.1 | 300,000 | 250,000 |
| | | <u>303,141</u> | <u>392,469</u> |

4.1 These represent investments in TDRs issued by Habib Bank Limited maturing on August 20, 2012 (2011: August 09, 2011) and carry profit at the rate of 11.75% per annum (2011: 12.5% per annum).

5. INVESTMENTS

| | Note | 2012 | 2011 |
|---|------|------------------|----------|
| | | (Rupees in '000) | |
| Available-for-sale | | | |
| - Privately placed sukuk certificates | 5.1 | 35,000 | - |
| - Government of Pakistan - Ijarah sukuk | 5.2 | 1,396 | - |
| | | <u>36,396</u> | <u>-</u> |

5.1 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. The certificates will mature on August 03, 2012.

5.2 These Ijarah Sukuk certificates were issued in September 2009 and carry a coupon rate of 11.82%, receivable semi-annually in arrears with no floor or cap and will mature in September 2012. The principal is redeemable in full at maturity. These sukuk certificates are fully guaranteed by the Government of Pakistan.

6. PROFIT RECEIVABLE

| | 2012 | 2011 |
|---|------------------|--------------|
| | (Rupees in '000) | |
| Profit receivable on bank deposits | 32 | 1,334 |
| Profit accrued on term deposit receipts | 3,768 | 4,281 |
| Profit accrued on investment in Privately placed sukuk certificates | 1,870 | - |
| Profit accrued on investment in Ijarah sukuk | 48 | - |
| | <u>5,718</u> | <u>5,615</u> |

| 7. PRELIMINARY EXPENSES AND FLOATATION COSTS | | 2012 | 2011 |
|---|---|-------------------------|--------------|
| | | (Rupees in '000) | |
| Opening balance | | 1,118 | 1,150 |
| Less: amortised during the year | | (231) | (32) |
| Closing balance | | 887 | 1,118 |
| 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. PAYABLE TO HBL ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY | | 2012 | 2011 |
| | | (Rupees in '000) | |
| Management fee | <i>Note</i> 8.1 | 355 | 324 |
| Preliminary expenses and floatation costs incurred on behalf of the Fund | | 906 | 1,150 |
| Other payable | | - | 30 |
| | | 1,261 | 1,504 |
| 8.1 Under the provisions of the NBFC 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 percent per annum for the current year. During the current year, 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 year includes General Sales Tax. | | | |
| 9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE | | 2012 | 2011 |
| | | (Rupees in '000) | |
| Trustee's remuneration | <i>Note</i> 9.1 | 52 | 55 |
| 9.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified therein, 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. 0.6 million or 0.17% p.a. of NAV, whichever is higher | | |
| On an amount exceeding Rs. 1,000 million and upto Rs. 5,000 million | Rs. 1.7 million plus 0.085% p.a. of NAV exceeding Rs. 1,000 million | | |
| On an amount exceeding Rs. 5,000 million | Rs. 5.1 million plus 0.07% p.a. of NAV, on amount exceeding Rs. 5,000 million | | |
| 10. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN | | 2012 | 2011 |
| | | (Rupees in '000) | |
| Annual fee | <i>Note</i> 10.1 | 314 | 41 |
| 10.1 Under the provisions of the NBFC Regulations, 2008 a collective investment scheme categorised as money market scheme is required to pay as annual fee to the SECP, at an amount equal to 0.075% of the average annual net assets of the scheme. HBL Islamic Money Market fund has been classified as a money market scheme. | | | |
| 11. ACCRUED EXPENSES AND OTHER LIABILITIES | | 2012 | 2011 |
| | | (Rupees in '000) | |
| Auditors' remuneration | | 151 | 25 |
| Provision for Workers' Welfare Fund | 14 | 913 | 117 |
| Rating fee payable | | - | 22 |
| Others | | 13 | - |
| | | 1,077 | 164 |

| | For the year ended June 30, 2012 | For the period from February 15, 2011 to June 30, 2011 |
|------------------------------------|--|---|
| | (Rupees in '000) | |
| 12. PROFIT ON BANK DEPOSITS | | |
| Profit on saving accounts | 7,168 | 2,324 |
| Profit on term deposit receipts | 39,261 | 4,281 |
| | <u>46,429</u> | <u>6,605</u> |

13. AUDITORS' REMUNERATION

| | | |
|---|------------|-----------|
| Statutory audit fee | 90 | 15 |
| Half yearly review fee | 50 | - |
| Reporting on compliance with the Code of Corporate Governance | 5 | 5 |
| Shariah Compliance Audit fee | 5 | 5 |
| Out of pocket expenses | 64 | - |
| | <u>214</u> | <u>25</u> |

14. 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.

During 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. This clarification was forwarded by Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on this clarification, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Notices of demand have also been issued to several other mutual funds and the matter has been taken up by the respective mutual funds with the FBR for their withdrawal on the basis of the above referred clarification of the Ministry.

Furthermore, in 2011 the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has made the provision for WWF amounting to Rs. 0.913 million (including Rs. 0.796 million for the current year).

15. 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 year 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 year.

16. 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 | 303,141 | - | - | 303,141 |
| Investment in Privately placed sukuk certificates | - | - | 35,000 | 35,000 |
| Investment in Ijarah sukuk | - | - | 1,396 | 1,396 |
| Profit receivable | 5,718 | - | - | 5,718 |
| | <u>308,859</u> | <u>-</u> | <u>36,396</u> | <u>345,255</u> |

| | ----- As at June 30, 2012 ----- | | |
|--|--|----------------------|--------------|
| | Liabilities at fair value through profit or loss | At amortised cost | Total |
| | ----- (Rupees in '000) ----- | | |
| Financial liabilities | | | |
| Payable to HBL Asset Management Limited - Management Company | - | 1,261 | 1,261 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | 52 | 52 |
| Payable to Securities and Exchange Commission of Pakistan | - | 314 | 314 |
| Accrued expenses and other liabilities | - | 164 | 164 |
| | <u>-</u> | <u>1,791</u> | <u>1,791</u> |

| | ----- 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 | 392,469 | - | - | 392,469 |
| Profit receivable | 5,615 | - | - | 5,615 |
| | <u>398,084</u> | <u>-</u> | <u>-</u> | <u>398,084</u> |

| | ----- As at June 30, 2011 ----- | | |
|--|--|----------------------|--------------|
| | Liabilities at fair value through profit or loss | At amortised cost | Total |
| | ----- (Rupees in '000) ----- | | |
| Financial liabilities | | | |
| Payable to HBL Asset Management Limited - Management Company | - | 1,504 | 1,504 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | - | 55 | 55 |
| Payable to Securities and Exchange Commission of Pakistan | - | 41 | 41 |
| Accrued expenses and other liabilities | - | 164 | 164 |
| | <u>-</u> | <u>1,764</u> | <u>1,764</u> |

17. 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 to 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:

| | For the year ended June 30, 2012 | For the period from February 15, 2011 to June 30, 2011 |
|---|---|---|
| | (Rupees in '000) | |
| 17.1 Transactions during the year / period | | |
| HBL Asset Management Limited - Management Company | | |
| Management Fee | 4,798 | 549 |
| Habib Bank Limited - Sponsor | | |
| Issue of Nil units (2011: 2,567,553 units) | 260,499 | 256,747 |
| Issue of 22,352 bonus units (2011: Nil) | 22,408 | - |
| Profit on bank deposits | 46,316 | 6,605 |
| Profit received on bank deposits | 48,230 | 9,570 |
| Bank charges paid | 12 | 1 |
| Directors and Executives of the Management Company and their relatives | | |
| Directors and their relatives | | |
| Issue of 6,894 units (2011: 1,488 units) | 700 | 151 |
| Issue of 319 bonus units (2011: Nil bonus units) | 32 | - |
| Redemption of 4,455 units (2011: Nil units) | 450 | - |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Remuneration | 711 | 93 |
| 17.2 Amounts outstanding as at year end | 2012 | 2011 |
| | (Rupees in '000) | |
| HBL Asset Management Limited - Management Company | | |
| Management fee | 355 | 324 |
| Preliminary expenses and floatation cost payable | 906 | 1,150 |
| Other payable | - | 30 |
| Habib Bank Limited - Sponsor | | |
| Investment held in the Fund: 2,663,175 units (June 30, 2011: 2,567,470 units) | 273,887 | 260,499 |
| Bank balances | 422,309 | 392,469 |
| Profit receivable on bank deposits | 4,521 | 5,614 |
| Directors and their relatives | | |
| Investment held in the Fund: 4,246 units (June 30, 2011: 1,488 units) | 437 | 151 |
| Central Depository Company of Pakistan Limited - Trustee | | |
| Remuneration payable | 52 | 55 |

18. 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 |

18.1 Mr. Amir Khan is the manager of the Fund. He has obtained a Masters Degree in Business Administration. Mr. Amir Khan is also the manager of HBL Income Fund and HBL Money Market Fund.

19. PATTERN OF UNIT HOLDING

| | ----- As at June 30, 2012 ----- | | |
|------------------------------------|---------------------------------|---------------------------------------|-----------------------|
| | Number of unit holders | Investment amount (Rupees in '000) | Percentage investment |
| Individuals | 83 | 51,556 | 15.01% |
| Associated companies and directors | 2 | 287,803 | 83.80% |
| Insurance companies | - | - | 0.00% |
| Banks / DFIs | - | - | 0.00% |
| Others | 1 | 4,079 | 1.19% |
| | 86 | 343,438 | 100% |

| | ----- As at June 30, 2011 ----- | | |
|----------------------|---------------------------------|---------------------------------------|-----------------------|
| | Number of unit holders | Investment amount (Rupees in '000) | Percentage investment |
| Individuals | 54 | 4,708 | 1.18% |
| Associated companies | 1 | 260,499 | 65.54% |
| Insurance companies | 2 | 29,352 | 7.39% |
| Banks / DFIs | 1 | 102,879 | 25.89% |
| Others | - | - | 0.00% |
| | 58 | 397,438 | 100% |

20. 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.

21. FINANCIAL RISK MANAGEMENT

The Fund primarily invests in a portfolio of Shariah Compliant money market securities such as government securities as permitted by Shariah Advisor(s). These investments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

21.1 Market risk

This risk 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 three types of risk: currency risk, interest rate risk and other price risk.

21.1.1 Currency risk

This risk 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.

21.1.2 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 doesn't hold any variable rate instrument that could expose the Fund to interest rate risk.

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2012, the Fund holds 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. 3,019. 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. 3,033.

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 ----- | | | | | | |
|---|---------------|---|--|--------------------|--|--------------|
| Yield / interest rate (%) | Total | -- Exposed to Yield/Interest rate risk -- | | | Not exposed to Yield/ Interest rate risk | |
| | | Upto three months | More than three months and upto one year | More than one year | | |
| ----- (Rupees in '000) ----- | | | | | | |
| On-balance sheet financial instruments | | | | | | |
| Financial assets | | | | | | |
| Bank balances | 10.5 - 11.75 | 303,141 | 303,141 | - | - | - |
| Investments | 11.82 - 13.09 | 36,396 | 35,000 | - | 1,396 | - |
| Profit receivable | | 5,718 | - | - | - | 5,718 |
| | | 345,255 | 338,141 | - | 1,396 | 5,718 |
| Financial liabilities | | | | | | |
| Payable to HBL Asset Management Limited - Management Company | | 1,261 | - | - | - | 1,261 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | | 52 | - | - | - | 52 |
| Payable to Securities and Exchange Commission of Pakistan | | 314 | - | - | - | 314 |
| Accrued expenses and other liabilities | | 164 | - | - | - | 164 |
| | | 1,791 | - | - | - | 1,791 |
| On-balance sheet gap 2012 | | 343,464 | 338,141 | - | 1,396 | 3,927 |
| Off-balance sheet financial instruments | | - | - | - | - | - |
| Off-balance sheet gap 2012 | | - | - | - | - | - |

| ----- As at June 30, 2011 ----- | | | | | |
|---|----------------|---|--|--------------------|--|
| Yield / interest rate (%) | Total | -- Exposed to Yield/Interest rate risk -- | | | Not exposed to Yield/ Interest rate risk |
| | | Upto three months | More than three months and upto one year | More than one year | |
| ----- (Rupees in '000) ----- | | | | | |
| On-balance sheet financial instruments | | | | | |
| Financial assets | | | | | |
| Bank balances | 392,469 | 392,469 | - | - | - |
| Investments | - | - | - | - | - |
| Profit receivable | 5,615 | - | - | - | 5,615 |
| | <u>398,084</u> | <u>392,469</u> | <u>-</u> | <u>-</u> | <u>5,615</u> |
| Financial liabilities | | | | | |
| Payable to HBL Asset Management Limited - Management Company | 1,504 | - | - | - | 1,504 |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 55 | - | - | - | 55 |
| Payable to Securities and Exchange Commission of Pakistan | 41 | - | - | - | 41 |
| Accrued expenses and other liabilities | 47 | - | - | - | 47 |
| | <u>1,647</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,647</u> |
| On-balance sheet gap 2011 | <u>396,437</u> | <u>392,469</u> | <u>-</u> | <u>-</u> | <u>3,968</u> |
| Off-balance sheet financial instruments | - | - | - | - | - |
| Off-balance sheet gap 2011 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

21.1.3 Price Risk

This is the risk that the fair value or future cashflows 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 instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Fund is not exposed to price risk as at June 30, 2012.

21.2 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 counter party to fulfill its obligations.

The Fund's credit risk is primarily attributable to its investment in government securities, privately placed sukus, 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 and companies 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 assignment of credit limits and by following strict credit evaluation criteria laid down by the Management Company. The Fund does not expect to incur material credit losses on its financial assets.

| The maximum exposure to credit risk is as follow: | 2012 | 2011 |
|---|------------------|----------------|
| | (Rupees in '000) | |
| Bank balances by rating category | | |
| A1+ | <u>303,141</u> | <u>392,469</u> |
| Investments | | |
| Privately placed sukuk certificates | <u>35,000</u> | - |
| Government of Pakistan - Ijarah sukuk | <u>1,396</u> | - |
| | <u>36,396</u> | - |
| Profit receivable | <u>5,718</u> | <u>5,615</u> |

The maximum exposure to credit risk before any credit enhancement as at June 30, 2012 is the carrying amount of these financial assets. None of these assets are 'impaired' nor 'past due but not impaired'.

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. Almost 88% (2011: 98%) of the Fund's Financial assets are placed with Habib Bank Limited and National Bank of Pakistan and almost 10% (2011: nil) are placed in Privately placed sukuk certificates of Hub Power Company Limited. Owing to strong financial position of the banks and company, Fund does not foresee any credit risk on this balance.

21.3 Liquidity risk

This 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 also has the ability to 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 | 1,261 | 1,261 | - | - |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 52 | 52 | - | - |
| Payable to Securities and Exchange Commission of Pakistan | 314 | 314 | - | - |
| Accrued expenses and other liabilities | 164 | 164 | - | - |
| | 1,791 | 1,791 | - | - |
| Unit holders' fund | 343,438 | 343,438 | - | - |
| | ----- 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 | 1,504 | 1,504 | - | - |
| Payable to Central Depository Company of Pakistan Limited - Trustee | 55 | 55 | - | - |
| Payable to Securities and Exchange Commission of Pakistan | 41 | 41 | - | - |
| Accrued expenses and other liabilities | 47 | 47 | - | - |
| | 1,647 | 1,647 | - | - |
| Unit holders' fund | 397,438 | 397,438 | - | - |

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' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns to unit holders and to maintain a strong base of assets under management.

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

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The fair value of financial assets i.e. Government of Pakistan - Ijara Sukuk are not traded in an active market is determined with reference to the rates quoted by Financial Market Association of Pakistan.

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

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

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

| ----- As at June 30, 2012 ----- | | | | |
|---|---------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | Total |
| ----- (Rupees in '000) ----- | | | | |
| Assets | | | | |
| Financial assets available for sale | | | | |
| - Privately placed sukuk certificates - Hub Power Company Limited | - | - | 35,000 | 35,000 |
| - Government of Pakistan - Ijarah sukuk | - | 1,396 | - | 1,396 |
| ----- As at June 30, 2011 ----- | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| ----- (Rupees in '000) ----- | | | | |
| Assets | | | | |
| Financial assets available for sale | | | | |
| - Privately placed sukuk certificates - Hub Power Company Limited | - | - | - | - |
| - Government of Pakistan - Ijarah sukuk | - | - | - | - |

26. NON-ADJUSTING EVENT AFTER THE REPORTING DATE

The Board of Directors of the Management Company in their meeting held on July 06, 2012 has declared final dividend at Rs. 3.00 per unit (2011: Rs. 1.46 per unit) in the form of bonus units for Class 'A' and Class B' units. 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.

27. 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.

28. 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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