

**HBL**

**ASSET MANAGEMENT**

**ايسيت مينجمنت**

**HBL IncomeFund**

**Annual Report 2016**

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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.

## FUND AND CORPORATE INFORMATION

### Management Company

HBL Asset Management Limited.

### Board of Directors (As of August 26, 2016)

Chairman  
Directors

Mr. Towfiq Habib Chinoy  
Mr. Rehan N. Shaikh  
Mr. Rizwan Haider  
Mr. Salahuddin Manzoor  
Ms. Sima Kamil  
Mr. Nadeem Abdullah  
Ms. Ava Ardeshir Cowasjee

(Independent Non-Executive Director)  
(Executive Director & CEO)  
(Non-Executive Director)  
(Non-Executive Director)  
(Non-Executive Director)  
(Independent Non-Executive Director)  
(Independent Non-Executive Director)

### Audit Committee (As of August 26, 2016)

Chairman  
Members

Mr. Nadeem Abdullah  
Mr. Rizwan Haider  
Mr. Ava A. Cowasjee

(Independent Non-Executive Director)  
(Non-Executive Director)  
(Independent Non-Executive Director)

### Human Resource Committee

Chairperson  
Members

Mr. Towfiq Habib Chinoy  
Ms. Sima Kamil  
Mr. Rehan N. Shaikh

(Non-Executive Director)  
(Non-Executive Director)  
(Executive Director & CEO)

### Risk Management Committee

Chairman  
Members

Mr. Rizwan Haider  
Mr. Salahuddin Manzoor  
Mr. Rehan N. Shaikh

(Non-Executive Director)  
(Non-Executive Director)  
(Executive Director & CEO)

### Company Secretary & Chief Financial Officer

Mr. Noman Qurban

### External Auditors

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

### Internal Auditors

Ernst Young Rhodes Sidat Hyder  
Progressive Plaza, Beaumont Road, 75530,  
Karachi, Pakistan.

### Trustee

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

### Bankers

Habib Bank Limited  
Bank Al-Habib Limited  
MCB Bank Limited  
Habib Metropolitan Bank Limited  
Bank Al Falah Limited  
Faysal Bank Limited  
Allied Bank Limited  
Soneri Bank Limited  
NIB Bank Limited

### Legal Advisors

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

### Website

[www.hblasset.com](http://www.hblasset.com)

### Head Office

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

### Registered Office

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

## DIRECTORS REPORT

The Board of Directors of HBL Asset Management Limited is pleased to present its report together with Financial Statements of HBL Income Fund for the year ended June 30, 2016.

### MARKET REVIEW

During the year State Bank Pakistan reduced the Discount Rate twice, from 7.00% to 6.50% in September 2015 and then 6.25% in May 2016 on the back of lower inflationary pressure and strong external accounts position. Due to the decrease in Discount Rate, the T-bills secondary market yields decreased by a total of 105, 107 and 107 bps for 3, 6 and 12 months respectively. Further out on the yield curve, the secondary market yields of 3, 5 and 10 year PIBs fell by 187, 233, and 238 bps respectively. Thus, money market saw a flattening of the yield curve during the year.

Pakistan's economy continued to maintain its growth momentum for the 3rd year in a row with real GDP growing at 4.71% in FY16 which is the highest in eight years. CPI inflation for FY16 clocked in at 2.86% compared to 4.53% in the previous year, driven by lower oil and food prices. The current account deficit reduced by 6.8%, while as a % of GDP, the current account deficit stood at 0.9% of GDP in FY16 vs. 1.0% in the previous fiscal year. The country's foreign exchange reserves increased by 23% to USD 23 billion, driven by sizable inflows from the IMF and other lenders, combined with savings via low international oil prices. The surge in foreign exchange reserves resulted in relative stability in the exchange rate with PKR depreciating by a mere 2.8% against USD in the interbank market.

### FUND'S PERFORMANCE

The total income and net income of the Fund was Rs.520.36 million and Rs. 375.772 million respectively during the year ended June 30, 2016. The ex-dividend Net Asset Value (NAV) per unit of the Fund was Rs 104.9087 per unit as on June 30, 2015. The NAV of the Fund was Rs 106.0938 per unit as on June 30, 2016 (after incorporating interim dividends of Rs. 5.25 per unit), thereby giving an annualized return of 6.12%. During the same year the benchmark (6 Month KIBOR) return was 6.53%. The size of the Fund increased from Rs 3.38 billion as on June 30, 2015 to Rs. 6.73 billion showing an increase of 3.35 billion.

### INCOME DISTRIBUTION

During the year under review the Fund has distributed a Cash dividend of Rs. 5.25 per unit on June 22, 2016.

### RATING UPDATE

The JCR-VIS Credit Rating Company Limited (JCR-VIS) has harmonised asset manager rating at "AM2" to the Management Company. The stability ratings for HBL Income Fund has been re-affirmed at "A(f)".

### AUDITORS

The existing Auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants retired. The Board of Directors, on the recommendation of the Audit Committee, has appointed M/s Deloitte Yousaf Adil., Chartered Accountants as Auditors of Fund for the next term.

### PATTERN OF UNIT-HOLDERS

The pattern of Unit-holding as on June 30, 2016 is given in respective notes to the financial statements.

### DIRECTORS' STATEMENT IN COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

This part of the Directors' report to unit-holders is given as required under section 236 of the Companies Ordinance 1984:

1. The financial statements, prepared by the management company of the Funds, present fairly the state of affairs of the Funds, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of Funds have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Funds' ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A summary of key financial data/performance table for up to six years of operations, wherever applicable is annexed.
9. The Directors, CEO, Executives and their spouses have made no transactions in the Fund's units during the year except as disclosed in respective notes to the financial statements of the Fund.
10. The Board of Directors of HBL Asset Management Limited held five meetings during the current financial year. The attendance of all directors is given in the following table:

Sr. No.	Name of Director	Number of meetings	
		Held	Attended
1	Mr. Towfiq H. Chinoy	5	4
2	Mr. Rehan N. Shaikh	5	5
3	Mr. Rizwan Haider	5	4
4	Mr. Salahuddin Manzoor	5	3
5	Mr. Salim Amlani	2	2
6	Ms. Sadia Khan	5	1
7	Ms. Sima Kamil	5	3
8	Mr. Ayaz Ahmed	3	3

11. The Board of Directors of HBL Asset Management Limited held the following board committee meetings during the current financial year with the attendances given in the following table:

a) **Audit Committee**

Sr. No.	Name of Director	Number of meetings	
		Held	Attended
1	Mr. Salim Amlani	2	2
2	Mr. Rizwan Haider	4	3
3	Mr. Salahuddin Manzoor	4	3
4	Mr. Ayaz Ahmed	1	1

b) **Risk Management Committee**

Sr. No.	Name of Director	Number of meetings	
		Held	Attended
1	Mr. Rizwan Haider	1	1
2	Mr. Salahuddin Manzoor	1	1
3	Mr. Rehan N. Shaikh	1	1

i) **Human Resource Committee**

Sr. No.	Name of Director	Number of meetings	
		Held	Attended
1	Ms. Sima Kamil	1	1
2	Mr. Rehan N. Shaikh	1	1
3	Mr. Salahuddin Manzoor	1	1
4	Ms. Sadia Khan	1	1

## **BOARD OF DIRECTORS**

During the year Mr. Salim Amlani resigned from the Board of Directors of the company on November 03, 2015. The Board in its meeting held on February 09, 2016 co-opted Mr. Ayaz Ahmed as Director on the Board to fill the casual vacancy arising on resignation of Mr. Salim Amlani. The appointment of Mr. Ayaz Ahmed has been approved by SECP as required under NBFC Regulations, 2008.

The Board places on record their thanks and appreciation to Mr. Salim Amlani for his valuable contributions in the progress of the Company.

### **Acknowledgement**

The Board takes this opportunity to thank its valued unit-holders for their confidence and patronage. It would like to place on record its appreciation for the help and guidance provided by Securities & Exchange Commission of Pakistan, Central Depository Company of Pakistan as Trustee, the Lahore Stock Exchange and State Bank of Pakistan.

The Board also wishes to place on record its appreciation for the hard work and dedication shown by the staff.

For and on behalf of the Board of  
HBL Asset Management Limited

### **Rehan N. Shaikh**

Chief Executive Officer  
Date: August 26, 2016  
Place: Karachi

## منجمنٹ کمپنی کے ڈائریکٹرز کی رپورٹ :

انجی بی ایل ایسٹ منجمنٹ لمیٹڈ کا بورڈ 30 جون، 2016ء کو ختم ہونے والے سال کے لئے انجی بی ایل انکم فنڈ کی رپورٹ مع اسکے مالیاتی گوشوارے پیش کرتے ہوئے خوشی محسوس کرتا ہے۔

### مارکیٹ کا جائزہ :

سال کے دوران اسٹیٹ بینک پاکستان نے افراط زر کے کم ہونے دباؤ اور مستحکم بیرونی کھاتوں کی صورت حال کو مدنظر رکھتے ہوئے شرح سود دو بار کم کی ہیں، ستمبر 2015ء میں 7% سے 6.5% اور مئی 2016ء میں 6.25% کر دیں۔ شرح سود میں کمی کی وجہ سے ٹی بلز سیکینڈری مارکیٹ کے 3، 6 اور 12 ماہ مابعدی ترتیب کے لئے کل 107، 105 اور 107 بی پی ایس کی کمی حاصل کی۔ خط یافتہ / آمدن پرمزید باہر 5.3 اور 10 سال کی سیکینڈری مارکیٹ کی یافتہ / آمدنی پی آئی بیز (PIBs) علی الترتیب 187، 233 اور 238 بی پی ایس کر گئی۔ لہذا سال کے دوران بازار زرنے ایک یکساں و سہوار خط یافتہ ملاحظہ کیا ہے۔

پاکستانی معیشت نے اپنی پیداواری رفتار مسلسل تیسرے سال میں بھی برقرار رکھنے ہوئے مالی سال 2016 میں حقیقی مجموعی ملکی پیداوار 4.71% تک برقرار رہی جو کہ گذشتہ 8 سالوں میں سب سے زیادہ ہے۔ مالی سال 2016 کے لئے کمزور پرائس انڈیکس افراط زر پچھلے سال کے 4.53% کے مقابلے میں 2.86% پر گھوم گیا جس کی وجہ تیل اور اجناس / غذائی اشیاء کی قیمتوں میں کمی ہے۔ کرنٹ اکاؤنٹ ڈیفیسیٹ (جاری کھاتے میں کمی) 6.8% کی شرح سے کم ہو چکا ہے۔ مجموعی ملکی پیداوار کے فیصد کے مطابق پچھلے مالی سال میں 1% کے مقابلے میں مالی سال 2016 میں کرنٹ اکاؤنٹ ڈیفیسیٹ مجموعی ملکی پیداوار کا 0.9% ہے۔ ملکی زرمبادلہ کے ذخائر 23% زیادہ رہے جسکی وجہ آئی ایم ایف ک طرف سے ضامی رقم اور دیگر قرضے دینے والوں کی طرف سے رقم کی فراہمی مع عالمی سطح پر تیل کی قیمتوں میں کمی کے ذریعہ ہونے والی بچت ہے۔ زرمبادلہ کے ذخائر میں اضافے کا نتیجہ انٹر بینک مارکیٹ میں ڈالر کے مقابلے میں پاکستانی روپے کے شرح مبادلہ میں صرف 2.8% کی کمی دیکھی گئی۔

### فنڈ کی کارکردگی :

فنڈ کی مجموعی آمدن اور خالص آمدن 30 جون 2016ء کو ختم ہونے والے سال کے دوران علی الترتیب 520.36 ملین روپے اور 375.772 ملین روپے تھیں۔ 30 جون 2016 کے مطابق فنڈ کے اثاثہ جات کی EX- Dividend مالیت [NAV] 104.9087 روپے فی یونٹ تھی۔ 30 جون 2016 کے مطابق فنڈ کے اثاثہ جات کی خالص مالیت [NAV] 106.0938 روپے فی یونٹ (5.25 روپے فی یونٹ عبوری منافع جات کی شمولیت کے بعد) تھی۔ اس طرح 6.12% کا سالانہ منافع فراہم کیا گیا۔ اسی سال کے دوران بیچ مارک (6 ماہ کا ٹی بور) 6.53% تھا۔ 30 جون 2016ء کے مطابق فنڈ کا حجم 3.38 ارب روپے سے بڑھ کر 6.73 ارب روپے ہو گیا جو کہ 3.35 ارب روپے کے اضافے کو ظاہر کرتا ہے۔

### تقسیم آمدن :

زیر جائزہ سال کے دوران فنڈ 22 جون، 2016ء پر 5.25 روپے فی یونٹ کا نقد منافع تقسیم کر چکا ہے۔

### تازہ ترین درجہ بندی :

سے آئی ایس کر ایٹ ریٹنگ کمپنی لمیٹڈ [JCP-VIS] نے منجمنٹ کمپنی کو ایم 2 [AM2] کی ایسٹ میٹریٹنگ سے ہم آہنگ کیا ہے۔ انجی بی ایل انکم فنڈ کے لئے اے (ایف) "A(F)" کی اسٹیٹیلٹی ریٹنگ دو بارہ توثیق کی جا چکی ہے۔

### آڈیٹرز :

موجودہ آڈیٹرز میسرز کے پی ایم جی تاثیر ہادی اینڈ کمپنی چارٹرڈ اکاؤنٹینٹس فارغ ہو رہے ہیں۔ آڈٹ کمیٹی کی غلط رشتات پر بورڈ آف ڈائریکٹرز نے آئندہ مدت کے لئے فنڈ کے آڈیٹرز کے طور پر میسرز ڈیولوپٹ یوسف عادل، چارٹرڈ اکاؤنٹینٹس کو مقرر کیا ہے۔

### یونٹ ہولڈرز کے اسلوب :

30 جون 2016ء کے مطابق یونٹ رکھنے کے اسلوب مالیاتی گوشواروں کے متعلقہ ملاحظات یعنی یادداشت میں دیئے گئے ہیں۔



## ادارہ جاتی نظم کے ضابطے سے ہم آہنگ ڈائریکٹران کا بیان:

یونٹ ہولڈرز کی طرف ڈائریکٹرز رپورٹ کا یہ حصہ کمپنیز آرڈیننس 1984 کی شق 236 کی شرط کے تحت دیا گیا:

- 1- فنڈ کی انتظام کارکنی کی جانب سے تیار کردہ مالیاتی گوشوارہ ہے فنڈز کے امور کی حالت، اسکی کارگزاری کا نتیجہ، نقد کا بہاؤ اور فنڈ کے یونٹ ہولڈرز میں نقلی و حرکت کے تذکرے کو منصفانہ طور پر پیش کرتے ہیں۔
- 2- فنڈز کے اکاؤنٹس کی بگس مناسب طور پر قائم رکھی گئی ہیں۔
- 3- مالیاتی گوشواروں کی تیاری میں مناسب اکاؤنٹنگ پالیسیوں کو مسلسل استعمال میں لایا گیا ہے۔ اکاؤنٹنگ تخمینہ جات معقول اور متناہ فیصلوں پر مبنی ہیں
- 4- انٹرنیشنل اکاؤنٹنگ اسٹینڈرڈز جیسا کہ پاکستان میں لاگو ہیں، مالیاتی گوشوارہ کی تیاری میں اٹلی بیرونی کی جاتی ہے۔
- 5- انٹرنل کنٹرول کا نظام ملحوظ ڈیزائن مستحکم ہے اور اسے موثر طور پر نافذ کیا جاتا ہے اور اسکی نگرانی کی جاتی ہے۔
- 6- فنڈ کو جاری ساری رکھے جانے کی صلاحیت جیسا کہ حالیہ تشریح ہے پر کوئی قابل ذکر شک و شبہ موجود نہیں ہے۔
- 7- ادارہ جاتی نظم و نسق کی بہترین طور طریقوں پر کوئی اصولی انحراف، جیسا کہ درج ضوابط میں مفصل موجود ہے، نہیں ہے۔
- 8- کارگزاریوں کے 6 سالوں تک کے لئے، جہاں بھی اسکا اطلاق ہے، کلیدی مالیاتی ڈیٹا/ کارکردگی جدول کا خلاصہ منسلک ہے۔
- 9- ڈائریکٹرز، سی ای او، اور اسکے زوج سال کے دوران فنڈ کے یونٹس میں سوائے اسکے کہ وہ فنڈ مالیاتی گوشواروں کے متعلقہ ملاحظت (یونٹس) میں مذکور ہیں، ان میں کوئی لین دین نہیں کر چکے ہیں۔
- 10- ایچ بی یال ایسیٹ مینجمنٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز نے رواں مالی سال کے دوران پانچ اجلاس منعقد کئے ہیں۔ تمام ڈائریکٹرز کی حاضری درج ذیل جدول میں دی گئی ہے:

نمبر شمار	ڈائریکٹر کا نام	اجلاس کی تعداد	
		منعقدہ	حاضری
1	جناب توفیق ایچ چٹائی	5	4
2	جناب ریحان این شیخ	5	5
3	جناب رضوان حیدر	5	4
4	جناب صلاح الدین منظور	5	3
5	جناب سلیم عالمانی	2	2
6	جناب سعید یہ خان	5	1
7	جناب بہما کامل	5	3
8	جناب ایاز احمد	3	3

11- ایچ بی ایل ایسٹ منجٹ لمیٹڈ کے بورڈ آف ڈائریکٹرز نے رواں مالی سال کے دوران درج ذیل بورڈ کمیٹی اجلاس منعقد کئے، حاضری درج ذیل جدول میں درج ہے:

### (الف) آڈٹ کمیٹی

نمبر شمار	ڈائریکٹر کا نام	اجلاس کی تعداد	
		منعقدہ	حاضری
1	جناب سلیم عالمانی	2	2
2	جناب رضوان حیدر	4	3
3	جناب صلاح الدین منظور	4	3
4	جناب ایاز احمد	1	1

### (ب) رسک منجٹ کمیٹی (خطرات کی نظم کار کمیٹی)

نمبر شمار	ڈائریکٹر کا نام	اجلاس کی تعداد	
		منعقدہ	حاضری
1	جناب رضوان حیدر	1	1
2	جناب صلاح الدین منظور	1	1
3	جناب سبحان این۔ شیخ	1	1

### (ج) ہیومن ریسورس کمیٹی (انسانی وسائل کمیٹی)

نمبر شمار	ڈائریکٹر کا نام	اجلاس کی تعداد	
		منعقدہ	حاضری
1	جناب سیما کامل	1	1
2	جناب سبحان این۔ شیخ	1	1
3	جناب صلاح الدین منظور	1	1
4	جناب سعید یہ خان	1	1

### بورڈ آف ڈائریکٹرز:

رواں سال کے دوران مورخہ 3 نومبر 2015ء جناب سلیم عالمانی کمپنی کے بورڈ آف ڈائریکٹرز سے استعفیٰ دے دیا۔ بورڈ نے اپنے اجلاس منعقدہ 9 فروری 2016ء جناب ایاز احمد کو بطور ڈائریکٹر ترقی کر دی تاکہ جناب سلیم عالمانی کے استعفیٰ سے خالی ہونے والی عارضی نشست پُر کر دی جائے۔ جناب ایاز احمد کی تقرری این بی ایف سی ریگولیشنز 2008ء کے تحت درکار کے مطابق ایس ای سی پی سے منظور کرائی گئی ہے۔

بورڈ نے جناب سلیم عالمانی سے انکی کمپنی کی ترقی و کامرانی کے لئے گراں قدر خدمات پر اظہار تشکر و اعتراف ریکارڈ کرایا ہے۔

## اعتراف :

بورڈ اس موقع کو غنیمت جانتے ہوئے قابل قدر یونٹ ہولڈرز سے اسکے اعتماد اور سرپرستی کے لئے اظہار تشکر کرتا ہے۔ بورڈ سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان، سنٹرل ڈپارٹری کمپنی آف پاکستان بطور ٹرسٹی لاہور شاخ ایکسچینج اور اسٹیٹ بینک آف پاکستان کی جوانب سے فراہم کردہ معاونت اور رہنمائی کا بھی دل کی گہرائی سے اعتراف کرتا ہے۔ بورڈ عملے (اسٹاف) کی جانب سے جانفشانی اور لگن کا قدرداں ہے۔

برائے و منجانب  
ایچ بی ایل ای سیٹ مجنٹ لمیٹڈ

ریحان این شیخ  
منتظم اعلیٰ  
مورخہ 26 اگست 2016ء  
بہ مقام کراچی۔

## FUND MANAGER REPORT

### Type and Category of Fund

Open end Income Fund

### Investment Objective and Accomplishment of Objective

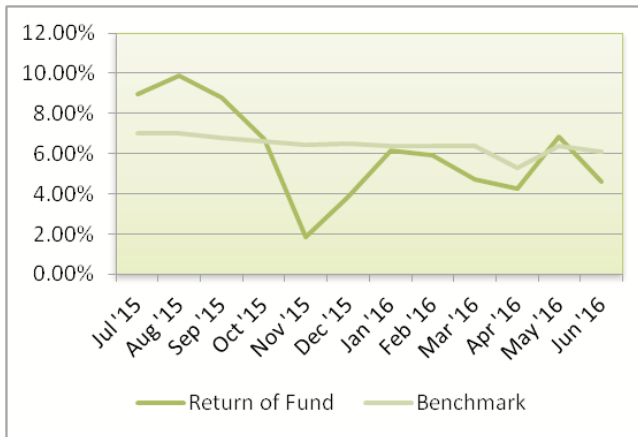
The investment objective of the Fund is to provide a stable stream of income with a moderate level of risk by investing in fixed income securities. The objective of the Fund has been achieved by developing portfolio of a wide range of fixed income securities. The diversification has been achieved by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

### Benchmark and Performance Comparison with Benchmark

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

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

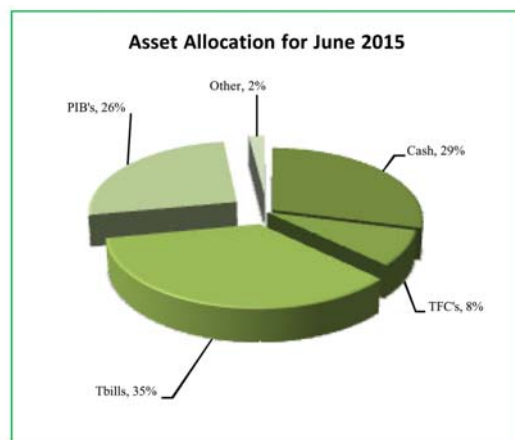
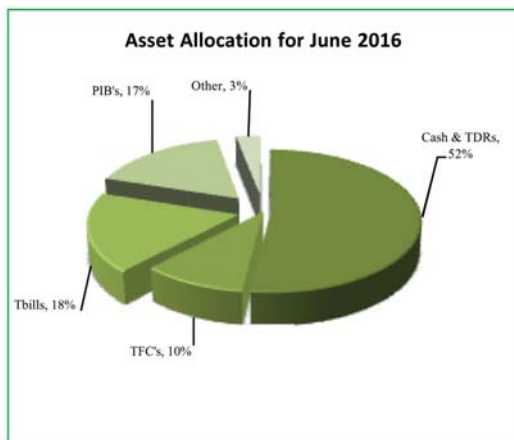
Month	Return of Fund	Benchmark
Jul-15	8.98%	7.04%
Aug-15	9.86%	7.04%
Sep-15	8.79%	6.80%
Oct-15	6.75%	6.59%
Nov-15	1.85%	6.46%
Dec-15	3.85%	6.52%
Jan-16	6.14%	6.41%
Feb-16	5.94%	6.36%
Mar-16	4.71%	6.36%
Apr-16	4.28%	5.30%
May-16	6.85%	6.36%
Jun-16	4.60%	6.11%



### Strategies and Policies employed during the Year

During the year under review, the exposure against TFCs increased later in the year and increased from 8.13% as on June 30, 2015 to 9.75% as on June 30, 2016. The Fund was further invested in Government Securities of various tenors. The Fund also continued its policy of holding quality TFCs in its portfolio. Further, bank deposits were maintained only with the high rated banks. Due to increased sales and trend of fund size increase in HBL Income Fund, the fresh funds were invested in different classes of assets including TDR placements due to higher return offered by bank ahead of year-end.

### Asset Allocation



### Significant Changes in Asset Allocation during the Year

During the year under review some changes in asset allocation were witnessed. The Fund's exposure in TFCs increased to 10% of total assets. The exposure in Pakistan Investment Bonds decreased from 26% to around 17% due to changing market conditions near year-end. Exposure in T-Bills also decreased during the year as there were better opportunities in TDRs with Banks.

### Fund Performance

The total income and net income of the Fund was Rs.520.36 million and Rs. 375.772 million respectively during the year ended June 30, 2016. The ex-dividend Net Asset Value (NAV) per unit of the Fund was Rs 104.9087 per unit as on June 30, 2015. The NAV of the Fund was Rs 106.0938 per unit as on June 30, 2016 (after incorporating interim dividends of Rs. 5.25 per unit), thereby giving an annualized return of 6.12%. During the same year the benchmark (6 Month KIBOR) return was 6.53%.The size of the Fund increased from Rs 3.38 billion as on June 30, 2015 to Rs. 6.73 billion showing an increase of 3.35 billion.

### Review of Market invested in

During the year State Bank Pakistan reduced the Discount Rate twice, from 7.00% to 6.50% in September 2015 and then 6.25% in May 2016 on the back of lower inflationary pressure and strong external accounts position. Due to the decrease in Discount Rate, the T-bills secondary market yields decreased by a total of 105, 107 and 107 bps for 3,6 and 12 months respectively. Further out on the yield curve, the secondary market yields of 3, 5 and 10 year PIBs fell by 187, 233, and 238 bps respectively. Thus, money market saw a flattening of the yield curve during the year.

Pakistan's economy continued to maintain its growth momentum for the 3rd year in a row with real GDP growing at 4.71% in FY16 which is the highest in eight years. CPI inflation for FY16 clocked in at 2.86% compared to 4.53% in the previous year, driven by lower oil and food prices. The current account deficit reduced by 6.8%, while as a % of GDP, the current account deficit stood at 0.9% of GDP in FY16 vs. 1.0% in the previous fiscal year. The country's foreign exchange reserves increased by 23% to USD 23 billion, driven by sizable inflows from the IMF and other lenders, combined with savings via low international oil prices. The surge in foreign exchange reserves resulted in relative stability in the exchange rate with PKR depreciating by a mere 2.8% against USD in the interbank market.

### Distribution

The Fund has distributed cash dividend at Rs. 5.25 per unit for the year ended June 30, 2016.

### 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	248	12,025
101 – 500	163	40,866
501 – 1,000	88	71,016
1,001 – 10,000	588	3,046,050
10,001 – 100,000	574	19,711,126
100,001 – 500,000	90	18,666,744
500,001 – 1,000,000	4	2,506,786
1,000,001 – 5,000,000	4	5,940,188
5,000,001 and above	1	13,402,498
<b>Total</b>	<b>1,760</b>	<b>63,397,299</b>

## PERFORMANCE TABLE

	For the year ended June 30,2016	For the year ended June 30,2015	For the year ended June 30,2014	For the year ended June 30,2013	For the year ended June 30,2012	For the year ended June 30,2011
<b>NET ASSETS AND PRICES</b>						
Net assets at the period end(Rs'000)	6,726,060	3,376,281	2,768,352	1,947,464	1,968,874	1,512,897
Net asset value per unit at the period end/period end(Rs)	106.0938	104.9087	101.3388	102.6114	103.3147	101.7643
Selling price/repurchasing price	108.1983	104.9087	101.3388	102.6114	103.3147	101.7643
<b>Earning per unit(Rs) (note 3.10 )</b>						
Highest selling price per unit(Rs)	113.4354	113.5884	104.8113	103.3155	104.0714	102.0700
Lowest selling price per unit(Rs)	104.9645	101.4359	100.6154	99.1319	98.7443	97.1300
Highest repurchase price per unit(Rs)	111.2291	113.5884	104.8113	103.3155	104.0714	102.0700
Lowest repurchasing price per unit(Rs)	104.9645	101.4359	100.6154	99.1319	98.7443	97.1300
<b>RETURN ( % )</b>						
Total return	6.12%	12.44%	9.91%	7.70%	12.32%	13.49%
Income distribution	5.47%	9.20%	8.95%	7.00%	10.40%	11.80%
Capital growth	0.65%	3.24%	0.96%	0.70%	1.92%	1.69%
<b>DISTRIBUTION</b>						
First Interin dividend distribution		-	1.75	1.75	2.00	2.25
Second Interin dividend distribution		-	1.75	1.50	2.50	3.00
Third Interin dividend distribution		-	2.00	1.75	2.50	3.00
Final dividend distribution	5.25	9.00	3.50	2.00	3.25	3.25
Total dividend distribution for the year/ period	5.25	9.00	9.00	7.00	10.25	11.50
<b>AVERAGE RETURNS ( % )</b>						
Average annual return 1 year	6.12%	12.44%	9.91%	7.70%	12.32%	13.49%
Average annual return 2 year	9.28%	11.18%	8.81%	10.01%	12.91%	13.55%
Average annual return 3 year	9.49%	10.02%	9.98%	11.17%	13.14%	13.55%
Average annual return 4 year	9.04%	10.59%	10.86%	11.78%	10.86%	10.10%
Average annual return 5 year	9.70%	11.17%	11.40%	10.23%	10.54%	10.10%
Average return since inception	15.01%	15.15%	13.80%	13.12%	10.43%	10.05%
Weighted average portfolio during (No. of days)	372	485	621	475	606	942

### Disclaimer:

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

**CENTRAL DEPOSITORY COMPANY  
OF PAKISTAN LIMITED**

**Head Office:**

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Karachi - 74400, Pakistan.  
Tel: (92-21) 111-111-500  
Fax: (92-21) 34326020 - 23  
URL: www.cdcpakistan.com  
Email: info@cdcpak.com



**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, 2016 in accordance with the provisions of the following:

- (i) Limitations imposed on the investment powers of the Management Company under the constitutive documents of the Fund;
- (ii) The pricing, issuance and redemption of units are carried out in accordance with the requirements of the constitutive documents of the Fund; and
- (iii) The Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the constitutive documents of the Fund.

  
**Muhammad Hanif Jakhura**  
Chief Executive Officer  
Central Depository Company of Pakistan Limited

Karachi, September 29, 2016



## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2016.

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No 5.19 of Listing Regulations of the Pakistan 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 Pakistan 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 (now Pakistan Stock Exchange) on March 26, 2007. The units of the Fund have been offered for public subscription on a continuous basis from March 15, 2007.


1. The Management Company encourages representation of independent non-executive directors. As on June 30, 2016 the Board include following members:

Category	Names
Independent Directors	1. Mr. Nadeem Abdullah 2. Ms. Ava Ardeshir Cowasjee
Executive Director	1. Mr. Rehan N. Shaikh
Non-Exec utive Directors	1. Mr. Towfiq Habib Chinoy 2. Ms. Sima Kamil 3. Mr. Rizwan Haider 4. Mr. Muhammad Salahuddin Manzoor

The independent directors meet the criteria of independence under clause 5.19.1.(b) of CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Management Company (excluding the listed subsidiaries of listed holding companies where applicable).
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. A casual vacancy occurred on the Board on November 03, 2015 which was filled up by the directors within 90 days thereof.
5. The Management Company has prepared a "Code of Conduct", and has ensured that appropriate steps have been taken to disseminate it throughout the Management Company along with its supporting policies and procedures. Further; it has also been placed on the Management Company's website.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Management 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, other executive and non-executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and Board met at least once in every quarter. 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. Five Directors have acquired formal training under "Directors' Training Program" duly approved by SECP during the year ended June 30, 2016. Two Directors had acquired the formal training in previous years.
10. The performance evaluation of the members of the Board including the chairman and chief executive was undertaken. A questionnaire for this purpose was approved by the BOD and circulated among the members of Board of Directors to complete.
11. Directors Report for the year ended June 30, 2016 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 17 to the financial statements "Transactions with Connected Persons / related parties".
14. The Company has complied with all the corporate and financial reporting requirements of the Code.



- 
15. The Board has formed an Audit Committee which comprises of three members (however due to casual vacancy at the Board a meeting held on February 08, 2016 was attended by only two members) all of whom are non-executive directors. The Chairman of the Committee is also non-executive director. At present the Committee has no independent Director.
  16. The meetings of the Audit Committee were held at least once every quarter. The meeting of Audit Committee was held prior to approval of interim and final results of the Fund, as required by the CCG. The term of reference of the committee have been formed and advised to the committee for compliance.
  17. The Board has formed an HR Committee. It comprises of three members, of whom 2 are non-executive directors and the Chairman of the HR committee is a non-executive Director.
  18. The Company has outsourced its internal audit function to a reputable firm of Chartered Accountants who is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company. The Company still has to designate Head of Internal Audit for 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 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the net asset value per unit of the Fund's units, was determined and intimated to directors, employees and stock exchange.
  22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange.
  23. We confirm that all other material principles enshrined in the CCG have been complied with while the Code of Corporate Governance requires that where any director, CEO or executive of a Fund or their spouses sell, buy or transact, whether directly or indirectly, in units of the Fund of which he is a director, CEO or executive, as the case may be, he shall immediately notify in writing to the Company Secretary of such transaction. During the year, no such transactions were notified to the Company Secretary in writing.

**Rehan N. Shaikh**  
Chief Executive Officer

Date: **26 August, 2016**  
Place: Karachi



KPMG Taseer Hadi & Co.  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi, 75530 Pakistan

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Internet www.kpmg.com.pk

### Review Report to the Unit Holders on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of **HBL Asset Management Limited** ("the Management Company") for and on behalf of HBL Income Fund ("the Fund") for the year ended June 30, 2016, to comply with the Listing Regulation No. 5.19 (Chapter 5) of Pakistan Stock Exchange Limited where the Fund is listed.

The responsibility for compliance with the Code 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 and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Management Company's 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 of Directors' 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.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its 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 and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of 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.

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 June 30, 2016.

Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in the paragraph reference where these are stated in the Statement of Compliance:

S. No.	Paragraph reference	Description
1	15	Audit Committee composition

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



KPMG Taseer Hadi & Co.

S. No.	Paragraph reference	Description
2	18	Appointment of Head of Internal Audit
3	23	Notification of transactions in units to Company Secretary from related parties

Date: 26 August 2016

Karachi

*KPMG Taseer Hadi & Co.*  
KPMG Taseer Hadi & Co.  
Chartered Accountants



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## Independent Auditors' Report to the Unit Holders

### *Report on the Financial Statements*

We have audited the accompanying financial statements of **HBL Income Fund** ("the Fund"), which comprise the statement of assets and liabilities as at June 30, 2016 and the related income statement, statement of comprehensive income, distribution statement, cash flow statement, statement of movement in Unit Holders' fund for the year then ended and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the financial statements*

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2016 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



KPMG Taseer Hadi & Co.

*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: 26 August 2016

Karachi

KPMG Taseer Hadi & Co.  
KPMG Taseer Hadi & Co.  
Chartered Accountants  
Syed Iftikhar Anjum

**HBL INCOME FUND**  
**Statement of Assets and Liabilities**  
*As at June 30, 2016*

	Note	2016 (Rupees in '000)	2015
<b>Assets</b>			
Bank balances	4	3,259,842	1,099,072
Investments	5	3,275,774	2,674,837
Accrued mark-up	6	36,410	54,991
Advances, deposits and other receivables	7	<u>267,596</u>	<u>3,607</u>
<b>Total assets</b>		<b>6,839,622</b>	<b>3,832,507</b>
<b>Liabilities</b>			
Payable to HBL Asset Management Limited - Management Company	8	<u>15,388</u>	5,895
Payable to Central Depository Company of Pakistan Limited - Trustee	9	<u>618</u>	342
Payable to Securities and Exchange Commission of Pakistan	10	<u>4,844</u>	2,496
Accrued expenses and other liabilities	11	<u>92,712</u>	447,493
<b>Total liabilities</b>		<b>113,562</b>	<b>456,226</b>
<b>Net assets</b>		<b><u>6,726,060</u></b>	<b><u>3,376,281</u></b>
<b>Unit holders' fund (as per statement attached)</b>		<b><u>6,726,060</u></b>	<b><u>3,376,281</u></b>
		(Number of units)	
<b>Number of units in issue</b>		<b><u>63,397,299</u></b>	<b><u>32,183,049</u></b>
		(Rupees)	
<b>Net assets value per unit</b>		<b><u>106.0938</u></b>	<b><u>104.9087</u></b>

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## HBL INCOME FUND

### Income Statement

For the year ended June 30, 2016

	Note	2016	2015
		(Rupees in '000)	
<b>Income</b>			
Mark-up / return on investments	12	356,440	287,233
Capital gain on sale of investments - net		92,636	97,778
Mark-up on deposits with banks	13	79,447	40,032
		<u>528,523</u>	<u>425,043</u>
Provision against non-performing Term Finance Certificates and Sukuks	5.5	-	(3,802)
		<u>528,523</u>	<u>421,241</u>
<b>Expenses</b>			
Remuneration of HBL Asset Management Limited - Management Company		127,747	66,592
Remuneration of Central Depository Company of Pakistan Limited - Trustee		6,911	3,607
Annual fee to Securities and Exchange Commission of Pakistan		4,844	2,496
Allocation of expenses related to registrar services, accounting, operation and valuation services	14	4,416	-
Settlement and bank charges		111	91
Auditors' remuneration	15	417	469
Other expenses		137	153
		<u>144,583</u>	<u>73,408</u>
		<u>383,940</u>	<u>347,833</u>
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed		(8,168)	(70,654)
Provision for Workers' Welfare Fund	11.2	-	(5,653)
<b>Net income for the year before taxation</b>		<u>375,772</u>	<u>271,526</u>
<b>Taxation</b>	16	-	-
<b>Net income for the year after taxation</b>		<u>375,772</u>	<u>271,526</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

**HBL INCOME FUND**  
**Statement of Comprehensive Income**  
*For the year ended June 30, 2016*

	2016 (Rupees in '000)	2015
Net income for the year	375,772	271,526
<b>Other comprehensive income for the year</b>		
<i>Items to be reclassified to income statement in subsequent periods:</i>		
Net unrealised (loss) / gain on re-measurement of investments classified as available for sale	(19,851)	38,412
<b>Total comprehensive income for year</b>	<u>355,921</u>	<u>309,938</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director



**HBL INCOME FUND**  
**Distribution Statement**  
*For the year ended June 30, 2016*

	2016	2015
	(Rupees in '000)	
<b>Undistributed income brought forward - realised</b>	<b>70,558</b>	11,287
Net income for the year	<b>375,772</b>	271,526
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	<b>68,434</b>	2,010
Interim distribution: Year ended June 30, 2016: Rs. 5.25 per unit (Date of distribution: June 22, 2016) [(Year ended June 30, 2015: Rs. 9.00 per unit) (Date of distribution: June 26, 2015)] - Cash distribution	<b>(274,351)</b>	(214,265)
<b>Undistributed income carried forward - realised</b>	<b><u>240,413</u></b>	<u>70,558</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## HBL INCOME FUND

### Statement of Movement in Unit Holders' Fund

For the year ended June 30, 2016

	2016 (Rupees in '000)	2015
<b>Net assets at beginning of the year</b> [Rs. 104.9087 per unit (2014: Rs. 101.3388 per unit)]	3,376,281	2,768,352
Issue of 94,908,062 units (2015: 52,667,222 units)	10,212,641	5,740,396
Redemption of 63,693,812 units (2015: 47,801,971 units)	(6,952,600)	(5,298,794)
	3,260,041	441,602
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - transferred to income statement - net	8,168	70,654
Net income for the year	375,772	271,526
Net unrealised (loss) / gain on re-measurement of investments classified as available for sale	(19,851)	38,412
Total comprehensive income for the year	355,921	309,938
Interim distribution: Year ended June 30, 2016: Rs. 5.25 per unit (Date of distribution: June 22, 2016) [(Year ended June 30, 2015: Rs. 9.00 per unit) (Date of distribution: June 26, 2015)] - Cash distribution	(274,351)	(214,265)
<b>Net assets at end of the year</b> [Rs. 106.0938 per unit (2014: Rs. 104.9087 per unit)]	<u>6,726,060</u>	<u>3,376,281</u>

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

## HBL INCOME FUND Cash Flow Statement

For the year ended June 30, 2016

	Note	2016 (Rupees in '000)	2015
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net income for the year		375,772	271,526
<b>Adjustments</b>			
Provision against non-performing Term Finance Certificates and Sukuks	5.5	-	3,802
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net		8,168	70,654
		<b>383,940</b>	<b>345,982</b>
<b>(Increase) / decrease in assets</b>			
Investments - net		(620,788)	(560,217)
Accrued mark-up		18,581	2,687
Advances, deposits and other receivables		(263,989)	-
		<b>(866,196)</b>	<b>(557,530)</b>
<b>Increase / (decrease) in liabilities</b>			
Payable to HBL Asset Management Limited - Management Company		9,493	1,894
Payable to Central Depository Company of Pakistan Limited - Trustee		276	79
Payable to Securities and Exchange Commission of Pakistan		2,348	1,055
Accrued expenses and other liabilities		(354,781)	420,466
		<b>(342,664)</b>	<b>423,494</b>
		<b>(824,920)</b>	<b>211,946</b>
<b>Net cash (used in) / generated from operating activities</b>			
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Amount received on issue of units		10,212,641	5,740,396
Payment against redemption of units		(6,952,600)	(5,298,794)
Cash dividend paid		(274,351)	(214,265)
<b>Net cash generated from financing activities</b>		<b>2,985,690</b>	<b>227,337</b>
		<b>2,160,770</b>	<b>439,283</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,099,072</b>	<b>659,789</b>
Cash and cash equivalents at beginning of the year		1,099,072	659,789
<b>Cash and cash equivalents at end of the year</b>	4	<b>3,259,842</b>	<b>1,099,072</b>

The annexed notes 1 to 27 form an integral part of these financial statements.

For HBL Asset Management Limited  
(Management Company)

\_\_\_\_\_  
Chief Executive

\_\_\_\_\_  
Director

# HBL INCOME FUND

## Notes To The Financial Statements

For the year ended June 30, 2016

### 1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can also be redeemed by surrendering to the Fund. The Fund is listed on the Pakistan 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 'AM2' to the Management Company and fund stability rating of A(f) to the Fund.

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

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

#### 2.2 Standards, interpretations and amendments 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, 2016:

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after January 01, 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Fund's financial statements.
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures) [effective for annual periods beginning on or after January 01, 2016] clarifies (a) which subsidiaries of an investment entity are consolidated; (b) exemption to present consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity; and (c) how an entity that is not an investment entity should apply the equity method of accounting for its investment in an associate or joint venture that is an investment entity. The amendments are not likely to have an impact on Fund's financial statements.
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after January 01, 2016) clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. The amendments are not likely to have an impact on Fund's financial statements.
- Amendment to IAS 27 'Separate Financial Statements' (effective for annual periods beginning on or after January 01, 2016) allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is not likely to have an impact on Fund's financial statements.
- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after January 01, 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after January 01, 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are not likely to have an impact on Fund's financial statements.

- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after January 01, 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. cash flow and non-cash changes. The amendments are not likely to have an impact on Fund's financial statements.
- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after January 01, 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are not likely to have an impact on Fund's financial statements.
- Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after January 01, 2016). The new cycle of improvements contain amendments to the following standards:
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.
  - IFRS 7 'Financial Instruments- Disclosures'. IFRS 7 is amended to clarify when servicing arrangements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety are in the scope of its disclosure requirements. IFRS 7 is also amended to clarify that additional disclosures required by 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)' are not specifically required for inclusion in condensed interim financial statements for all interim periods.
  - IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.
  - IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

The above amendments are not likely to have an impact on Fund's financial statements.

### 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 there against and provision for taxation (note 3.2, note 5 and note 16).

### 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 except for following:

IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities' and IFRS 13 'Fair Value Measurements'. These standards became applicable from January 01, 2015, as per the adoption status of IFRS in Pakistan.

The application of IFRS 10, IFRS 11 and IFRS 12 did not have any impact on the financial statements of the Fund.

IFRS 13 Fair Value Measurement, consolidates the guidance on how to measure fair value, which was spread across various IFRS, into one comprehensive standard. It introduces the use of an exit price, as well as extensive disclosure requirements, particularly the inclusion of non-financial instruments into the fair value hierarchy. The application of IFRS 13 did not have an impact on the financial statements of the Fund, except certain additional disclosures.

Securities and Exchange Commission of Pakistan (SECP) has issued Circular 14 of 2016 requiring certain additional disclosures in respect to Islamic Share Index Screening. These additional disclosures have been made in these financial statements.

### 3.1 Cash and cash equivalents

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

## 3.2 Financial assets

### 3.2.1 Classification

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

The Fund classifies its financial assets in the following categories:

**a) Financial assets at fair value through profit or loss**

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

**b) Loans and receivables**

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

**c) Available for sale**

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

### 3.2.2 Regular way contracts

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

### 3.2.3 Initial recognition and measurement

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

### 3.2.4 Subsequent measurement

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

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

The debt securities are valued on the basis of rates determined by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its Circular No. 33 of 2012 dated October 24, 2012. In the determination of the rates, MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

**b) Basis of valuation of Government Securities**

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

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

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

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

### 3.2.5 Impairment of financial assets

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

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

### 3.2.6 Derecognition

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

### 3.2.7 Offsetting of financial instruments

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

### 3.3 Financial liabilities

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

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

### 3.4 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to the bankers to the issue, brokerage paid to the members of the stock exchanges and other expenses. These costs are 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. Provided that for the purpose of determining distribution of at least 90% of accounting income, the income distributed through bonus shares, units or certificates as the case may be, shall not be taken into account.

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. 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 in the form of cash.

### 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 distributors/ Management company receives form . 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 Assets Value per unit

The Net Assets 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

- Mark-up on deposits with banks and mark-up / return on investments are recognised using effective yield method.
- 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.
- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on marking to market of investments classified as 'Financial assets at fair value through profit or loss' are included in the Income Statement in the year in which they arise.

### 3.12 Proposed distribution

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

### 4. BANK BALANCES

	Note	2016	2015
(Rupees in '000)			
Balances with bank in:			
PLS saving deposit accounts under mark-up arrangements	4.1	3,259,782	1,050,122
Current accounts		60	48,950
		<u>3,259,842</u>	<u>1,099,072</u>

4.1 This represents bank accounts held with different banks. Mark-up rates on these accounts range between 4.00% - 7.50% (2015: 5.69% - 8.22%) per annum.

### 5. INVESTMENTS

	Note	2016	2015
(Rupees in '000)			
Available for sale			
- Term Finance Certificates - Listed	5.1.1	-	-
- Term Finance Certificates and Sukuk bonds - Unlisted	5.1.2	666,527	311,511
- Government Securities	5.2	2,359,247	2,363,326
		<u>3,025,774</u>	<u>2,674,837</u>
Loans and receivables			
- Placements	5.3	250,000	-
		<u>3,275,774</u>	<u>2,674,837</u>

5.1 Available for sale investments All Term Finance Certificates and Sukuk bonds 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, 2016 (Rupees in '000)	Market value as a percentage of	
	As at July 1, 2015	Purchases during the year	Sales / Matured during the year	As at June 30, 2016		Total Investments	Net Assets
<b>Financial Services</b>							
Saudi Pak Leasing Company Limited - note 5.1.3	2,000	-	-	2,000	-	-	-
	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fixed Line Telecommunication</b>							
Worldcall Telecom Limited - note 5.1.4	23,750	-	-	23,750	-	-	-
	<u>23,750</u>	<u>-</u>	<u>-</u>	<u>23,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<u>25,750</u>	<u>-</u>	<u>-</u>	<u>25,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cost of investments at June 30, 2015</b>					<u>53,318</u>		



### 5.1.2 Term Finance Certificates and Sukuk bonds - Unlisted

Name of the Investee Company	Number of certificates			As at June 30, 2016	Market value/ Carrying value* as at June 30, 2016 (Rupees in '000)	Market value as a percentage of	
	As at July 1, 2015	Purchases during the year	Sales / Matured during the year			Total Investments	Net Assets
<b>Commercial Banks</b>							
Bank Al Habib Limited	6,000	-	6,000	-	-	-	-
Standard Chartered Bank (Pakistan) Limited	8,000	-	-	8,000	40,091	1.22%	0.60%
	<b>14,000</b>	<b>-</b>	<b>6,000</b>	<b>8,000</b>	<b>40,091</b>	<b>1.22%</b>	<b>0.60%</b>
<b>Chemicals</b>							
Engro Fertilizer Limited - Perpetual I	21,000	-	21,000	-	-	-	-
Engro Fertilizer Limited - Perpetual II	7,000	-	7,000	-	-	-	-
Agri-tech Limited - note 5.1.5	2,000	-	-	2,000	-	-	-
Engro Fertilizer Limited - Sukuk	86,000	-	-	86,000	430,000	13.13%	6.39%
	<b>116,000</b>	<b>-</b>	<b>28,000</b>	<b>432,996</b>	<b>430,000</b>	<b>13.13%</b>	<b>6.39%</b>
<b>Construction and Materials</b>							
Maple Leaf Cement Factory Limited - Sukuk	7,000	-	7,000	-	-	-	-
	<b>7,000</b>	<b>-</b>	<b>7,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Multiutilities</b>							
WAPDA Sukuk	19,000	-	19,000	-	-	-	-
WAPDA TFC	50,000	-	-	50,000	196,436	6.00%	2.92%
	<b>69,000</b>	<b>-</b>	<b>19,000</b>	<b>50,000</b>	<b>196,436</b>	<b>6.00%</b>	<b>2.92%</b>
<b>Others</b>							
New Allied Electronics Industries (Pvt) Limited - note 5.1.5	9,000	-	-	9,000	-	-	-
New Allied Electronics Industries (Pvt) Limited - Sukuk - note 5.1.5	9,000	-	-	9,000	-	-	-
	<b>18,000</b>	<b>-</b>	<b>-</b>	<b>18,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>224,000</b>	<b>-</b>	<b>60,000</b>	<b>508,996</b>	<b>666,527</b>	<b>20.35%</b>	<b>9.91%</b>
<b>Cost of investments at June 30, 2016</b>					<b>735,600</b>		

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

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

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

The Issuer defaulted again in the payment of principal and mark-up due on September 13, 2011. In accordance with the requirements of Circular No. 33 of 2012 dated October 24, 2012 issued by the Securities Exchange Commission of Pakistan (SECP), the exposure has been classified as non-performing and no further mark-up is being accrued after classification as non performing exposure. A provision of Rs. 5.550 million equivalent to 100% of the amount outstanding has been made.

- 5.1.4** Worldcall Telecom Limited TFC's were classified by MUFAP as non-performing on November 8, 2012 after default of instalment due on October 7, 2012 (earlier default on April 7, 2012) for the second time. A restructuring agreement was signed on December 26, 2012. The restructuring included the extension of repayment period by 2 years, deferral of principal instalments till October 7, 2014 and payment of regular mark-up during the restructuring period. In accordance with Circular No. 33 of 2012 dated October 24, 2012, a provision of Rs. 47.767 million equivalent to 100% of the amount outstanding has been made.
- 5.1.5** These represent investments in privately placed Term Finance Certificates and Sukuk bonds of the investee company. These investments have been fully provided.
- 5.1.6** 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.
- 5.1.7** Instalments amounting to Rs. 1.998 million became due for payment of the following TFCs / sukuks and are reflected in note 7.

	2016	2015
	(Rupees in '000)	
Bank Al Habib Limited	-	6
Agritech Limited	<u>1,998</u>	<u>1,998</u>
	<u>1,998</u>	<u>2,004</u>

- 5.1.8** Significant terms and conditions of Term Finance Certificates and Sukuk bonds outstanding as at June 30, 2016 are as follows:

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
<b>Term Finance Certificates - Listed</b>				
Saudi Pak Leasing Company Limited	2,775	6% Fixed Rate	13-Mar-08	13-Mar-17
World Call Telecom Limited	2,011	6 Month KIBOR + 1.60%	7-Oct-08	7-Oct-15
<b>Term Finance Certificates and Sukuk bonds - Unlisted</b>				
New Allied Electronics Industries (Pvt) Limited - Sukuk	4,905	6 Month KIBOR + 2.50%	15-May-07	15-May-11
Agritech Limited	3,997	6 Month KIBOR + 1.75%	30-Nov-07	30-Nov-14
New Allied Electronics Industries (Pvt) Limited	2,114	6 Month KIBOR + 2.20%	3-Dec-07	3-Dec-12
Standard Chartered Bank (Pakistan) Limited	5,000	6 Month KIBOR + 0.75%	29-Jun-12	29-Jun-22
WAPDA - TFC	3,929	7.6% Fixed Rate	27-Sep-13	19-Sep-21
Engro Fertilizer Limited - Sukuk	5,000	6 Month KIBOR + 0.4%	25-May-16	25-Nov-16

5.2 Investment in Government Securities - Available for sale

Issue Date	Tenor	Face value			Market Value as a percentage of			
		As at July 1, 2015	Purchases during the year	Sales / Matured during the year	As at June 30, 2016	Market Value as at June 30, 2016	Total Investments	Net Assets
------(Rupees in '000)-----								
<b>Treasury bill</b>								
October 30, 2014	1 year	-	1,000,000	1,000,000	-	-	-	
November 13, 2014	1 year	-	400,000	400,000	-	-	-	
December 26, 2014	1 year	-	100,000	100,000	-	-	-	
January 8, 2015	1 year	555,000	-	555,000	-	-	-	
January 22, 2015	1 year	100,000	-	100,000	-	-	-	
January 22, 2015	1 year	-	150,000	150,000	-	-	-	
March 5, 2015	1 year	400,000	-	400,000	-	-	-	
March 19, 2015	1 year	100,000	-	100,000	-	-	-	
April 16, 2015	1 year	-	30,000	30,000	-	-	-	
April 30, 2015	6 months	-	265,000	265,000	-	-	-	
May 14, 2015	6 months	250,000	-	250,000	-	-	-	
June 11, 2015	1 year	-	300,000	300,000	-	-	-	
June 29, 2015	2 months	-	500,000	500,000	-	-	-	
July 9, 2015	3 months	-	250,000	250,000	-	-	-	
July 23, 2015	3 months	-	250,000	250,000	-	-	-	
July 23, 2015	1 year	-	500,000	500,000	-	-	-	
July 23, 2015	6 months	-	150,000	150,000	-	-	-	
August 6, 2015	3 months	-	250,000	250,000	-	-	-	
August 6, 2015	1 year	-	1,350,000	1,350,000	-	-	-	
August 20, 2015	3 months	-	200,000	200,000	-	-	-	
September 3, 2015	1 year	-	500,000	500,000	-	-	-	
September 17, 2015	6 months	-	250,000	250,000	-	-	-	
September 17, 2015	3 months	-	200,000	200,000	-	-	-	
October 10, 2015	8 months	-	60,000	60,000	-	-	-	
October 15, 2015	6 months	-	900,000	900,000	-	-	-	
October 29, 2015	3 months	-	250,000	250,000	-	-	-	
October 29, 2015	1 year	-	250,000	-	250,000	245,339	7.49%	3.65%
October 29, 2015	6 months	-	350,000	350,000	-	-	-	
November 12, 2015	6 months	-	250,000	250,000	-	-	-	
November 12, 2015	3 months	-	280,000	280,000	-	-	-	
December 10, 2015	3 months	-	100,000	100,000	-	-	-	
December 28, 2015	6 months	-	500,000	500,000	-	-	-	
January 7, 2016	3 months	-	750,000	750,000	-	-	-	
January 21, 2016	1 year	-	1,439,500	1,000,000	439,500	425,666	12.99%	6.33%
January 21, 2016	3 months	-	300,000	300,000	-	-	-	
January 21, 2016	6 months	-	750,000	700,000	50,000	49,841	1.52%	0.74%
March 3, 2016	6 months	-	50,000	-	50,000	49,505	1.51%	0.74%
March 3, 2016	1 year	-	200,000	-	200,000	192,437	5.87%	2.86%
March 31, 2016	3 months	-	50,000	50,000	-	-	-	
May 12, 2016	3 months	-	1,010,000	1,010,000	-	-	-	
May 26, 2016	3 months	-	250,000	-	250,000	248,090	7.57%	3.69%
		<b>1,405,000</b>	<b>14,384,500</b>	<b>14,550,000</b>	<b>1,239,500</b>	<b>1,210,878</b>	<b>36.95%</b>	<b>18.01%</b>
<b>Pakistan Investment Bonds</b>								
July 19, 2012	10 years	-	50,000	50,000	-	-	-	
July 18, 2013	3 years	400,000	1,830,800	2,230,800	-	-	-	
July 18, 2013	5 years	-	250,000	250,000	-	-	-	
July 17, 2014	3 years	485,000	-	485,000	-	-	-	
July 17, 2014	5 years	-	500,000	400,000	100,000	114,860	3.51%	1.71%
July 17, 2014	10 years	-	500,000	500,000	-	-	-	
March 26, 2015	3 years	-	1,500,000	950,000	550,000	574,585	17.54%	8.54%
March 26, 2015	5 years	70,000	2,895,000	2,915,000	50,000	54,905	1.68%	0.82%
March 26, 2015	10 years	-	135,000	135,000	-	-	-	
April 21, 2016	5 years	-	935,000	550,000	385,000	404,019	12.33%	6.01%
April 21, 2016	3 years	-	235,000	235,000	-	-	-	
		<b>955,000</b>	<b>8,830,800</b>	<b>8,700,800</b>	<b>1,085,000</b>	<b>1,148,369</b>	<b>35.06%</b>	<b>17.08%</b>
<b>Grand total</b>		<b>2,360,000</b>	<b>23,215,300</b>	<b>23,250,800</b>	<b>2,324,500</b>	<b>2,359,247</b>	<b>72.01%</b>	<b>35.09%</b>
<b>Cost of investments at June 30, 2016</b>						<b>2,344,520</b>		

### 5.3 Loans and receivables - Placements

Name of Bank	As at July 01, 2015	Placements made during the year	Matured during the year	As at June 30, 2016	Percentage of total value of investments	Percentage of Net Assets
	------(Rupees in '000)-----					
NIB Bank Limited	-	600,000	600,000	-	-	-
Soneri Bank Limited	-	600,000	600,000	-	-	-
Tameer Microfinance Bank Limited	-	150,000	-	150,000	4.59%	2.23%
Pair Investment Limited	-	400,000	400,000	-	-	-
Pak Brunei Investment Company Limited	-	100,000	-	100,000	3.05%	1.49%
	<b>-</b>	<b>1,850,000</b>	<b>1,600,000</b>	<b>250,000</b>	<b>7.64%</b>	<b>3.72%</b>

5.3.1 These placements carry mark-up at the rate of 10.00% (Tameer Microfinance Bank Limited) and 6.45% (Pak Brunei Investment Company Limited) per annum and mature on November 4, 2016 and September 23, 2016 respectively.

### 5.4 Net unrealised gain / (loss) on re-measurement of investments classified as available for sale

	Note	2016 (Rupees in '000)	2015
Market value of investments	5.1.1, 5.1.2, 5.2 & 5.3	3,275,774	2,674,837
Cost of investments	5.1.1, 5.1.2, 5.2 & 5.3	3,383,438	2,762,650
Provision against non-performing TFCs and Sukuks	5.5	(124,486)	(124,486)
		<b>3,258,952</b>	2,638,164
		<b>16,822</b>	<b>36,673</b>

### 5.5 Movement in provision against investments

Opening balance		126,484	122,682
Add: Charge for the year		-	6,896
Less: Reversals / write-offs		-	3,094
Net charge		-	3,802
Closing balance		<b>126,484</b>	<b>126,484</b>
Classified under investments		124,486	124,486
Classified under other receivables		1,998	1,998
		<b>126,484</b>	<b>126,484</b>

### 6. ACCRUED MARK-UP

Mark-up accrued on savings accounts		-	658
Mark-up / return accrued on Term Finance Certificates and Sukuk bonds		9,003	7,688
Mark-up / return accrued on Government Securities		25,053	46,645
Mark-up accrued on placements		2,354	-
		<b>36,410</b>	<b>54,991</b>

### 7. ADVANCES, DEPOSITS AND OTHER RECEIVABLES

Security deposit with National Clearing Company of Pakistan Limited		3,500	3,500
Security deposit with Central Depository Company of Pakistan Limited		100	100
Receivable against investments of Term Finance Certificates and Sukuk bonds		1,998	2,004

	Note	2016 (Rupees in '000)	2015
Receivable against issuance of units from HBL Asset Management Limited - Management Company		40,520	-
Receivable from HBL Funds against conversion of units	7.1	193,429	-
Receivable against Pre-call TFC	7.2	29,946	-
Prepaid expenses		100	-
Others		1	1
		<u>269,594</u>	<u>5,605</u>
Less: Provision against overdue instalments of Term Finance Certificates and Sukuk bonds	5.5	1,998	1,998
		<u>267,596</u>	<u>3,607</u>

7.1 The amount represents receivable against conversion of units from the following Funds:

HBL Money market Fund	191,502	-
HBL Islamic Stock Fund	1,927	-
	<u>193,429</u>	<u>-</u>

7.2 This pertains to TFC of Bank Al-Habib having maturity of June 30, 2021 which has been pre-called on June 29, 2016. The principal and accrued mark-up have subsequently been received on July 04, 2016.

**8. PAYABLE TO HBL ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY**

	Note	2016 (Rupees in '000)	2015
Management fee	8.1	8,802	5,057
Sindh Sales Tax	8.2	1,430	838
Allocation of expenses related to registrar services, accounting, operation and valuation services		587	-
Sales load payable		4,569	-
		<u>15,388</u>	<u>5,895</u>

8.1 Under the provisions of the Non-Banking Finance Companies & Notified Entities Regulations 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of one and a half percent per annum for the current year (2015: one and a half percent per annum).

8.2 The Sindh Government has levied Sindh Sales Tax at the rate of 14% on the remuneration of the Management Company through Sindh Sales Tax on Services Act, 2011 effective from July 1, 2015.

**9. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE**

	Note	2016 (Rupees in '000)	2015
Trustee's remuneration	9.1	542	342
Sindh Sales Tax	9.2	76	-
		<u>618</u>	<u>342</u>

9.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed as per the tariff specified there in, based on the daily Net Asset Value (NAV) of the Fund.

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2016 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 (NAV), whichever is higher
Exceeding Rs. 1,000 million upto Rs. 5,000 million	Rs. 1.7 million plus 0.085% per annum of (NAV), exceeding Rs. 1,000 million
Exceeding Rs. 5,000 million	Rs. 5.1 million plus 0.07% per annum of (NAV), exceeding Rs. 5,000 million

The remuneration is paid to the trustee monthly in arrears.

9.2 The Sindh Government has levied Sindh Sales Tax at the rate of 14% on the remuneration of the Central Depository Company of Pakistan through Sindh Sales Tax on Services Act, 2011 effective from July 1, 2015.

10. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	Note	2016 (Rupees in '000)	2015
Annual fee	10.1	<u>4,844</u>	<u>2,496</u>

10.1 Under the provisions of the Non Banking Finance Companies & Notified Entities Regulations, 2008, a collective investment scheme categorised as income scheme is required to pay as annual fee to the SECP, an amount equal to 0.075% (2015: 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.

11. ACCRUED EXPENSES AND OTHER LIABILITIES	Note	2016 (Rupees in '000)	2015
Auditors' remuneration		324	315
Brokerage payable		15	510
Federal Excise Duty payable	11.1	27,578	12,078
Advance against units to be issued		-	900
Other payables		127	140
Payable to HBL Stock Fund against conversion of units		483	-
Payable to HBL Money Market Fund against conversion of units		-	167,585
Payable to HBL Money Market Fund		-	218,000
Capital gain tax payable		4,878	4,128
Dividend payable to unit holders		-	456
Withholding tax payable		23,986	8,598
Payable to unit holders against redemption of units		7,151	6,613
Provision for Workers' Welfare Fund	11.2	<u>28,170</u>	<u>28,170</u>
		<u>92,712</u>	<u>447,493</u>

11.1 As per the requirement of Finance Act, 2013, Federal Excise Duty (FED) at the rate of 16% on the remuneration of the Management Company has been applied effective June 13, 2013. The Management Company is of the view that since the remuneration is already subject to provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law.

The Honourable Sindh High Court (SHC) through its recent order dated June 02, 2016, in CPD-3184 of 2014 (and others) filed by various taxpayers, has interalia declared that Federal Excise Act 2005 (FED Act) on services, other than shipping agents and related services, is ultra vires to the Constitution from July 01, 2011. The Honourable Sindh High Court in its decision dated July 16, 2016 in respect of constitutional petition filed by the management companies of mutual funds has also granted relief to the management companies of mutual funds based on its order dated June 02, 2016.

Sindh revenue Board and Federal Board of Revenue have filed appeals before Honourable Supreme Court against the Sindh High Court's decision of June 02, 2016. Therefore, as a matter of abundant caution, without prejudice to the above, the Management Company has made a provision with effect from June 13, 2013, aggregating to Rs. 28.7314 million out of which 1.1534 million have been paid to Management Company. Had the provision not been made, the Net Assets Value (NAV) per unit of the Fund as at June 30, 2016 would have been higher by Rs. 0.4532 per unit (June 30, 2015: 0.3753 per unit). However, after the exclusion of the mutual funds from federal statute on FED from July 01, 2016, the Fund has discontinued making the provision in this regard.

11.2 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, various constitutional petitions have been filed by certain CISs through their trustees and other affected entities in the Honourable High Court of Sindh (the Court) and Honourable Lahore High Court (LHC), challenging the applicability of WWF to the CISs.

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. In March 2013, a larger bench of SHC in various Constitutional Petitions declared that amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006 and the Finance Act, 2008 do not suffer from any constitutional or legal infirmity. The appeals against both the decisions have been filed and the matter is pending adjudication.

Pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has maintained the provision for WWF amounting to Rs. 28.170 million.

However, after the exclusion of the Mutual Funds from federal statute on Workers Welfare Fund, from 1st July 2015, the Fund has discontinued making the provision in this regard. Had the provision not been maintained, the Net Asset Value (NAV) per unit of the Fund as at June 30, 2016 would have been higher by Rs. 0.4443 per unit (June 30, 2015: Rs. 0.8753 per unit).

## 12. MARK-UP / RETURN ON INVESTMENTS

	2016	2015
	(Rupees in '000)	
Term Finance Certificates - Listed	-	6,240
Term Finance Certificates and Sukuks - Unlisted	30,584	36,769
Government Securities	298,681	236,192
Placements	27,175	8,032
	<u>356,440</u>	<u>287,233</u>

## 13. MARK-UP ON DEPOSITS WITH BANKS

Mark-up on savings accounts	79,447	34,944
Mark-up on term deposit receipts	-	5,088
	<u>79,447</u>	<u>40,032</u>

## 14. ALLOCATION OF EXPENSES RELATED TO REGISTRAR SERVICES, ACCOUNTING, OPERATION AND VALUATION SERVICES

Securities and Exchange Commission of Pakistan through its SRO 1160(I)/2015 dated November 25, 2015 has revised the Non-Banking Finance Companies and Notified Entities Regulation, 2008. In the revised regulations a new clause 60(3)(s) has been introduced allowing the management company to charge "fees and expense related to registrar services, accounting, operation and valuation services related to CIS maximum upto 0.1% of average annual net assets of the Scheme or actual whichever is less" from the mutual funds managed by it.

The expenses represent the allocation of expenses relating to registrar services, accounting, operation and valuation services at 0.1% of average net annual assets of the fund with effect from November 25, 2015.

## 15. AUDITORS' REMUNERATION

	2016	2015
	(Rupees in '000)	
Statutory audit fee	280	280
Half yearly review fee	55	55
Reporting on compliance with the Code of Corporate Governance	5	5
Out of pocket expenses	77	129
	<u>417</u>	<u>469</u>

## 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. Provided that for the purpose of determining distribution of at least 90% of accounting income, the income distributed through bonus shares, units or certificates as the case may be, shall not be taken into account. 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 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 has distributed at least 90 percent of the Fund's accounting income for the year ending June 30, 2016 as reduced by capital gains (whether realised or unrealised) to its unit holders in the form of cash.

The tax department has issued show cause notice to the Fund for tax year 2008. In the notice, the tax department has alleged that the return filed by the Fund in respect of above tax year is found erroneous in so far as prejudicial to the interest of the revenue and requires amendment under section 122 (5A) of the Income Tax Ordinance, 2001. They have further stated that as the Fund has distributed income in the form of bonus shares which has not resulted in increase in capital, therefore such distribution / payment tantamount to dividend as per section 2 (29) of the Ordinance and the Fund has not made withholding under section 150 of the Ordinance, therefore does not qualify for exemption in terms of Clause (99) of Part I of the Second Schedule to the Ordinance.

The Fund has filed a reply to show cause notice stating that the assessment cannot be reopened as a period of five years has already lapsed. The contention that bonus units do not result in increase in the capital is not correct and the distribution was in accordance with Clause 99 Part I of the Second Schedule. The Clause 99 of Part I of the Second Schedule has only been amended vide Finance Act 2014 and therefore is applicable for tax year 2015.

The Fund considers that application of amended Clause 99 to tax year 2008 is void and is confident that the proceedings would be dropped.

## 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 of the Fund, other collective investment schemes managed by the Management Company, directors and officers of the Management Company and directors of connected persons.

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:

17.1 Transactions during the year	2016	2015
	(Rupees in '000)	
<b>HBL Asset Management Limited - Management Company</b>		
Management fee	127,747	66,592
Allocation of expenses related to registrar services, accounting, operation and valuation services	4,416	-
Issue of 785,871 units (2015: 4,756,105 units)	85,000	531,416
Redemption of 408,846 units (2015: 5,896,972 units)	45,476	662,210
Profit earned on units redeemed	476	20,794
<b>Habib Bank Limited - Sponsor</b>		
Issue of 632,596 units (2015: 1,011,803 units)	67,042	105,823
Bank charges paid	65	78
Mark-up earned during the year	8,810	6,770
Mark-up received during the year	8,810	6,958
<b>Jubilee General Insurance Company - Associated company</b>		
Issue of 1,848,255 units (2015: 5,736,810)	200,000	600,000
Redemption of 4,708,500 units (2015: 4,902,534 units)	523,658	540,133
Profit earned on units redeemed	23,658	40,133
<b>SFL Limited - Associated company</b>		
Issue of 197,114 units (2015: Nil units)	20,909	-
Redemption of 190,646 units (2015: Nil units)	21,205	-
Profit earned on units redeemed	1,205	-
<b>Amer Tex (Pvt) Limited - Associated company</b>		
Issue of 1,161,479 units (2015: Nil units)	123,248	-
Redemption of 757,955 units (2015: Nil units)	84,307	-
Profit earned on units redeemed	4,307	-
<b>Neelum Textile Mills (Pvt) Limited - Associated company</b>		
Issue of 909,580 units (2015: Nil units)	97,128	-
Redemption of 600,727 units (2015: Nil units)	66,818	-
Profit earned on units redeemed	2,818	-
<b>Directors and Executives of the Management Company and their relatives</b>		
<b>Directors</b>		
<b>Ms. Sima Kamil</b>		
Issue of 14,577 units (2015: Nil units)	1,545	-
<b>Executives and their relatives</b>		
Issue of 51,911 units (2015: 164,336 units)	5,640	17,989
Redemption of 23,901 units (2015: 162,911 units)	2,603	18,000
Profit earned on units redeemed	600	160
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration	6,911	3,607
Central Depository system charges	6	6



	2016	2015
	(Rupees in '000)	
<b>Directors of connected persons</b>		
Issue of units - Nil (2015: 30,939 units)	-	3,236
Redemption of 6,297 units (2015: 4,955 units)	668	549
Profit earned on units redeemed	120	133
<b>Persons holding 10% or more units - other than above</b>		
Issue of units - Nil (2015: 906,683 units)	-	100,000
Redemption of units - Nil (2015: 3,985,638 units )	-	421,962
Profit earned on units redeemed	-	16,400
<b>17.2 Balances outstanding as at year end</b>		
<b>HBL Asset Management Limited - Management Company</b>		
Investment held by the management company in the Fund: 377,025 units (2015: Nil units)	40,000	-
Management fee payable	8,802	5,057
Sindh Sales tax	1,430	838
Allocation of expenses related to registrar services, accounting, operation and valuation services	587	-
Sales load payable	4,569	-
Receivable against issuance of units	40,520	-
<b>Habib Bank Limited - Sponsor</b>		
Investment held in the Fund: 13,402,498 units (2015: 12,769,902 units)	1,421,922	1,339,674
Bank balances	1,010,685	124,151
<b>HBL Money Market Fund - Associate</b>		
Payable against conversion of units	-	167,585
Payable to HBL Money Market Fund	-	218,000
Receivable against conversion of units	191,502	-
<b>HBL Stock Fund - Associate</b>		
Payable against conversion of units	483	-
<b>HBL Islamic Stock Fund - Associate</b>		
Receivable against conversion of units	1,927	-
<b>Jubilee General Insurance Company - Associated company</b>		
Investment held in the Fund: Nil units (2015: 2,860,246 units)	-	300,065
<b>SFL Limited - Associated company</b>		
Investment held in the Fund: 197,114 units (June 30, 2015: Nil units)	20,913	-
<b>Amer Tex (Pvt) Limited</b>		
Investment held in the Fund: 784,816 units (June 30, 2015: Nil units)	83,264	-
<b>Neelum Textile Mills (Pvt) Limited</b>		
Investment held in the Fund: 623,419 units (June 30, 2015: Nil units)	66,141	-
<b>Directors and Executives of the Management Company and their relatives</b>		
<b>Directors and their relatives</b>		
Investment held in the Fund: 24,205 units (June 30, 2015: 37,900 units)	2,568	3,976
<b>Executives and their relatives</b>		
Investment held in the Fund: 114,635 units (2015: 17,954 units)	12,162	1,884

	2016	2015
	(Rupees in '000)	
<b>Central Depository Company of Pakistan Limited - Trustee</b>		
Remuneration payable	542	342
Sindh Sales tax	76	-
Security deposit	100	100
<b>Directors of connected persons</b>		
Investment held in the Fund: Nil units (June 30, 2015: 430,433 units)	-	45,156

#### 18. PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

Name	Designation	Qualification	Experience in years
1 Mr. Rehan N.Shaikh	Chief Executive Officer	B.Com	21
2 Mr. Amir Khan	Head of Research and Business Development	MBA	23
3 Mr. Fahad Aziz	Fund Manager	MBA	11

**18.1** Mr. Fahad Aziz is the Fund Manager of HBL Income 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.

#### 19. TOP BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

Top brokers during the year ended June 30, 2016

- 1 Arif Habib Limited
- 2 BMA Capital Management Limited
- 3 Elixir Securities Pakistan (Private) Limited
- 4 Invest and Finance Securities (Private) Limited
- 5 JS Global Capital Limited
- 6 KASB Securities Limited
- 7 Next Capital Limited
- 8 Optimus Market Limited
- 9 Pearl Securities Limited

The Fund has entered into transactions with less than ten brokers during the year ended June 30, 2016.

Top brokers during the year ended June 30, 2015

- 1 Arif Habib Limited
- 2 BMA Capital Management Limited
- 3 Elixir Securities Pakistan (Private) Limited
- 4 Global Securities Pakistan Limited
- 5 Invest and Finance Securities (Private) Limited
- 6 JS Global Capital Limited
- 7 Next Capital Limited
- 8 Optimus Capital Management (Private) Limited
- 9 Pearl Securities Limited

The Fund has entered into transactions with less than ten brokers during the year ended June 30, 2015.

#### 20. PATTERN OF UNIT HOLDING

	2016		
	Number of unit holders	Investment amount	Percentage investment
		(Rupees in '000)	
Individuals	1,718	4,318,105	64.20%
Associated companies	7	1,740,819	25.88%
Directors	1	2,568	0.04%
Retirement funds	6	29,694	0.44%
Public limited companies	2	168,515	2.51%
Others	26	466,359	6.93%
	<b>1,760</b>	<b>6,726,060</b>	<b>100.00%</b>

	2015		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	844	1,100,274	32.58%
Associated companies	2	1,639,738	48.57%
Directors	1	3,976	0.12%
Retirement funds	8	111,339	3.30%
Public limited companies	1	20,000	0.59%
Others	18	500,954	14.84%
	<u>874</u>	<u>3,376,281</u>	<u>100.00%</u>

## 21. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 52nd, 53rd, 54th, 55th and 56th board meetings were held on September 30, 2015, October 30, 2015, February 09, 2016, April 08, 2016 and April 29, 2016 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 Habib Chinoy	5	4	1	53rd Meeting
2 Mr. Rehan N. Shaikh	5	5	-	
3 Mr. Rizwan Haider	5	4	1	52nd Meeting
4 Mr. Salahuddin Manzoor	5	3	2	52nd and 55th Meeting
5 Mr. Salim Amlani	2	2	-	
6 Ms. Sadia Khan	5	1	4	52nd, 54th, 55th and 56th Meeting
7 Ms. Sima Kamil	5	3	2	52nd and 54th Meeting
8 Mr. Ayaz Ahmed	3	3	-	

## 22. FINANCIAL RISK MANAGEMENT

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

### 22.1 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.

#### 22.1.1 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.

#### 22.1.2 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

As at June 30, 2016, the Fund holds KIBOR based interest bearing term finance certificates that expose the Fund to cash flow interest and fair value interest rate risk. In case of 100 basis points increase in KIBOR on June 30, 2016, with all other variables held constant, the net assets of the Fund would have been lower by Rs. 1,814,838 (2015: Rs. 5,980,346) and net income of the Fund would have been higher by Rs. 199,452 (2015: Rs. 864,072). In case of 100 basis points decrease in KIBOR on June 30, 2016, with all other variables held constant, the net assets of the Fund would have been higher by Rs. 2,075,159 (2015: Rs. 7,353,750) and net income for the year would have been lower by Rs. 199,452 (2015: Rs. 864,072).

**b) Sensitivity analysis for fixed rate instruments**

As at June 30, 2016, the Fund holds Treasury bills, Pakistan Investment Bonds and term finance certificates which are classified as available for sale, exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in KIBOR and rates announced by the Financial Market Association on June 30, 2016, with all other variables held constant, the net assets would have been lower by Rs. 42,506,876 (2015: Rs. 24,688,310). In case of 100 basis points decrease in KIBOR and rates announced by the Financial Market Association on June 30, 2016, with all other variables held constant, the net assets would have been higher by Rs. 37,389,601 (2015: Rs. 25,522,119).

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, 2016 is not necessarily indicative of the effect on the Fund's net assets and net income 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.

2016						
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		
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	4.00 - 7.50	3,259,842	3,259,842	-	-	-
Investments	6.45 - 15	3,275,774	248,090	1,212,788	1,814,896	-
Accrued mark-up		36,410	-	-	-	36,410
Advances, deposits and other receivables		267,496	-	-	-	267,496
		6,839,522	3,507,932	1,212,788	1,814,896	303,906
<b>Financial liabilities</b>						
Payable to HBL Asset Management Limited - Management Company		15,388	-	-	-	15,388
Payable to Central Depository Company of Pakistan Limited - Trustee		618	-	-	-	618
Payable to Securities and Exchange Commission of Pakistan		4,844	-	-	-	4,844
Accrued expenses and other liabilities		36,964	-	-	-	36,964
		57,814	-	-	-	57,814
<b>On-balance sheet gap</b>		<b>6,781,708</b>	<b>3,507,932</b>	<b>1,212,788</b>	<b>1,814,896</b>	<b>246,092</b>
<b>Off-balance sheet financial instruments</b>		-	-	-	-	-
<b>Off-balance sheet gap</b>		-	-	-	-	-

2015						
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		
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	5.69 - 8.22	1,099,072	1,099,072	-	-	-
Investments	7.74 - 15.00	2,674,837	-	1,374,048	1,300,789	-
Accrued mark-up		54,991	-	-	-	54,991
Advances, deposits and other receivables		3,607	-	-	-	3,607
		3,832,507	1,099,072	1,374,048	1,300,789	58,598

Yield / Interest rate (%)	2015				
	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)				
<b>Financial liabilities</b>					
Payable to HBL Asset Management Limited - Management Company	5,895	-	-	-	5,895
Payable to Central Depository Company of Pakistan Limited - Trustee	342	-	-	-	342
Payable to Securities and Exchange Commission of Pakistan	2,496	-	-	-	2,496
Accrued expenses and other liabilities	407,245	-	-	-	407,245
	415,978	-	-	-	415,978
<b>On-balance sheet gap</b>	3,416,529	1,099,072	1,374,048	1,300,789	(357,380)
<b>Off-balance sheet financial instruments</b>	-	-	-	-	-
<b>Off-balance sheet gap</b>	-	-	-	-	-

### 22.1.3 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, 2016.

### 22.2 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 fulfil their obligations. There is a possibility of default by participants or failure of the financial markets/ stock exchanges, the depositories, the settlements or clearing system, etc.

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

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

The analysis below summarises the credit quality of the Fund's financial assets as at June 30, 2016 and June 30, 2015:

	2016	2015
	(Rupees in '000)	
<b>Bank balances by rating category</b>		
A1+ (PACRA)	2,249,145	1,098,904
A-1+ (JCR-VIS)	1,010,697	168
	<u>3,259,842</u>	<u>1,099,072</u>
<b>Term finance certificates by rating category</b>		
AAA	236,527	126,144
A+	-	139,073
A	-	33,675
AA-	430,000	-
BBB	-	12,619
	<u>666,527</u>	<u>311,511</u>
<b>Investment in Government Securities</b>	<u>2,359,247</u>	<u>2,363,326</u>
<b>Placements</b>	<u>250,000</u>	-
<b>Accrued mark-up</b>	<u>36,410</u>	<u>54,991</u>
<b>Advances, deposits and other receivables</b>	<u>267,596</u>	<u>3,607</u>

The maximum exposure to credit risk before any credit enhancement as at June 30, 2016 is the carrying amount of the financial assets.

### 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.

### 22.3 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 requests in excess of ten percent of the units in issue and such requests would be treated as redemption request qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any redemptions during the year.

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

	2016			
	Total	Upto three months	Over three months and upto one year	Over one year
	----- (Rupees in '000) -----			
<b>Financial liabilities (excluding unit holder's fund)</b>				
Payable to HBL Asset Management Limited - Management Company	15,388	15,388	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	618	618	-	-
Payable to Securities and Exchange Commission of Pakistan	4,844	4,844	-	-
Accrued expenses and other liabilities	36,964	36,964	-	-
	<b>57,814</b>	<b>57,814</b>	-	-
Unit holders' fund	6,726,060	6,726,060	-	-
	2015			
Total	Upto three months	Over three months and upto one year	Over one year	
	----- (Rupees in '000) -----			
<b>Financial liabilities (excluding unit holder's fund)</b>				
Payable to HBL Asset Management Limited - Management Company	5,895	5,895	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	342	342	-	-
Payable to Securities and Exchange Commission of Pakistan	2,496	2,496	-	-
Accrued expenses and other liabilities	407,245	407,245	-	-
	<b>415,978</b>	<b>415,978</b>	-	-
Unit holders' fund	3,945,798	3,945,798	-	-

### 23. 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 22, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short term borrowing arrangements (which can be entered if necessary) or disposal of investments where necessary.

## 24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market price used for financial assets held by the Fund is current bid price.

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.

IFRS 13, 'Fair Value Measurement' 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 that the entity can access at the measurement date (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).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

Note	June 30, 2016				Fair Value			
	Carrying amount		Total	Total	Level 1	Level 2	Level 3	Total
	Available-for-sale	Loans and receivables			Other financial liabilities			
<b>On-balance sheet financial instruments</b>								
<b>Financial assets measured at fair value</b>								
Investments								
	- Term Finance Certificates and Sukuk bonds - Unlisted	236,527	-	-	236,527	-	-	236,527
	- Government Securities	2,359,247	-	-	2,359,247	-	-	2,359,247
		<u>2,595,774</u>	-	-	<u>2,595,774</u>	-	-	<u>2,595,774</u>
<b>Financial assets not measured at fair value</b>								
24.1	Bank balances	-	3,259,842	-	3,259,842			
Investments								
	- Term Finance Certificates and Sukuk bonds - Unlisted	430,000	-	-	430,000			
	- Placements	-	250,000	-	250,000			
	Accrued mark-up	-	36,410	-	36,410			
	Advances, deposits and other receivables	-	267,496	-	267,496			
		<u>430,000</u>	<u>3,813,748</u>	-	<u>4,243,748</u>			
<b>Financial liabilities not measured at fair value</b>								
24.1	Payable to HBL Asset Management Limited - Management Company	-	-	15,388	15,388			
	Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	618	618			
	Payable to Securities and Exchange Commission of Pakistan	-	-	4,844	4,844			
	Accrued expenses and other liabilities	-	-	36,964	36,964			
		-	-	<u>57,814</u>	<u>57,814</u>			

June 30, 2015								
Carrying amount				Fair Value				
Available-for-sale	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total	
----- (Rupees in '000) -----								
<b>On-balance sheet financial instruments</b>								
<b>Financial assets measured at fair value</b>								
Investments								
- Term Finance Certificates and Sukuk bonds - Unlisted	311,511	-	-	311,511	-	311,511	-	311,511
- Government Securities	2,363,326	-	-	2,363,326	-	2,363,326	-	2,363,326
	<u>2,674,837</u>	<u>-</u>	<u>-</u>	<u>2,674,837</u>	<u>-</u>	<u>2,674,837</u>	<u>-</u>	<u>2,674,837</u>
<b>Financial assets not measured at fair value</b>								
24.1								
Bank balances	-	1,099,072	-	1,099,072				
Accrued mark-up	-	54,991	-	54,991				
Advances, deposits and other receivables	-	3,607	-	3,607				
	<u>-</u>	<u>1,157,670</u>	<u>-</u>	<u>1,157,670</u>				
<b>Financial liabilities not measured at fair value</b>								
24.1								
Payable to HBL Asset Management Limited - Management Company	-	-	5,895	5,895				
Payable to Central Depository Company of Pakistan Limited - Trustee	-	-	342	342				
Payable to Securities and Exchange Commission of Pakistan	-	-	2,496	2,496				
Accrued expenses and other liabilities	-	-	407,245	407,245				
	<u>-</u>	<u>-</u>	<u>415,978</u>	<u>415,978</u>				

24.1 The Fund has not disclosed the fair values for these financial assets and financial liabilities, as these are either short term in nature or repriced frequently. Therefore, their carrying amounts are reasonable approximation of fair value.

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

The Securities and Exchange Commission of Pakistan vide Circular 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. HBL Asset Management Limited (Management Company) classified HBL Income Fund (the Fund) as Income Scheme' in accordance with the said circular. As at June 30, 2016, 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	19,025	19,025	-	-	-
New Allied Electronics Industries (Private) Limited	Sukuk	44,149	44,149	-	-	-
Agritech Limited	TFC	9,992	9,992	-	-	-
Saudi Pak Leasing Company Limited	TFC	5,550	5,550	-	-	-
Worldcall Telecom Limited	TFC	47,768	47,768	-	-	-



**26. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue by the Board of Directors of the Management Company in their meeting held on **August 26, 2016**.

**27. GENERAL**

Figures have been rounded off to the nearest thousand rupees.

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

\_\_\_\_\_  
**Chief Executive**

\_\_\_\_\_  
**Director**