

HBL

**ASSET
MANAGEMENT**

HBL IslamicStockFund

Annual Report 2015

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HBL ISLAMIC STOCK FUND

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VISION / MISSION / VALUES

OUR VISION

Enabling people to advance with confidence and success.

OUR MISSION

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

OUR VALUES

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

- **Excellence**
The markets in which we operate are becoming increasingly competitive and our investors now have an abundance of choice. Only through being the very best - in terms of the service we offer, our product and premises - can we hope to be successful and grow.
- **Integrity**
We are an Asset Management Company in Pakistan and our success depends upon the performance of the Fund(s) which are under management and our investors and society in general expects us to possess an steadfastly adhere to high moral principle and professional standards.
- **Customer Focus**
We need to understand fully the need of our investors and to adopt our product and services to meet these. We must strive always to put the satisfaction of our investors first.
- **Meritocracy**
We believe in giving opportunities and advantage to our employees on the basis of their ability. We believe in rewarding achievement and in providing first class career opportunities for all.
- **Progressiveness**
We believe in the advancement of society through the adoption of enlightened working practice, innovative new products and processes and a sprit of enterprise.

CORPORATE INFORMATION

Management Company

HBL Asset Management Limited.

Board of Directors

Chairman	Mr. Towfiq Habib Chinoy	(Independent Non-Executive Director)
Directors	Mr. Rehan N. Shaikh	(Executive Director)
	Mr. Rizwan Haider	(Non-Executive Director)
	Mr. Salahuddin Manzoor	(Non-Executive Director)
	Mr. Salim Amlani	(Non-Executive Director)
	Ms. Sima Kamil	(Non-Executive Director)
	Ms. Sadia Khan	(Independent Non-Executive Director)

Audit Committee

Chairman	Mr. Salim Amlani	(Non-Executive Director)
Members	Mr. Rizwan Haider	(Non-Executive Director)
	Mr. Salahuddin Manzoor	(Non-Executive Director)

Human Resource Committee

Chairperson	Ms. Sima Kamil	(Non-Executive Director)
Members	Mr. Salim Amlani	(Non-Executive Director)
	Mr. Salahuddin Manzoor	(Non-Executive Director)
	Mr. Rehan N. Shaikh	(Executive Director)

Risk Management Committee

Chairman	Mr. Rizwan Haider	(Non-Executive Director)
Members	Mr. Salim Amlani	(Non-Executive Director)
	Mr. Salahuddin Manzoor	(Non-Executive Director)
	Mr. Rehan N. Shaikh	(Executive Director)

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

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

Trustee

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

Legal Advisors

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

Website

www.hblasset.com

Head Office

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

Registered Office

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

FUND INFORMATION

NAME OF FUND

HBL Islamic Stock Fund

FUND MANAGER

Ms. Samia Aslam

NAME OF AUDITORS

External Auditors

KPMG Taseer Hadi & Co., Chartered Accountants.

Internal Auditors

A.F. Ferguson & Co., Chartered Accountants.

NAME OF BANKERS

**Habib Bank Limited
National Bank of Pakistan
Bank Islami Paksitan Limited
Dubai Islamic Bank Limited**

FUND MANAGER REPORT

Type and Category of Fund

Open end Islamic Equity Fund

Investment Objective and Accomplishment of Objective

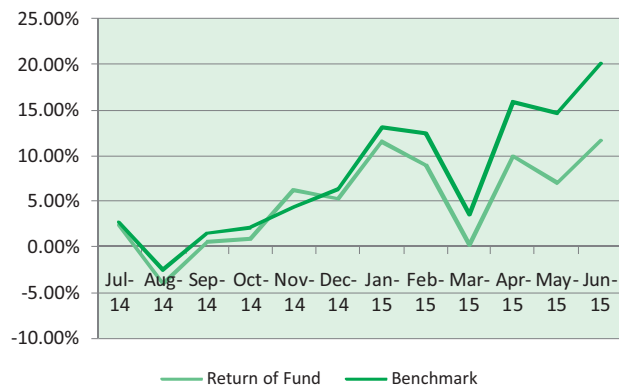
The investment objective of the Fund is to achieve long term capital growth by investing mainly in Shariah Compliant equity securities.

Benchmark and Performance Comparison with Benchmark

The Fund's benchmark is KMI-30 Index.

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

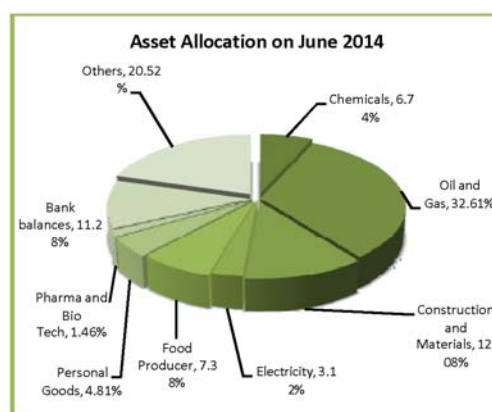
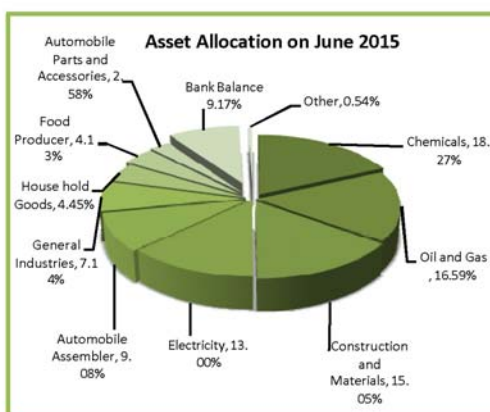
Month	Return of Fund	Benchmark
Jul-14	2.41%	2.72%
Aug-14	-3.98%	-2.50%
Sep-14	0.56%	1.45%
Oct-14	0.86%	2.12%
Nov-14	6.24%	4.40%
Dec-14	5.32%	6.39%
Jan-15	11.49%	13.03%
Feb-15	8.91%	12.45%
Mar-15	0.17%	3.52%
Apr-15	9.94%	15.83%
May-15	6.98%	14.64%
Jun-15	11.63%	20.10%



Strategies and Policies employed during the Year

During the year under review, the Fund increased its exposure in equity from 68.20% of gross assets as on June 30, 2014 to 90.28% of gross assets as on June 2015. Further Sector wise allocation was reviewed and revisited to ensure optimum returns to the investors. Accordingly, exposure in Construction & Material and electricity were increased. However, exposure in Oil and Gas was reduced.

Asset Allocation



Significant Changes in Asset Allocation

Following table shows comparison of sector wise allocation of equity investments of Fund as on June 30, 2015 and June 30, 2014:

Sr. No.	Name of Sector	Sector Allocation as on	
		June 30, 2015	June 30, 2014
1	Chemicals	18%	7%
2	Oil and Gas	17%	33%
3	Construction and Materials	15%	12%
4	Electricity	13%	3%
5	Automobile Assembler	9%	-
6	General Industries	7%	-
7	House hold Goods	4%	-
8	Food Producer	4%	7%
9	Automobile Parts and Accessories	3%	-
10	Pharma and Bio Tech	-	1%
11	Personal Goods	-	5%
	Total	90%	68%

Fund Performance

The total income and net income of the Fund was Rs. 128.463 million and Rs 100.453 million respectively during the year ended June 30, 2015. The Net Asset Value (NAV) of the Fund decrease from Rs 131.9066 per unit as on June 30, 2014 to Rs 128.2681 per unit as on June 30, 2015, (after accounting for dividend of Rs19.00 per unit); giving a return of 11.63% during the year. During the same period the benchmark return (KMI 30 Index) was 20.10%.

Review of Market invested in

The KMI-30 Index continued its positive momentum in FY 15 and closed the year at the level of 57,271 on June 30, 2015, yielding an impressive 20.10% return for the above mentioned period. Trading volumes decreased to 139.50 million shares as compared to 145 million shares in the corresponding period last year. Main reasons behind the market performance in FY15 include the declining interest rate scenario on the back of low inflationary environment and significant improvement in workers remittances throughout the year (positive for Balance of Payment).

Foreign portfolio investment (FPI) number remained positive on full year basis and witnessed an inflow of US\$38mn. This bodes well for the stock market as it shows continuous confidence of foreign investors in the fundamentals of the listed companies in the country. As a consequence, foreigners have also become significant holders of total stock holding in the country.

Distribution

The Fund has distributed cash dividend at Rs. 1.00 & bonus units at the rate of Rs. 18.00 per unit for the year ended June 30, 2015.

Significant Changes in the State of Affairs

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

From – To (Number of units)	Number of Unit Holders	Total Number of Units Held
1 - 100	82	2,909
101 - 500	31	8,389
501 - 1,000	25	18,435
1,001 - 10,000	80	296,636
10,001 - 100,000	14	344,381
100,001 - 500,000	2	408,647
5,00,001 - 1,000,000	-	-
1000,001 - 5000,000	-	-
5,000,001 and above	1	5,029,741
Total	235	6,109,139

Unit Splits

There were no unit splits during the year.

Circumstances materially affecting the Interest of Unit Holders

Investments are subject to market risk.

Soft Commission

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

HBL ISLAMIC STOCK FUND PERFORMANCE TABLE

	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
NET ASSETS AND PRICES					
Net assets at the period end(Rs'000)	783,608	778,727	469,721	312,236	268,588
Net asset value per unit at the period end/period end(Rs)	128.2681	131.9066	155.9098	117.6287	102.5007
Selling price/repurchasing price	131.6903	135.4565	160.2604	119.9813	104.5507
Earning per unit(Rs) (note 3.10)					
Highest selling price per unit(Rs)	154.1646	178.2440	165.7097	126.7513	106.6796
Lowest selling price per unit(Rs)	126.7402	129.7224	113.4997	98.5001	101.7804
Highest repurchase price per unit(Rs)	150.1584	173.5728	162.4605	124.2660	104.5878
Lowest repurchasing price per unit(Rs)	123.4188	126.3228	111.2742	96.5687	99.7847
RETURN (%)					
Total return	11.63%	30.17%	44.87%	16.52%	2.50%
Income distribution	19.60%	28.46%	22.73%	9.71%	1.55%
Capital growth	-7.97%	1.71%	22.14%	6.81%	0.95%
DISTRIBUTION					
First Interin dividend distribution	-	-	-	-	-
Second Interin dividend distribution	-	-	-	-	-
Third Interin dividend distribution	-	-	-	-	-
Final dividend distributatio	19.00	38.50	25.00	10.00	1.55
Total dividend distribution for the year/ period	19.00	38.50	25.00	10.00	1.55
AVERAGE RETURNS (%)					
Average annual return	11.63%	30.17%	44.87%	16.52%	2.50%
Average return since inception	122.30%	106.96%	67.46%	9.51%	2.50%

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**

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URL: www.cdcpakistan.com
Email: info@cdcpak.com



TRUSTEE REPORT TO THE UNIT HOLDERS

HBL ISLAMIC STOCK FUND

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

We, Central Depository Company of Pakistan Limited, being the Trustee of HBL Islamic Stock 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, 2015 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.

We would like to draw unit holders' attention towards the fact that the Management Company of the Fund has not achieved the Benchmark return i.e. 20.10% and attained only 11.63%.


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

Karachi, October 27, 2015



REVIEW REPORT OF THE SHARIAH ADVISOR

As a shariah adviser of the **HBL Islamic Stock Fund**. I am issuing this report in accordance with the Trust Deed of the Fund. The scope of the report is to express an opinion on the Shariah compliance of the Fund's activities.

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

For screening investment in equities, I have advised criteria on the basis of the following:

- (i) Nature of business of the investee company.
- (ii) Debt to the total assets,
- (iii) Non-compliant investment to total assets and
- (iv) Non-compliant income to total revenue.

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

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

In light of the above scope, I hereby certify that all the provisions of the scheme and investments made by the Fund for the period ended 30 June 2015 are in compliance with the Shariah principles.

There are investments made by HBL Islamic Stock Fund where investee companies have earned a part of their income from non-compliant sources (eg, interest income). In such cases, the management company, in consultation with me, the Shariah Adviser of the Fund, have determined the Haram portion of the income of the Fund and marked to charity in order to purify the whole income. During the year an investment in the shares of Oil and Gas Development Company Limited became non-compliant with Shariah guidelines and accordingly advised to be disposed off, however, after due consultation and as a matter of exception, purification of its income was allowed to the Fund.

Mufti Yahya Asim
Shariah Advisor

STATEMENT OF COMPLIANCE WITH THE SHARIAH PRINCIPLES

HBL Islamic Stock Fund (the fund) has fully complied with the Shariah principles specified in Trust Deed and in the guideline issued by the Shariah Advisor for its operations, investment and placements made during for the year ended June 30, 2015. This has been duly confirmed by the Shariah Advisor of the Fund.

Rehan N.Shaikh

Chief Executive Officer

Date: September 30, 2015



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Independent Assurance Report to the Unit Holders on the Statement of Compliance with the Shariah Principles

We were engaged by the Board of directors of HBL Asset Management Limited, Management Company of HBL Islamic Stock Fund (the Fund), to report on Fund's Compliance with the Shariah principles as set out in the annexed statement prepared by the management company for the year ended June 30, 2015 in the form of an independent reasonable assurance conclusion about whether the annexed statement presents fairly, in all material respects, the status of the Fund's compliance with Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor as required under clause 8.3.1 of the Trust Deed of the Fund.

Management Company's Responsibilities

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

Our Responsibilities

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

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

The procedures performed included:

1. Checking compliance of specific guidelines issued by the Shariah Advisor relating to charity, maintaining bank accounts and for making investments of the Fund.

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KPMG Taseer Hadi & Co.

2. Check that the Shariah Advisor has certified that investments made by the Fund during the period ended June 30, 2015 are in compliance with the Shariah principles and where required purification of income from non-compliant sources has been made in consultation with the Shariah Advisor.

Conclusion

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

In our opinion, the annexed statement, in all material respects, presents fairly the status of the Fund's compliance with the Shariah principles specified in the Trust Deed and in the guidelines issued by the Shariah Advisor for the year ended June 30, 2015.

Date: 30 September 2015

Karachi

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

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2015.

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

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

HBL - Islamic Stock Fund is an open ended mutual fund and was listed on Lahore Stock Exchange on May 11, 2011. The units of the Fund have been offered for public subscription on a continuous basis from May 09, 2011.

- The Management Company encourages representation of independent non-executive directors. As on June 30, 2015 the Board includes following members:

Category	Names
Independent Directors	1. Mr. Tawfiq Habib Chinnoy 2. Ms. Sadia Khan
Executive Directors	1. Mr. Rehan N. Shaikh
Non- Executive Directors	1. Mr. Salim Amlani 2. Ms. Sima Kamil 3. Mr. Rizwan Haider 4. Mr. Salahuddin Manzoor

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

- 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).
- 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, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- No casual vacancy occurred during the year.
- 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.
- The Board has developed a vision/mission statement, over all 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.
- 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.
- 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 except the first quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings.
- Two Directors have acquired the formal training certificates in earlier years. The Management Company, however, intends to facilitate further training for remaining directors in near future as defined in the Code of Corporate Governance.
- The performance evaluation of the members of the Board including the chairman and chief executive was undertaken and the mechanism of questionnaire was prepared by the BOD and circulated among the members of Board of Directors and exercise is under progress.
- The Board has approved the appointment of Chief Financial Officer and Company Secretary including his terms of remuneration of employment.
- Directors Report for the year ended June 30, 2015 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

13. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.
14. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 18 to the financial statements "Transactions with Connected Persons / related parties".
15. The Company has complied with the corporate and financial reporting requirements of the Code.
16. The Board has formed an Audit Committee. It comprises of three 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.

Rehan N. Shaikh
Chief Executive Officer

Date: September 30, 2015
Place: Karachi



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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 Islamic Stock Fund ("the Fund") for the year ended June 30, 2015, to comply with the Listing Regulation No. 35 (Chapter xi) of Lahore Stock Exchange (Guarantee) Limited where the Fund is listed.

The responsibility for compliance with the Code 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, 2015.

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	8	Quarterly meetings of Board of Directors

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S.No.	Paragraph reference	Description
2	9	Directors' training program
3	10	Annual evaluation of the Board's own performance
4	16	Audit Committee composition
5	17	Quarterly meetings of Audit Committee
6	19	Qualification criteria of Head of Internal Audit
7	22	Intimation of close period prior to announcement of interim / final results.
8	24	Notification of transactions in units to Company Secretary from related parties

Date: 30 September 2015

Karachi

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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 Islamic Stock Fund** ("the Fund"), which comprise the statement of assets and liabilities as at June 30, 2015 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, 2015 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.



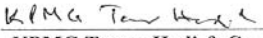
KPMG Taseer Hadi & Co.

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: 30 September 2015

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Syed Iftikhar Anjum

HBL ISLAMIC STOCK FUND
Statement of Assets and Liabilities
As at June 30, 2015

	Note	2015	2014
		(Rupees in '000)	
Assets			
Bank balances	4	75,742	91,913
Investments	5	745,725	555,941
Dividend receivable and accrued mark-up	6	1,656	1,146
Preliminary expenses and floatation costs	7	197	427
Advances, deposits, prepayments and other receivables	8	2,667	165,712
Total assets		825,987	815,139
Liabilities			
Payable to HBL Asset Management Limited - Management Company	9	4,103	2,281
Payable to Central Depository Company of Pakistan Limited - Trustee	10	136	122
Payable to Securities and Exchange Commission of Pakistan	11	768	551
Dividend payable		-	22,324
Accrued expenses and other liabilities	12	37,372	11,134
Total liabilities		42,379	36,412
Net assets		783,608	778,727
Unit holders' fund (as per statement attached)		783,608	778,727
		(Number of units)	
Number of units in issue		6,109,139	5,903,622
		(Rupees)	
Net assets value per unit		128.2681	131.9066

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 ISLAMIC STOCK FUND

Income Statement

For the year ended June 30, 2015

	Note	2015 (Rupees in '000)	2014
Income			
Dividend income		34,851	19,577
Mark-up on deposits with banks	13	5,908	5,162
Capital gain on sale of investments - net		97,781	150,894
		138,540	175,633
Expenses			
Remuneration of HBL Asset Management Limited - Management Company		21,593	15,603
Remuneration of Central Depository Company of Pakistan Limited - Trustee		1,619	1,159
Annual fee to Securities and Exchange Commission of Pakistan		768	551
Securities transaction costs		513	387
Auditors' remuneration	14	327	250
Settlement and bank charges		312	456
Amortisation of preliminary expenses and floatation costs	7	230	230
Other expenses		601	643
		25,963	19,279
Net income from operating activities		112,577	156,354
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net		(10,077)	38,244
Provision for Workers' Welfare Fund	15	(2,047)	(3,894)
Net income for the year before taxation		100,453	190,704
Taxation	16	-	-
Net income for the year after taxation		100,453	190,704

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

HBL ISLAMIC STOCK FUND
Statement of Comprehensive Income
For the year ended June 30, 2015

	2015	2014
	(Rupees in '000)	
Net income for the year	100,453	190,704
Other comprehensive income for the year		
<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	(17,960)	927
Total comprehensive income for the year	<u>82,493</u>	<u>191,631</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 ISLAMIC STOCK FUND
Distribution Statement
For the year ended June 30, 2015

	2015	2014
	(Rupees in '000)	
Undistributed income brought forward - realised	26,330	83,569
Net income for the year	100,453	190,704
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 holder's fund	917	7,919
Final distribution for the year ended June 30, 2014: Rs. Nil per unit [(Year ended June 30, 2013: Rs. 25 per unit) (Date of distribution: July 08, 2013)] - Nil units (Year ended June 30, 2013: 575,353 bonus units)	-	(75,319)
Interim distribution for the year ended June 30, 2015: Rs. 1.00 per unit cash distribution and Rs. 18.00 per unit in the form of bonus units (Date of distribution: June 30, 2015) [(Year ended June 30, 2014: Rs. 38.50 per unit) (Date of distribution: June 27, 2014)] - Cash distribution - 718,560 bonus units (2014: 1,219,914 bonus units)	(5,327) (95,879) (101,206)	(22,324) (158,219) (180,543)
Undistributed income carried forward - realised	<u>26,494</u>	<u>26,330</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 ISLAMIC STOCK FUND
Statement of Movement in Unit Holders' Fund
For the year ended June 30, 2015

	2015	2014
	(Rupees in '000)	
Net Assets as at beginning of the year [Rs. 131.9066 per unit (2014: Rs. 155.9098 per unit)]	778,727	469,721
Issue of 2,259,567 units (2014: 1,966,115 units)	311,240	313,449
Redemption of 2,772,610 units (2014: 870,537 units)	(388,808)	(135,506)
Issue of 718,560 bonus units (2014: 1,795,267 bonus units)	91,085	233,538
	13,517	411,481
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - transferred to income statement	10,077	(38,244)
Net income for the year	100,453	190,704
Net unrealised (loss) / gain on re-measurement of investments classified as available for sale	(17,960)	927
Total comprehensive income for the year	82,493	191,631
Final distribution for the year ended June 30, 2014: Rs. Nil per unit [(Year ended June 30, 2013: Rs. 25 per unit) (Date of distribution: July 08, 2013)] - Nil units (Year ended June 30, 2013: 575,353 bonus units)	-	(75,319)
Interim distribution for the year ended June 30, 2015: Rs. 1.00 per unit cash distribution and Rs. 18.00 per unit in the form of bonus units (Date of distribution: June 30, 2015) [(Year ended June 30, 2014: Rs. 38.50 per unit) (Date of distribution: June 27, 2014)] - Cash distribution - 718,560 bonus units (2014: 1,219,914 bonus units)	(5,327) (95,879) (101,206)	(22,324) (158,219) (180,543)
Net assets as at end of the year [Rs. 128.2681 per unit (2014: Rs. 131.9066 per unit)]	783,608	778,727

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 ISLAMIC STOCK FUND

Cash Flow Statement

For the year ended June 30, 2015

	Note	2015 (Rupees in '000)	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		100,453	190,704
Adjustments			
Amortisation of preliminary expenses and floatation costs	7	230	230
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed - net		10,077	(38,244)
		<u>110,760</u>	<u>152,690</u>
(Increase) / decrease in assets			
Investments - net		<u>(207,744)</u>	<u>(110,941)</u>
Dividend receivable and accrued mark-up		(510)	(774)
Advances, deposits, prepayments and other receivables		<u>163,045</u>	<u>(163,077)</u>
		<u>(45,209)</u>	<u>(274,792)</u>
Increase in liabilities			
Payable to HBL Asset Management Limited - Management Company		<u>1,822</u>	<u>750</u>
Payable to Central Depository Company of Pakistan Limited - Trustee		14	46
Payable to Securities and Exchange Commission of Pakistan		217	193
Accrued expenses and other liabilities		<u>21,444</u>	<u>5,842</u>
		<u>23,497</u>	<u>6,831</u>
Net cash generated from / (used in) operating activities		<u>89,048</u>	<u>(115,271)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Amount received on issue of units		<u>311,240</u>	<u>313,449</u>
Payment against redemption of units		<u>(388,808)</u>	<u>(135,506)</u>
Cash dividend paid		<u>(27,651)</u>	<u>-</u>
Net cash (used in) / generated from financing activities		<u>(105,219)</u>	<u>177,943</u>
Net (decrease) / increase in cash and cash equivalents during the year		<u>(16,171)</u>	<u>62,672</u>
Cash and cash equivalents at beginning of the year		<u>91,913</u>	<u>29,241</u>
Cash and cash equivalents at end of the year	4	<u>75,742</u>	<u>91,913</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 ISLAMIC STOCK FUND

Notes To The Financial Statements

For the year ended June 30, 2015

1. LEGAL STATUS AND NATURE OF BUSINESS

HBL Islamic Stock Fund (the Fund) was established under a Trust Deed, dated November 23, 2010, executed between HBL Asset Management Limited as the Management Company and Central Depository Company of Pakistan Limited (CDC) as the Trustee. The Fund was authorised by the Securities and Exchange Commission of Pakistan (SECP) as a unit trust scheme on December 10, 2010.

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

The Fund is an open-ended mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can also be redeemed by surrendering to the Fund. The Fund is listed on the Lahore Stock Exchange. The units of the Fund were initially offered for public subscription at par from May 09, 2011 to May 10, 2011.

The principal activity of the Fund is to provide long-term capital growth by investing mainly in Shariah Compliant equity securities and short-term government securities.

JCR-VIS Credit Rating Agency (JCR-VIS) has assigned management quality rating of "AM2-" to the Management Company and 1 year fund performance ranking at MFR 1-Star.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP 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, 2015:

- 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 amortisation 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.
- IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after January 01, 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements. Certain further amendments have been made to IFRS 10, IFRS 12 and IAS 28 clarifying the requirements relating to accounting for investment entities and would be effective for annual periods beginning on or after January 01, 2016. The adoption of this standard is not likely to have an impact on Fund's financial statements.
- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after January 01, 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after January 01, 2016. The adoption of this standard is not likely to have an impact on Fund's financial statements.
- IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after January 01, 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place. The adoption of this standard is not likely to have an impact on Fund's financial statements.

- IFRS 13 'Fair Value Measurement' (effective for annual periods beginning on or after January 01, 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The adoption of this standard is not likely to have an impact on Fund's financial statements.
- Amendments to IAS 27 'Separate Financial Statements' (effective for annual periods beginning on or after January 01, 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The adoption of the amended standard is not likely to have an impact on Fund's financial statements.
- Agriculture: Bearer Plants [Amendments 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.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) [effective for annual periods beginning on or after January 01, 2016]. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. 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. The amendment is not likely to have an impact on Fund's financial statements.
 - IFRS 7 'Financial Instruments- Disclosures'. IFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. 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. The amendment is not likely to have an impact on Fund's financial statements.
 - 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. The amendment is not likely to have an impact on Fund's financial statements.
 - 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 amendment is 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 unless otherwise stated.

3.1 Cash and cash equivalents

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

3.2 Financial assets

3.2.1 Classification

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

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:

The equity securities are valued on the basis of closing quoted market prices available at the stock exchange.

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

a) Equity Securities

The Fund assesses at each reporting date whether there is objective evidence that the financial asset or a group of financial assets is impaired. In case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement is reclassified from other comprehensive income to income statement. Impairment losses recognised on equity securities are not reversed through the income statement.

b) Loans and receivables

For financial assets classified as 'loans and receivables', a provision for impairment is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms. The provision against loans and receivables is made as per the provisioning policy duly formulated and approved by the Board of Directors of the Management Company as per the requirements of Circular No. 13 of 2009 dated May 04, 2009 issued by the Securities and Exchange Commission of Pakistan.

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 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 funds are actually realized against application. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company.

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

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

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

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

3.9 Net 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

- 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 re-measurement of investments classified as 'financial assets at fair value through profit or loss' are included in the income statement in the period in which they arise.
- Dividend income is recognised when the right to receive dividend is established i.e. on the date of book closure of the investee company / institution declaring the dividend.
- Mark-up on deposits with banks and mark-up income on debt securities is recognised using effective yield method.

3.12 Proposed distribution

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

4. BANK BALANCES	Note	2015	2014
		(Rupees in '000)	
Savings accounts	4.1	<u>75,742</u>	<u>91,913</u>
4.1	This represents bank accounts held with different banks. Mark-up rates on these accounts range between 5% - 8% p.a (2014: 6.5% - 8% p.a).		
5. INVESTMENTS	Note	2015	2014
		(Rupees in '000)	
Available for sale - Listed equity securities	5.1	<u>745,725</u>	<u>555,941</u>
		<u>745,725</u>	<u>555,941</u>

5.1 Listed equity securities - available for sale

Shares of listed companies - fully paid up ordinary shares of Rs. 10 each unless stated otherwise

Name of the Investee Company	Number of shares				As at June 30, 2015	Market value as at June 30, 2015 (Rupees in '000)	Market value as a percentage of total investment	Market value as a percentage of net assets	Par value as a percentage of issued capital of
	As at July 1, 2014	Purchases during the year	Bonus / Rights issue	Sales during the year					
Personal Goods (Textile)									
Nishat Mills Limited	350,000	1,896,600	-	2,246,600	-	-	-	-	-
	350,000	1,896,600	-	2,246,600	-	-	-	-	-
Construction and Materials									
Cherat Cement Limited	-	1,385,000	-	1,385,000	-	-	-	-	-
D. G. Khan Cement Company Limited	430,000	1,733,500	-	1,876,000	287,500	41,048	5.50%	5.24%	0.07%
Kohat Cement Limited	474,000	125,000	-	599,000	-	-	-	-	-
Lucky Cement Limited	69	689,400	-	608,769	80,700	41,933	5.62%	5.35%	0.02%
Maple Leaf Cement Factory Limited	-	3,336,500	-	2,810,000	526,500	41,362	5.55%	5.28%	0.10%
Pioneer Cement Limited	-	2,025,000	-	2,025,000	-	-	-	-	-
	904,069	9,294,400	-	9,303,769	894,700	124,343	16.67%	15.87%	-
Electricity									
K-Electric Limited	3,000,000	3,987,000	-	3,986,000	3,001,000	25,268	3.39%	3.22%	0.01%
Pakgen Power Limited	-	-	-	-	-	-	-	-	-
The Hub Power Company Limited	-	1,850,500	-	1,224,500	626,000	58,575	7.85%	7.48%	0.02%
Kot Addu Power Company	-	462,500	-	189,000	273,500	23,532	3.16%	3.00%	0.01%
	3,000,000	6,300,000	-	5,399,500	3,900,500	107,375	14.40%	13.70%	-
Oil and Gas									
Attock Refinery Limited	-	-	-	-	-	-	-	-	-
Mari Petroleum Limited	100,800	179,300	-	280,100	-	-	-	-	-
Oil and Gas Development Company Limited	239,346	198,000	-	437,346	-	-	-	-	-
Pakistan Oilfields Limited	102,800	442,500	-	434,300	111,000	44,824	6.01%	5.72%	0.05%
Pakistan Petroleum Limited	230,148	499,300	-	523,248	206,200	33,870	4.54%	4.32%	0.01%
Pakistan State Oil Company Limited	141,350	748,800	-	811,350	78,800	30,400	4.08%	3.88%	0.03%
National Refinery Limited	-	185,000	-	185,000	-	-	-	-	-
Attock Petroleum Limited	-	59,000	-	9,750	49,250	27,936	3.75%	3.57%	0.06%
	814,444	2,311,900	-	2,681,094	445,250	137,030	18.38%	17.49%	-
Chemicals									
Fauji Fertilizer Bin Qasim Limited	-	2,950,000	-	2,389,500	560,500	31,007	4.16%	3.96%	0.06%
Fauji Fertilizer Company Limited	-	435,100	-	250,800	184,300	27,538	3.69%	3.51%	0.01%
ICI Pakistan Limited	140,800	-	-	140,800	-	-	-	-	-
Engro Fertilizer Limited	-	526,000	-	115,500	410,500	36,407	4.88%	4.65%	0.03%
Engro Corporation Limited	-	357,000	-	168,600	188,400	55,917	7.50%	7.14%	0.04%
	140,800	4,268,100	-	3,065,200	1,343,700	150,869	20.23%	19.26%	-
Commercial Banks									
Meezan Bank Limited	-	800,000	-	800,000	-	-	-	-	-
	-	800,000	-	800,000	-	-	-	-	-
Food Producers									
Engro Foods Limited	-	700,700	-	475,700	225,000	34,074	4.57%	4.35%	0.03%
National Foods Limited	75,055	85,055	-	160,110	-	-	-	-	-
	75,055	785,755	-	635,810	225,000	34,074	4.57%	4.35%	-
General Industrials									
Synthetic Products Enterprises Limited	-	923,500	-	284,500	639,000	35,062	4.70%	4.47%	0.83%
Packages Limited	-	76,250	-	36,050	40,200	23,882	3.20%	3.05%	0.05%
	-	999,750	-	320,550	679,200	58,944	7.90%	7.52%	-
Industrial Transportation									
Pakistan National Shipping Corporation Limited	-	305,000	-	305,000	-	-	-	-	-
	-	305,000	-	305,000	-	-	-	-	-
Household Goods									
Pak Elektron Limited	-	444,000	-	-	444,000	36,737	4.93%	4.69%	0.11%
Tariq Glass Industries Limited	-	-	-	-	-	-	-	-	-
	-	444,000	-	-	444,000	36,737	4.93%	4.69%	-
Pharma and Bio Tech									
Searle Company Limited	68,400	575,000	-	643,400	-	-	-	-	-
	68,400	575,000	-	643,400	-	-	-	-	-
Automobile Assembler									
Pak Suzuki Motors Limited	-	547,000	-	472,500	74,500	32,475	4.35%	4.14%	0.09%
Indus Motors Limited	-	40,500	-	6,450	34,050	42,528	5.70%	5.43%	0.04%
	-	587,500	-	478,950	108,550	75,003	10.05%	9.57%	-
Automobile Parts and Accessories									
Thal Limited	-	240,000	-	165,200	74,800	21,350	2.87%	2.72%	0.18%
	-	240,000	-	165,200	74,800	21,350	2.87%	2.72%	-
Total	5,352,768	28,808,005	-	26,045,073	8,115,700	745,725	100.00%	95.17%	
Cost of investments at June 30, 2015						681,062			

5.2 Investments include shares having market value aggregating to Rs. 39.72 million (2014: Rs. 59.43 million) that have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of the Fund's trades in terms of Circular 11 dated October 23, 2007 issued by the SECP.

5.3 Net unrealised gain on re-measurement of investments classified as available for sale	Note	2015	2014
		(Rupees in '000)	
Market value of investments	5.1	745,725	555,941
Less: Cost of investments		681,062	473,318
		<u>64,663</u>	<u>82,623</u>

6. DIVIDEND RECEIVABLE AND ACCRUED MARK-UP

Mark-up accrued on deposits with banks		299	507
Dividend receivable		1,357	639
		<u>1,656</u>	<u>1,146</u>

7. PRELIMINARY EXPENSES AND FLOATATION

COSTS

Opening balance		427	657
Less: amortised during the year		(230)	(230)
Closing balance		<u>197</u>	<u>427</u>

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

8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2015	2014
	(Rupees in '000)	
Security deposit with National Clearing Company of Pakistan Limited	2,500	2,500
Security deposit with Central Depository Company of Pakistan Limited	100	100
Advance against subscription towards issue of equity shares	-	28,798
Receivable against sales of securities	-	134,268
Prepaid expenses	67	46
	<u>2,667</u>	<u>165,712</u>

9. PAYABLE TO HBL ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY

9. PAYABLE TO HBL ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY	Note	2015	2014
		(Rupees in '000)	
Management fee	9.1	1,326	1,220
Sindh Sales Tax	9.2	230	227
Sales load payable		2,547	834
		<u>4,103</u>	<u>2,281</u>

9.1 Under the provisions of the Non-Banking Finance Companies & Notified Entities Regulations 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. The Management Company has charged its remuneration at the rate of two percent per annum for the current year (2014: two percent per annum).

9.2 The Sindh Government had levied General Sales Tax at the rate of 15% on the remuneration of the Management Company through Sindh Sales Tax on Services Act, 2011 effective from July 1, 2014.

10. PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	<i>Note</i>	2015	2014
		(Rupees in '000)	
Trustee's remuneration	10.1	<u>136</u>	<u>122</u>

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

Based on the Trust Deed, the tariff structure applicable to the Fund as at June 30, 2015 is as follows:

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

The remuneration is paid to the Trustee monthly in arrears.

11. PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	<i>Note</i>	2015	2014
		(Rupees in '000)	
Annual fee	11.1	<u>768</u>	<u>551</u>

11.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, a collective investment scheme categorised as equity scheme is required to pay as annual fee to the SECP, an amount equal to 0.095% (2014: 0.095%) of the average annual net assets of the scheme. HBL Islamic Stock Fund has been categorised as an open-end Shariah Compliant (Islamic) Equity Scheme by the Management Company.

12. ACCRUED EXPENSES AND OTHER LIABILITIES	<i>Note</i>	2015	2014
		(Rupees in '000)	
Auditors' remuneration payable		301	200
Charity payable	12.1	1,885	1,438
Federal Excise Duty	12.2	4,322	1,671
Withholding tax payable		4,906	-
Capital gain tax payable		154	-
Payable to unit holders against redemption		906	-
Payable to HBL Money Market Fund against conversion of units		15,067	
Other payables		52	23
Payable to brokers		1,505	1,575
Provision for Workers' Welfare Fund	15	8,274	6,227
		<u>37,372</u>	<u>11,134</u>

12.1 In accordance with the instructions of the Shariah Advisor(s), any income earned by the Fund from investments whereby the portions of the investment of the investee company has been made in Shariah non-compliant avenues, such portion of the income of the Fund from those investments should be given away for charitable purposes directly by the Fund. During the current year the Fund has transferred an amount of Rs. 0.447 million (2014: Rs. 0.499 million) to charity.

12.2 As per the requirement of the 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 the provincial sales tax, further levy of FED may result in double taxation, which does not appear to be the spirit of the law. In 2014, the Honourable High Court of Sindh in a Constitutional petition relating to levy of FED on Mutual Fund has granted a stay order for the recovery of FED. As a matter of abundant caution, the Management Company has made a provision with effect from June 13, 2013, aggregating to Rs. 4.721 million (2014: 2.070 million) out of which Rs. 0.399 million have been paid to the Management Company. Had the provision not been made, the Net Asset Value per unit of the Fund as at June 30, 2015 would have been higher by Rs. 0.7728 per unit.

13. MARK-UP ON DEPOSITS WITH BANKS

2015 2014
(Rupees in '000)

Mark-up on savings accounts	5,908	5,162
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14. AUDITORS' REMUNERATION

Statutory audit fee	250	125
Half yearly review fee	40	65
Reporting on compliance with the Code of Corporate Governance	5	5
Shariah Compliance Audit fee	3	5
Out of pocket expenses	29	50
	327	250

15. PROVISION FOR WORKERS' WELFARE FUND

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes /mutual funds (CISs) whose income exceeds Rs. 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication.

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

Furthermore, in 2011 the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. 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. However, SHC has not addressed the other amendments made in WWF Ordinance, 1971 about applicability of WWF to the CISs which is still pending before SHC. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC.

However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs. 8.274 million (including Rs. 2.047 million for the current year). Had the provision not been made, the Net Asset Value per unit of the Fund as at June 30, 2015 would have been higher by Rs. 1.3544 per unit.

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 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 year as the Management Company has distributed at least 90 percent of the Fund's accounting income for the year ending June 30, 2015 as reduced by capital gains (whether realised or unrealised) to its unit holders in the form of cash.

17. FINANCIAL INSTRUMENTS BY CATEGORY

		2015			
		Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
		----- (Rupees in '000) -----			
Financial assets					
Bank balances		75,742	-	-	75,742
Investments		-	-	745,725	745,725
Dividend receivable and accrued mark-up		1,656	-	-	1,656
Advances, deposits and other receivables		2,600	-	-	2,600
		<u>79,998</u>	<u>-</u>	<u>745,725</u>	<u>825,723</u>
		2015			
		Loans and receivables	Liabilities at fair value through profit or loss	At amortised cost	Total
		----- (Rupees in '000) -----			
Financial liabilities					
Payable to HBL Asset Management Limited - Management Company			-	4,103	4,103
Payable to Central Depository Company of Pakistan Limited - Trustee			-	136	136
Payable to Securities and Exchange Commission of Pakistan			-	768	768
Dividend payable			-	-	-
Accrued expenses and other liabilities			-	24,775	24,775
			<u>-</u>	<u>29,782</u>	<u>29,782</u>
		2014			
		Loans and receivables	Assets at fair value through profit or loss	Available for sale	Total
		----- (Rupees in '000) -----			
Financial assets					
Bank balances		91,913	-	-	91,913
Investments		-	-	555,941	555,941
Dividend receivable and accrued mark-up		1,146	-	-	1,146
Advances, deposits and other receivables		165,666	-	-	165,666
		<u>258,725</u>	<u>-</u>	<u>555,941</u>	<u>814,666</u>
		2014			
		Loans and receivables	Liabilities at fair value through profit or loss	At amortised cost	Total
		----- (Rupees in '000) -----			
Financial liabilities					
Payable to HBL Asset Management Limited - Management Company			-	2,281	2,281
Payable to Central Depository Company of Pakistan Limited - Trustee			-	122	122
Payable to Securities and Exchange Commission of Pakistan			-	551	551
Dividend payable			-	22,324	22,324
Accrued expenses and other liabilities			-	3,236	3,236
			<u>-</u>	<u>28,514</u>	<u>28,514</u>

18. TRANSACTIONS WITH CONNECTED PERSONS / RELATED PARTIES

Connected persons include HBL Asset Management Limited being the Management Company, Habib Bank Limited being the Sponsor, Central Depository Company of Pakistan Limited, being the Trustee to 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:

18.1 Transactions during the year	2015	2014
	(Rupees in '000)	
HBL Asset Management Limited - Management Company		
Management fee	21,593	15,603
Habib Bank Limited - Sponsor		
Issue of 34,716 units (2014: Nil units)	4,401	-
Issue of 593,641 bonus units (2014: 1,551,401 bonus units)	79,650	201,872
Bank charges paid	27	15
Mark-up earned during the year	1,510	2,491
Mark-up received during the year	1,612	2,383
Central Depository Company of Pakistan Limited - Trustee		
Remuneration	1,619	1,159
Central Depository system charges	265	165
Executives and their relatives		
Issue of 38,656 units (2014: 15,356 units)	5,199	2,197
Issue of 2,169 bonus units (2014: 1,644 bonus units)	275	215
Redemption of 29,632 units (2014: 25,609 units)	3,909	3,631
(Loss) / profit earned on units redeemed	(726)	89
Directors of connected persons		
Issue of 430 units (2014: 48,028 units)	54	7,873
Issue of 8,402 bonus units (2014: 14,257 bonus units)	1,065	1,849
18.2 Amounts outstanding as at year end		
HBL Asset Management Limited - Management Company		
Management fee	1,326	1,220
Sindh Sales Tax	230	227
Sales load payable	2,547	834
Habib Bank Limited - Sponsor		
Investment held in the Fund: 5,028,952 units (2014: 4,400,595 units)	645,054	580,468
Bank balances	26,169	35,697
Mark-up receivable on deposits with banks	47	149
HBL Money Market Fund - Associate		
Payable to HBL Money Market Fund against conversion of units	15,067	-
Central Depository Company of Pakistan Limited - Trustee		
Remuneration payable	136	122
Security deposit	100	100
Executives of the Management Company and their relatives		
Investment held in the Fund : 18,357 units (2014: Nil units)	2,355	-
Directors of connected persons		
Investment held in the Fund: 71,117 units (2014: 62,285 units)	9,122	8,216

19. 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	20
2	Mr. Amir Khan	Head of Research & Business Development	MBA	22
3	Mr. Naseer Ladhani	Head of Risk and Compliance	MBA	30
4	Ms. Samia Aslam	Fund Manager	MBA & CFA	9

19.1 Ms. Samia Aslam is the Fund Manager of the HBL Islamic Stock Fund. She is a qualified Chartered Financial Analyst and has obtained Masters in Business Administration. She is also the Fund Manager of HBL Stock Fund and HBL Multi Asset Fund.

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

Top ten brokers during the year ended June 30, 2015

- 1 Al Habib Securities Limited
- 2 Arif Habib Limited
- 3 BMA Capital Management Limited
- 4 Global Securities Pakistan Limited
- 5 Habib Metropolitan Financial Services
- 6 Optimus Capital Management (Private) Limited
- 7 Pearl Securities Limited
- 8 Shehzad Chamdia Securities (Private) Limited
- 9 Taurus Securities Limited
- 10 Top Line Securities (Private) Limited

Top ten brokers during the year ended June 30, 2014

- 1 Arif Habib Limited
- 2 Elixir Securities Pakistan (Private) Limited
- 3 Foundation Securities (Private) Limited
- 4 IGI Finex Securities Limited
- 5 Invest and Finance Securities Limited
- 6 KASB Securities Limited
- 7 Optimus Capital Management (Private) Limited
- 8 Pearl Securities Limited
- 9 Shehzad Chamdia Securities (Private) Limited
- 10 Taurus Securities Limited

21. PATTERN OF UNIT HOLDING

	2015		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	229	103,719	13.24%
Associated companies	1	645,054	82.32%
Retirement Funds	1	4,721	0.60%
Others	3	30,114	3.84%
	234	783,608	100.00%
	2014		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	91	58,765	7.55%
Associated companies	1	580,468	74.54%
Others	7	139,494	17.91%
	99	778,727	100.00%

22. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 47th, 48th, 49th, 50th, and 51st board meetings were held on October 30, 2014, December 05, 2014, January 19, 2015, February 27, 2015, and April 28, 2015 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	5	-	
2 Mr. Rehan N. Shaikh	5	4	1	50th Meeting
3 Mr. Rizwan Haider	5	5	-	
4 Mr. Salahuddin Manzoor	5	3	2	50th Meeting and 51st Meeting
5 Mr. Salim Amlani	5	5	-	
6 Ms. Sadia Khan	5	4	1	49th Meeting
7 Ms. Sima Kamil	5	3	2	50th Meeting and 51st Meeting

23. FINANCIAL RISK MANAGEMENT

The Fund primarily invests in a portfolio of equity investments such as shares of listed companies permitted by the Shariah Advisor(s), Shariah compliant short term government securities not exceeding 90 days maturity, and any other securities that may be permitted by the Commission and the Shariah Advisor(s). These investments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

23.1 Market risk

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

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

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

23.1.1 Currency risk

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

23.1.2 Interest rate risk

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

a) Sensitivity analysis for variable rate instruments

Presently, the Fund does not hold any variable rate instruments as at June 30, 2015, that could expose the Fund to cash flow interest rate risk.

b) Sensitivity analysis for fixed rate instruments

Presently, the Fund does not hold any fixed rate instruments as at June 30, 2015, that could expose the Fund to cash flow interest rate risk.

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.

		2015				
		Exposed to Yield / Interest rate risk				Not exposed to Yield / Interest rate risk
Yield / Interest rate (%)	Total	Upto three months	More than three months and upto one year	More than one year		
		----- (Rupees in '000) -----				
On-balance sheet financial instruments						
Financial assets						
Bank balances	5 - 8	75,742	75,742	-	-	-
Investments		745,725	-	-	-	745,725
Dividend receivable and accrued mark-up		1,656	-	-	-	1,656
Advances, deposits and other receivables		2,600	-	-	-	2,600
		825,723	75,742	-	-	749,981
Financial liabilities						
Payable to HBL Asset Management Limited - Management Company		4,103	-	-	-	4,103
Payable to Central Depository Company of Pakistan Limited - Trustee		136	-	-	-	136
Payable to Securities and Exchange Commission of Pakistan		768	-	-	-	768
Dividend payable		-	-	-	-	-
Accrued expenses and other liabilities		24,775	-	-	-	24,775
		29,782	-	-	-	29,782
On-balance sheet gap		795,941	75,742	-	-	720,199
Off-balance sheet financial instruments		-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-

		2014				
		Exposed to Yield / Interest rate risk				Not exposed to Yield / Interest rate risk
Yield / Interest rate (%)	Total	Upto three months	More than three months and upto one year	More than one year		
		----- (Rupees in '000) -----				
On-balance sheet financial instruments						
Financial assets						
Bank balances	6.5 - 8	91,913	91,913	-	-	-
Investments		555,941	-	-	-	555,941
Dividend receivable and accrued mark-up		1,146	-	-	-	1,146
Advances, deposits and other receivables		165,666	-	-	-	165,666
		814,666	91,913	-	-	722,753
Financial liabilities						
Payable to HBL Asset Management Limited - Management Company		2,281	-	-	-	2,281
Payable to Central Depository Company of Pakistan Limited - Trustee		122	-	-	-	122
Payable to Securities and Exchange Commission of Pakistan		551	-	-	-	551
Dividend payable		22,324	-	-	-	22,324
Accrued expenses and other liabilities		3,236	-	-	-	3,236
		28,514	-	-	-	28,514
On-balance sheet gap		786,152	91,913	-	-	694,239
Off-balance sheet financial instruments		-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-

23.1.3 Price Risk

This risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund also manages its exposure to price risk by analysing the investment portfolio by industrial sectors and benchmarking the sector weightages to that of the KMI-30 Index. The Fund's policy is to concentrate the investment portfolio in sectors where management believe the Fund can maximise the returns derived for the level of risk to which the Fund is exposed. The table below is a summary of the significant sector concentrations within the equity portfolio.

Sector wise portfolio

	2015	
	Fund's equity portfolio (%)	KMI - 30 benchmark portfolio (%)
Oil and Gas	18.38%	23.67%
Construction and Materials	16.67%	17.67%
Electricity	14.40%	17.11%
Chemicals	20.23%	31.68%
Household Goods	4.93%	1.77%
Automobile Assembler	10.05%	1.73%
General Industrials	7.90%	-
Food Producers	4.57%	2.08%
Automobile Parts and Accessories	2.87%	0.74%
Others	-	3.55%
Total	100.00%	100.00%

Sector wise portfolio

	2014	
	Fund's equity portfolio (%)	KMI - 30 benchmark portfolio (%)
Oil and Gas	47.82%	50.90%
Construction and Materials	17.70%	13.58%
Electricity	4.58%	12.79%
Chemicals	9.89%	12.26%
Personal Goods	7.04%	2.49%
Fixed Line Telecommunication	-	1.89%
General Industrials	-	1.87%
Food Producers	10.82%	1.49%
Pharma and Bio Tech	2.15%	1.05%
Others	-	1.68%
Total	100.00%	100.00%

In case of 5% increase / decrease in KMI-30 index as on June 30, 2015, with all other variables held constant, other components of equity and the net assets of the fund would increase / decrease by Rs. 37.140 million (2014: Rs. 12.091 million) as a result of gains / losses on equity securities classified as available for sale.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the historical correlation with the index. This represents Management's best estimate of a reasonable possible shift in the KMI-30 index, having regard to the historical volatility of the index. The composition of the Fund's investment portfolio and the correlation thereof to the KMI-30 index, is expected to change over the time. Accordingly, the sensitivity analysis prepared as of June 30, 2015 is not necessarily indicative of the effect on the Fund's other components of equity and net assets of future movements in the level of KMI-30 index.

23.2 Credit Risk

The Fund's credit risk mainly arises in respect of balances with banks. The Fund is also exposed to counterparty credit risk on advances, deposits and other receivables. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. Credit risk on dividend receivable is minimal due to statutory protection. All transactions in listed securities are settled / paid for upon delivery using the central clearing company. The risk of default is considered minimal due to inherent systematic measures taken therein.

The Fund's policy is to enter into financial contracts in accordance with the internal risk management policies and investment guidelines approved by the Investment Committee. In addition, the risk is managed through assignment of credit limits and by following strict credit evaluation criteria laid down by the Management Company. The Fund does not expect to incur material credit losses on its financial assets.

The maximum exposure to credit risk before any credit enhancement as at June 30, 2015 is the carrying amount of financial assets as follows:

	2015	2014
	(Rupees in '000)	
Bank balances by rating category		
A-1+ (JCR-VIS)	26,169	35,803
A-1 (JCR-VIS)	3,063	-
A1 (PACRA)	46,394	-
A1+ (PACRA)	116	56,110
	<u>75,742</u>	<u>91,913</u>
Dividend receivable and accrued mark-up	<u>1,656</u>	<u>1,146</u>
Advances, deposits, prepayments and other receivables	<u>2,600</u>	<u>165,677</u>

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 exposed to credit risk primarily consists of bank deposits.

23.3 Liquidity risk

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

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

In order to manage the Fund's overall liquidity, the Fund also has the ability to 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 reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	2015			
	Total	Upto three months	Over three months and upto one year	Over one year
	(Rupees in '000)			
Financial liabilities (excluding unit holders' fund)				
Payable to HBL Asset Management Limited - Management Company	4,103	4,103	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	136	136	-	-
Payable to Securities and Exchange Commission of Pakistan	768	768	-	-
Dividend payable	-	-	-	-
Accrued expenses and other liabilities	24,775	24,775	-	-
	29,782	29,782	-	-
Unit holders' fund	783,608	783,608	-	-
	2014			
	Total	Upto three months	Over three months and upto one year	Over one year
	(Rupees in '000)			
Financial liabilities (excluding unit holders' fund)				
Payable to HBL Asset Management Limited - Management Company	2,281	2,281	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	122	122	-	-
Payable to Securities and Exchange Commission of Pakistan	551	551	-	-
Dividend payable	22,324	22,324	-	-
Accrued expenses and other liabilities	3,236	3,236	-	-
	28,514	28,514	-	-
Unit holders' fund	778,727	778,727	-	-

24. UNITS HOLDERS' FUND RISK MANAGEMENT

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

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

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

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

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the year end date. The quoted market prices 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.

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

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

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

	2015			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Assets				
Financial assets available for sale				
- Equity securities	745,725	-	-	745,725
	2014			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Assets				
Financial assets available for sale				
- Equity securities	555,941	-	-	555,941

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 **September 30, 2015**.

27. GENERAL

Figures have been rounded off to the nearest thousand rupees.

For HBL Asset Management Limited
(Management Company)

Chief Executive

Director

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