

REPORT OF THE DIRECTORS OF THE MANAGEMENT COMPANY

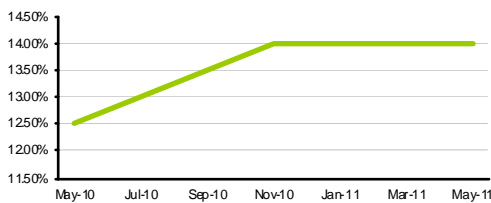
The Board of Directors of HBL Asset Management Limited is pleased to present the Annual Reports of HBL – Income Fund, HBL Stock Fund, HBL Multi Asset Fund and HBL Money Market Fund (the Funds) for the year/period ended June 30, 2011.

MARKET REVIEW

Money Market Review

During the year under review the State Bank of Pakistan (SBP) opted for a tight monetary policy in the first five months to control increasing inflation and money supply (M2). The policy rate was gradually increased during the period July – November 2010 from 12.5% to 13% in July 2010 and to 13.5% in September 2010. It was further increased to 14% in November 2010. Thereafter, the discount rate was maintained at 14% for the remaining period of the year 2010 – 2011 on expectations of arresting inflation, declining GDP, low private sector credit off take and reduced business activity.

Discount Rate Movement

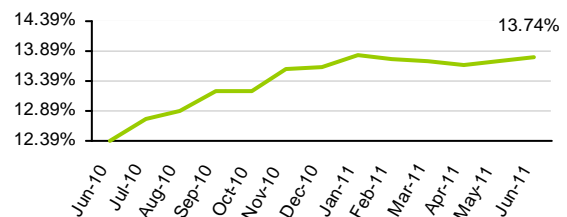


The Average inflation for 2011 stood at 13.93% as compared to 11.71% last year. A growth of 15.88% was witnessed in the total money supply (M2) as compared of 12.45% growth in M2 last year. The increasing trends indicate the inability of SBP measures to cope up inflation and growth

in money supply through monetary policy measures. Pakistan received record remittances of US\$ 11.2 billion dollars as compared to US\$ 8.9 billion last year showing an increase of 25%. Foreign exchange reserves were at their highest level of US\$ 17.63 billion by June 2011. The Current Account balance stood at USD 437 million in surplus, despite trade deficit of US\$ 10.1 billion.

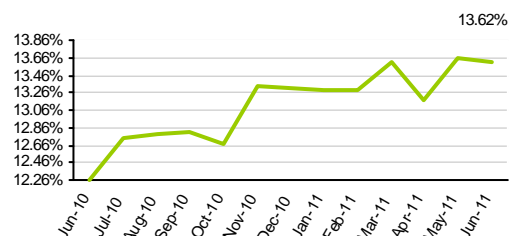
The average six month KIBOR has increased from 12.39% in June 2010 to as high as 13.82% in February 2011 and closed at 13.78% in June 2011. The month wise trend shows the increasing trend till February 2011 and thereafter slight ups and downs for the rest of the year.

6 M KIBOR



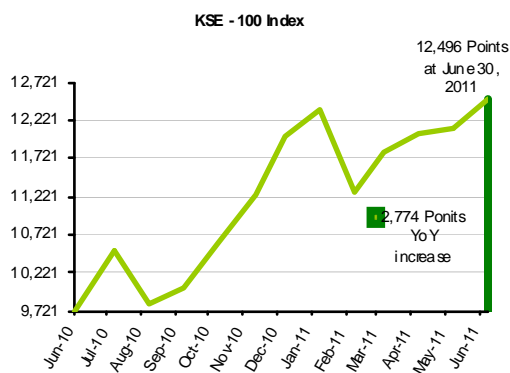
The average one month KIBOR has increased from 12.26% in the beginning of July 2010 to as high as 13.65% in May 2011 and closed slightly lower at 13.62% in June 2011. The month wise trend shows the overall increasing trend during the year under review.

One Month KIBOR



Stock Market Review

The stock market was mostly bullish during the year under review. The KSE – 100 Index which was 9,721 points at start of the year touched its highest level of 12,681 points during the year and closed at 12,496 points as on June 30, 2011. The MoM movement in KSE – 100 Index was positive throughout the year except for the months of August 2010 and February 2011 during which period the MoM decline in KSE 100 – Index was 6.7% and 8.7% respectively. During the year the KSE – 100 index improved by 28.5%. The improvement in market sentiment was primarily attributable to the improved corporate results/ announcements and relatively cheaper valuation of local market compared to regional markets. The improved balance of payment, record high foreign remittances and increased export earnings were the other factors responsible for bullish market.



During the year under review the average monthly turnover of the exchange improved by about 23.83% from 1.985 billion shares per month as against 1.603 billion shares per month in the corresponding period last year.

FUND'S PERFORMANCE AND DISTRIBUTION

HBL Income Fund

The total income and net income of the Fund was Rs. 203.99 million and Rs. 172.89 million respectively during the year ended June 30, 2011. The Net Asset Value (NAV) per unit of the Fund was Rs 97.44 per unit as on July 1, 2010. The NAV of the Fund was Rs 98.5143 per unit as on June 30, 2011 (after accounting for dividend of Rs 11.50 per unit); there by giving an annualized return of 12.90%. During the same period the bench mark (6 Month KIBOR) return was 13.16%. The revaluation loss on certain TFCs negatively affected the return of the Fund as compared to benchmark return. The size of Fund was Rs 1.51 billion as on June 30, 2011 as against Rs 1.60 billion as on June 30, 2010.

The Fund has declared final dividend at Rs. 3.25 per unit in the form of bonus units for Class 'A' and Class 'B' units and cash dividend of Rs. 3.25 per unit for Class 'C' unit for the year ended June 30, 2011. Earlier in October 2010, February 2011 and April 2011, the fund declared interim dividends at Rs. 2.25 per unit, Rs 3.00 per unit and Rs 3.00 per unit respectively in the form of bonus units for Class 'A' and Class 'B' units and cash dividend of Rs.2.25 per unit, Rs 3.00 per unit and Rs 3.00 per unit respectively for Class 'C' unit. The Fund has distributed dividend / bonus for the year at Rs. 11.50 per unit as against dividend/bonus at Rs 9.00 per unit.

The ex-dividend price of unit was Rs. 98.5143 per unit.

HBL Stock Fund

The total and net income of the Fund was Rs 260.84 million and Rs 194.21 million respectively for the year ended June 30, 2011. The Net Asset Value (NAV) per Unit of the Fund was Rs 81.05 per Unit as of July 1, 2010. The NAV of the Fund gradually increased and was Rs 103.9008 per Unit as on June 30, 2011. The Fund declared dividend / bonus of Rs 10.15 per Unit. This along with appreciation in Unit price gave an annualized return of 28.17% for the year ended June 30, 2011 as against 19.52% in the previous year. During the same period the benchmark KSE – 100 Index gave a return of 28.53%. The size of the Fund as on June 30, 2011 was Rs 1.99 billion which is higher by 25% as compared to the fund size at June 30, 2010 amounting to Rs 1.59 mainly due to appreciation in the value of investments.

The Fund distributed bonus of Rs 10.15 per Unit for Class – A and Class – B Units and cash dividend of Rs 10.15 per Unit for Class – C Units against Rs 10.00 bonus/dividend last year. The Ex-Dividend price of the Unit was Rs 93.7508.

HBL Multi Asset Fund

The total and net income of the Fund was Rs 61.76 million and Rs 51.21 million respectively for the year ended June 30, 2011. The Net Asset Value (NAV) per Unit of the Fund was Rs 80.46 per Unit as of July 1, 2010. The NAV of the Fund gradually increased and was Rs 99.4110 per Unit as on June 30, 2011. The Fund declared dividend / bonus of Rs 15.25 per Unit. This

along with appreciation in Unit price gave an annualized return of 23.55% for the year ended June 30, 2011 as against a return of 19.17% in the previous year. The Fund has also over performed against the benchmark return (50% KSE – 100 index and 50% 1 Month KIBOR) of 20.81%. The size of the Fund as on June 30, 2011 was Rs 333 million.

The Fund declared bonus of Rs 15.25 per Unit for Class – A and Class – B Units and cash dividend of Rs 15.25 per Unit for Class – C Units as against Rs 16.00 per unit dividend/bonus last year.

The Ex-Dividend price of the Unit was Rs 84.161.

Audit Report

The Auditors in their report to Unit Holders of HBL Multi Asset Fund have qualified provision of Rs. 9.561 million on Funds investment in Term Finance Certificates and suspension of mark-up income of Rs. 2.304 million thereon during the year ended June 30, 2011.

During the current year, the Issuer of TFCs (Saudi Pak Leasing Company Limited) defaulted towards payment falling due in September 2010. Accordingly, the exposure was classified as non-performing and provision was recognized in accordance with the SECP's provisioning guidelines. Subsequently, on the request of the Issuer, TFC holders approved the restructuring of the facility by extending repayment period from 5 years to 9 years and by reducing markup

rate to 6% for 24 months from restructuring date and 8% for next 24 months and thereafter fixing the markup rate at one month KIBOR. Further, half of the accrued markup is to be paid in cash and the balance is being deferred.

Circular 1 of 2009 dated January 6, 2009 read with Circular 3 of 2010 dated January 20, 2010 issued by the SECP state that a debt security can be classified as performing once all arrears (principal & mark-up) have been received in cash and debt security is regular on all payments for the next two installments. The MUFAP has classified the exposure as performing as the company has settled two installments of the restructured TFCs. However, the management is of the view that the issuer is still in default as it has not paid all the arrears before restructuring along with two installments. The management also feels that the Issuer is still in serious operational and financial problems. There exist material uncertainties which may cast significant doubt about the ability of the Issuer to continue as going concern due to following factors:

- i. As on March 31, 2011 accumulated losses of the Issuer have reached to Rs. 750.34 million and total liabilities have exceeded total assets by Rs. 115.69 million due to which the Issuer may not be able to settle the liabilities in normal course of business.
- ii. The Issuer's rating was downgraded as at June 30, 2010, not permitting the Issuer to issue new Certificate of

Investments (COIs). Subsequently, the management of the Issuer Company has not renewed the rating agreement with the credit rating company.

- iii. Potential lease losses of the Issuer could increase substantially if the revised criteria for classification of assets and provisioning as provided in Schedule XI of the Non Banking Finance Companies and Notified Entities Regulations, 2008, applicable from July 2011, is not deferred.
- iv. The Issuer does not fulfill minimum equity requirement of Rs. 200 million which has rendered it unable to get its license renewed. The Issuer's license to carry out the business of leasing has expired on May 18, 2010 and the Issuer has been unable to write new leases.

The management, based on its assessment, maintains that, in order to safeguard the interests of existing Unit Holders, provision should be retained against this company keeping in view factors like deterioration in liquidity and financial condition and other operating uncertainties as discussed above.

HBL Money Market Fund

By the Grace of Allah HBL Money Market Fund was offered for Initial Public Offering (IPO) on July 12, 2010 to July 14, 2010. A sum of Rs 715 million was received from pre-IPO investors and general public including Rs 100 million from

Core Investor. The Fund commenced its operations on July 15, 2010.

The total income and net income of the Fund was Rs. 362.04 million and Rs. 328.49 million respectively during the period ended June 30, 2011. The Net Asset Value (NAV) of the Fund increased from Rs 100 per unit at July 14, 2010 to Rs 100.0004 per unit as on June 30, 2011(after incorporating dividend at Rs 11.10 per unit); thereby giving an annualized return of 11.54%. During the same period the benchmark return (50% 3 – Month PKRV + 50% 3 – Month Deposit Rate) was 10.92%. The Fund was therefore able to outperform the benchmark during the period under review.

The Fund has declared final dividend at Rs. 3.05 per unit in the form of bonus units for Class ‘A’ and Class ‘B’ units and cash dividend of Rs. 3.05 per unit for Class ‘C’ unit for the period ended June 30, 2011. Earlier in October 2010, February 2011 and April 2011, the fund declared interim dividends at Rs. 2.25 per unit, Rs 2.90 per unit and Rs 2.90 per unit respectively in the form of bonus units for Class ‘A’ and Class ‘B’ units and cash dividend of Rs.2.25 per unit, Rs 2.90 per unit and Rs 2.90 per unit respectively for Class ‘C’ unit. The Fund has distributed dividend / bonus at Rs. 11.10 per unit for the period under review.

The size of the Fund increased from Rs 715 million as on July 14, 2010 to as high as Rs 4.46 billion as on June 27, 2011. However, the Fund size slightly reduced during the last few day of

June 2011 due to redemptions and was Rs 4.11 billion as on June 30, 2011.

The ex-dividend price of unit was Rs. 100.0004 per unit.

RATING UPDATE

The JCR-VIS Credit Rating Company Limited (JCR-VIS) has assigned asset manager rating at “AM3+” to the Management Company.

JCR-VIS has assigned Fund Stability Ratings of “A(f)” to HBL Income Fund and “AA+(f)” to HBL Money Market Fund.

JCR-VIS has assigned one year Fund Performance Ranking at “MFR 3-Star”, two year Fund Performance Ranking at “MFR 4-Star” and three years Fund Performance Ranking at “MFR 4-Star” to HBL Stock Fund. It has also assigned one year Fund Performance Ranking at “MFR 3-Star”, two year Fund Performance Ranking at “MFR 3-Star” and three years Fund Performance Ranking at “MFR 4-Star” to HBL Multi Asset Fund.

AUDITORS

The current auditors M/S A. F. Ferguson & Co, Chartered Accountants have retired and have given their consent to provide internal audit services to the Fund. The Board of Directors on the recommendation of the Audit Committee have appointed M/S A. F. Ferguson & Co, Chartered Accountants as internal auditors of the Fund and M/S KPMG Taseer Hadi & Co, Chartered Accountants as external auditors of the Fund for the year ending June 30, 2011.

PATTERN OF UNIT-HOLDERS

The pattern of Unit-holding as on June 30, 2011 is given in respective notes to the financial statements.

DIRECTORS' STATEMENT IN COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

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

1. The financial statements, prepared by the management company of the Funds, present fairly the state of affairs of the Funds, the result of its operations, cash flows and statement of movement in unit holders' funds.
2. Proper books of account of Funds have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements.
5. The system of internal control is sound in design and has been effectively implemented and monitored.

6. There are no significant doubts upon the Funds' ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
8. A summary of key financial data/performance table is annexed.
9. The Board of Directors of HBL Asset Management Limited held six meetings during the current financial year. The attendance of all directors is given in the following table:

Sr. No.	Name of Director	Number of meetings	
		Held	Attended
1	Mr. R. Zakir Mahmood *	5	4
2	Mr. Shahid Ghaffar	6	6
3	Mr. Sohail Malik	6	5
4	Mr. Abid Sattar	6	5
5	Mr. Towfiq H. Chinoy	6	5
6	Ms. Sadia Khan	6	5

*Mr. R. Zakir Mahmood, Chairman has resigned from the Directorship on March 31, 2011.

BOARD OF DIRECTORS

Mr. R. Zakir Mahmood resigned from the Board of Directors of the Company as both the Chairman and Director with effect from March 31, 2011. The Board places on record their thanks to Mr. R. Zakir Mahmood for his valuable contributions as Chairman since the inception of the Company. The Board has appointed Mr. Towfiq H. Chinoy, the Director as Chairman of the Board of Directors.

ACKNOWLEDGEMENT

The Board takes this opportunity to thank its valued unit-holders for their confidence and

patronage. It would like to place on record its appreciation for the help and guidance provided by Securities & Exchange Commission of Pakistan, Central Depository Company of Pakistan as Trustee, the Lahore Stock Exchange and State Bank of Pakistan.

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

On behalf of the Board of
HBL Asset Management Limited

Towfiq H. Chinoy

Chairman

Date: October 11, 2011

Place: Karachi