

## VISION/MISSION/VALUES

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### 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 undermanagement 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 spirit of enterprise.

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## CORPORATE INFORMATION

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### Management Company

HBL Asset Management Limited.

### Board of Directors

Chairman	Mr. Towfiq Habib Chinoy	(Independent Non-Executive Director)
Chief Executive Officer	Mr. Shahid Ghaffar	(Executive Director)
Directors	Mr. Sohail Malik	(Non-Executive Director)
	Mr. Abid Sattar	(Non-Executive Director)
	Ms. Sadia Khan	(Independent Non-Executive Director)

### Audit Committee

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

### Human Resource Committee

Chairman	Mr. Towfiq Habib Chinoy	(Independent Non-Executive Director)
Members	Mr. Shahid Ghaffar	(Chief Executive)
	Mr. Abid Sattar	(Non-Executive Director)

### Company Secretary

Mr. Rehan N. Shaikh

### Chief Financial Officer

Mr. Noman Ahmed Soomro

### Fund Manager

Mr. Muhammad Amir Khan

### External Auditors

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

### Internal Auditors

Ford Rhodes Sidat Hyder & Co., Chartered Accountants,  
Progressive Plaza, Beaumont Road,  
P.O. Box No.15541, Karachi 75530.

### Trustee

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

### Legal Advisors

Mandviwalla & Zafar, Advocates and Legal Consultants,  
Mandviwalla Chambers, C-15, Block2, Clifton, Karachi.

### Bankers

Habib Bank Limited  
NIB Bank Limited  
Bank Al-Habib Limited  
MCB Bank Limited  
JS Bank Limited  
Allied Bank Limited  
The Bank of Punjab  
Standard Chartered Bank (Pakistan) Limited  
Summit Bank Limited  
Habib Metropolitan Bank Limited  
Bank Al Falah Limited  
Faysal Bank Limited  
Barclays Bank Plc Pakistan

### Website

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

### Head Office

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

### Registered Office

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

## FUND MANAGER REPORT

### Type and Category of Fund

Open end Income Fund

### Investment Objective and Accomplishment of Objective

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

### Benchmark and Performance Comparison with Benchmark

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

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

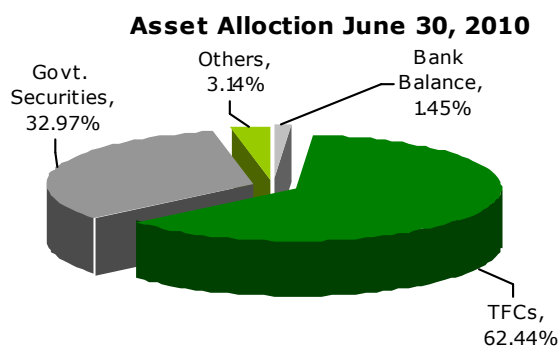
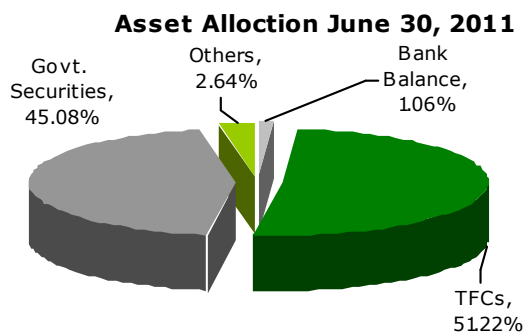
Month	Return of Fund	Benchmark
Jul-10	6.47%	12.36%
Aug-10	13.78%	12.74%
Sep-10	19.49%	12.73%
Oct-10	0.00%	12.78%
Nov-10	7.64%	13.23%
Dec-10	22.23%	13.34%
Jan-11	-5.81%	13.27%
Feb-11	16.51%	13.27%
Mar-11	46.45%	13.74%
Apr-11	7.34%	13.74%
May-11	12.09%	13.64%
Jun-11	23.38%	13.78%



### Strategies and Policies employed during the Year

The Fund continued its policy of keeping adequate liquidity to meet redemption requirements in timely manner as well as to avail investment opportunities. The liquid funds were mainly invested in government securities for better short term returns. The Fund policy of holding quality TFCs yielded good returns. The exposure against TFCs decreased from 62% of the net assets in 2010 to around 51% of net assets in 2011 due to maturities. Further, bank deposits were maintained only with the high rated banks.

### Asset Allocation



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### Significant Changes in Asset Allocation during the Year

During the year under review significant change in asset allocation were witnessed. The Fund's exposure in TFCs decreased from 62% in 2010 to 51% in 2011 mainly due to maturity of TFCs. In absolute terms the investment in TFCs reduced from Rs. 1.02 billion as on June 2010 to Rs. 753 million in June 2011. The exposure in government securities increases from 33% as on June 2010 to 45% in June 2011.

### Fund Performance

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.

### Review of Market invested in

During the year under review the State Bank of Pakistan (SBP) opted for a tight monetary policy in the first five months as the policy rate was gradually increased during the period July – November 2010 from 12.5% p.a. at start of the year to 14% p.a. in November 2010. Thereafter, the discount rate was maintained at 14.00% for the remaining of year 2010 – 2011 on expectations of arresting inflation, declining GDP, low private sector credit off take and reduced business activity.

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.

### Distribution

The Fund has distributed dividend at Rs. 11.50 in the form of Bonus units for Class "A" and Class "B" Units and Cash Dividend of Rs. 11.50 per unit for Class "C" Unit for the year ended June 30, 2011.

### Significant Changes in the State of Affairs

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

### Breakdown of Unit Holding by Size

From – To (Number of units)	Number of Unit Holders	Total Number of Units Held
1 – 100	99	4,651
101 – 500	56	12,678
501 – 1,000	25	18,583
1,001 – 10,000	205	694,449
10,001 – 100,000	28	877,960
100,001 – 500,000	4	1,192,326
500,001 – 1,000,000	1	826,484
1,000,001 – 5,000,000	2	2,433,227
5,000,001 and above	1	8,806,339
<b>Total</b>		<b>14,866,697</b>

### Unit Splits

There were no unit splits during the year.

### Circumstances materially affecting the Interest of Unit Holders

Investments are subject to market risk.

### Soft Commission

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

**HBL INCOME FUND  
PERFORMANCE TABLE**

	For the year ended June 30,2011	For the year ended June 30,2010	For the year ended June 30,2009
<b>NET ASSETS AND PRICES</b>			
Net assets at the year/ period end (Rs '000)	1,512,897	1,600,410	2,320,673
Net asset value per unit at the period end / period end(Rs)	101.7643	100.94	96.46
Selling price /repurchase price	101.7643	100.94	96.46
Earnings per unit (Rs) - (note 3.13)	-	-	-
Highest selling price per unit (Rs)	102.07	101.09	103.70
Lowest selling price per unit (Rs)	97.13	93.96	93.36
Highest repurchase price per unit (Rs)	102.07	101.09	103.70
Lowest repurchase price per unit (Rs)	97.13	93.96	93.36
<b>RETURN ( % )</b>			
Total return	12.90	13	4.03
Income distribution	11.80	10	10.23
Capital growth	1.10	4	(6.20)
<b>DISTRIBUTION</b>			
First Interim dividend distribution	2.25	2.25	2.75
Second Interim dividend distribution	3.00	1.50	2.75
Third Interim dividend distribution	3.00	1.75	2.25
Final dividend distribution	3.25	3.50	2.50
Total dividend distribution for the year/ period	11.50	9.00	10.25
<b>AVERAGE RETURNS ( % )</b>			
Average annual return 1 year	12.90	13.28	4.03
Average annual return 2 years	13.09	8.66	6.66
Average annual return 3 years	10.07	9.04	-
Average return since inception	9.80	8.86	7.63
Weighted average portfolio during (No. of days)	942	1,069	1,094

**Disclaimer:**

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

## TRUSTEE REPORT TO THE UNIT HOLDER

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### HBL INCOME FUND

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

The HBL Income Fund (the Fund), an open-end fund was established under a trust deed dated September 06, 2006, executed between HBL Asset Management Limited, as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

In our opinion, the Management Company has in all material respects managed the Fund during the year ended June 30, 2011 in accordance with the provisions of the following:

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

Muhammad Hanif Jakhura  
Chief Executive Officer  
Central Depository Company of Pakistan Limited  
Karachi, October 17, 2011

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011.

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

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

HBL – Income Fund is an open ended mutual fund and was listed on Lahore Stock Exchange on March 26, 2007. The units of the Fund have been offered for public subscription on a continuous basis from March 15, 2007.

The Management Company has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors. As on June 30, 2011 the Board consists of five directors with four non-executive directors including two independent directors.
2. None of directors is serving as a director in ten or more listed companies.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year, Mr. R. Zakir Mahmood resigned from the Board as both the Chairman and member with effect from March 31, 2011.
5. The Management Company has adopted a “Code of Business Ethics and Business Practices”, which has been acknowledged by all the Directors and distributed to employees of the company.
6. The Board has developed a vision/mission statement, over all corporate strategy and significant policies of the company. A complete record of the particulars along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman, when present and the Board met six times during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. All the members of the Board are well aware of operations of the fund and the Management Company, therefore no orientation courses were arranged during the year ended June 30, 2011.



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9. All the members of the Board are well aware of operations of the fund and the Management Company, therefore no orientation courses were arranged during the year ended June 30, 2011.

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

11. Directors Report for the year ended June 30, 2011 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Fund were duly endorsed by CEO and CFO before approval of the Board.

13. The Directors, CEO and Executives do not hold units of the Fund other than those disclosed in note 18 to the financial statements "Transactions with Connected Persons".

14. The Company has complied with the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors.

16. The meetings of the audit committee were held atleast once every quarter prior to approval of interim and final results of the Fund, as required by the Code.

17. The company has outsourced its internal audit function to a reputable firm of Chartered Accountants who is considered suitably qualified and experienced for the purpose.

19. The Statutory Auditors of the fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouse and minor children do not hold units of the Fund and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.

20. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions, if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.

20. The Statutory Auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. We confirm that all other material principles contained in the Code have been complied with.

**Shahid Ghaffar**

Chief Executive Officer

Date: October 11,2011

Place: Karachi

## **AUDITORS' REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE WITH THE PRACTICES OF THE CODE OF CORPORATE GOVERNANCE**

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We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **HBL Asset Management Limited** (the Management Company) for and on behalf of **HBL Income Fund** (the Fund) to comply with the Listing Regulation No. 35 (Chapter XI) of the Lahore Stock Exchange (Guarantee) Limited where the Fund is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company of the Fund. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of the 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Sub-regulation (xiii a) of the Listing Regulation No. 35 requires the company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of the requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices 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 Management Company'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, 2011.

Chartered Accountants  
Karachi  
Dated: October 24, 2011

## INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

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We have audited the accompanying financial statements of HBL Income Fund, which comprise the statement of assets and liabilities as at June 30, 2011, and the related income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 financial position of the Fund as at June 30, 2011, and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

### Other matters

In our opinion, the financial statements have been prepared in all material respects in accordance with the relevant provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

Chartered Accountants  
Engagement Partner: Salman Hussain  
Dated: October 24, 2011  
Karachi

**HBL INCOME FUND  
STATEMENT OF ASSETS & LIABILITIES  
AS AT JUNE 30,2011**

	Note	2011 (Rupees in '000)	2010
<b>Assets</b>			
Bank balances	4	16,228	23,718
Investments	5	1,442,398	1,561,267
Income receivable	6	35,146	38,370
Preliminary expenses and floatation costs	7	167	394
Advances, deposits, prepayments and other receivables	8	35,101	12,661
<b>Total assets</b>		1,529,040	1,636,410
<b>Liabilities</b>			
Payable to HBL Asset Management Limited - Management Company	9	2,043	5,157
Payable to Central Depository Company of Pakistan Limited - Trustee	10	175	475
Payable to Securities and Exchange Commission of Pakistan	11	1,145	1,639
Accrued expenses and other liabilities	12	12,780	28,729
<b>Total liabilities</b>		16,143	36,000
<b>Net Assets</b>		1,512,897	1,600,410
<b>Unit holders' fund (as per statement attached)</b>		1,512,897	1,600,410
<b>Contingencies and commitments</b>	13		
		<b>Number of units</b>	
<b>Number of units in issue</b>		14,866,697	15,855,265
		<b>Rupees</b>	<b>Rupees</b>
<b>Net assets value per unit</b>		101.7643	100.94

The annexed notes 1 to 30 form an integral part of these financial statements.

For HBL Asset Management Limited  
(Management Company)

Chief Executive

Director

**HBL INCOME FUND  
INCOME STATEMENT  
FOR THE YEAR ENDED JUNE 30,2011**

	Note	2011	2010
		(Rupees in '000)	
<b>Income</b>			
Profit on bank deposits	14	12,189	20,441
Income from Term Finance Certificates		135,297	170,232
Loss on sale of investments - net		(1,659)	(16,729)
Income from reverse repurchase and money market investments		64,730	96,630
Dividend income		-	213
		210,557	270,787
Provision against non-performing Term Finance Certificates and sukuks	5.4	(1,847)	(21,731)
		208,710	249,056
<b>Expenses</b>			
Remuneration of HBL Asset Management Limited - Management Company	9.1	22,906	32,770
Remuneration of Central Depository Company of Pakistan Limited - Trustee	10.1	2,341	3,185
Annual fee to Securities and Exchange Commission of Pakistan	11.1	1,145	1,639
Securities transaction cost		-	30
Settlement and bank charges		283	369
Auditors' remuneration	15	367	385
Amortisation of preliminary expenses and floatation costs		227	227
Legal and professional charges		92	68
Other expenses		212	195
		27,573	38,868
<b>Net income from operating activities</b>		181,137	210,188
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net		(4,721)	(19,976)
Provision for Workers' Welfare Fund - prior year	16	-	(3,805)
- current year		(3,530)	(4,966)
<b>Net income for the year before taxation</b>		172,886	181,441
<b>Taxation</b>	3.9	-	-
<b>Net income for the year after taxation</b>		172,886	181,441
<b>OTHER COMPREHENSIVE INCOME</b>			
Net unrealised appreciation in the market value of securities classified as available for sale	5.3	14,006	84,780
<b>Total comprehensive income for the year - net</b>		186,892	266,221
<b>Earnings Per Unit</b>	3.14		

The annexed notes 1 to 30 form an integral part of these financial statements.

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

Chief Executive

Director

**HBL INCOME FUND  
DISTRIBUTION STATEMENT  
FOR THE YEAR ENDED JUNE 30,2011**

	2011	2010
	------(Rupees in '000)-----	
Undistributed income brought forward - realised	58,611	61,669
Net income for the year	172,886	181,441
Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed - amount representing (loss) / income that form part of unit holders' fund	(194)	(518)
Final distribution for the year ended June 30, 2010: Rs. 3.5 per unit (Date of distribution: July 7, 2010) [(2010:Rs.2.5 per unit) (Date of distribution: July 7, 2010)]		
- Cash distribution	(10,599)	(24,448)
- 460,738 bonus units (2010: 379,961 bonus units)	(44,894)	(35,701)
	(55,493)	(60,149)
First interim distribution for the year ending June 30, 2011: Rs 2.25 per unit (Date of distribution: October 28, 2010) [(2010:Rs.2.25 per unit) (Date of distribution: October 13, 2009)]		
- Cash distribution	(5,660)	(10,964)
- 298,593 bonus units (2010: 534,214 bonus units)	(29,337)	(51,290)
	(34,997)	(62,254)
Second interim distribution for the year ending June 30, 2011:Rs 3.00 per unit (Date of distribution: February 11, 2011) [(2010: Rs. 1.50 per unit) (Date of distribution: February 24, 2010)]		
- Cash distribution	(4,532)	(1,162)
- 403,252 bonus units (2010: 266,344 bonus units)	(39,406)	(26,174)
	(43,938)	(27,336)
Third interim distribution for the year ending June 30, 2011 :Rs 3.00 per unit (Date of distribution: April 25, 2011) [(2010:Rs.1.75 per unit) (Date of distribution: April 16, 2010)]		
- Cash distribution	(3,210)	(4,882)
- 408,347 bonus units (2010: 297,435 bonus units)	(40,391)	(29,360)
	(43,601)	(34,242)
Net income for the year less distribution	(5,337)	(3,058)
Undistributed income carried forward	53,274	58,611
Undistributed income carried forward - realised	53,274	58,611

The annexed notes 1 to 30 form an integral part of these financial statements.

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

Chief Executive

Director

**HBL INCOME FUND**  
**STATEMENT OF MOVEMENT IN UNITS HOLDERS' FUNDS**  
**FOR THE YEAR ENDED JUNE 30,2011**

	Note	2011	2,010
		----- (Rupees in '000) -----	
Net assets at the beginning of the year		1,600,410	2,320,673
Issue of 1,678,490 units (2010 : 27,517,918 units)		167,346	2,690,320
Redemption of 4,237,988 units (2010 : 37,200,153 units)		(422,471)	(3,655,324)
		(255,125)	(965,004)
Final distribution for the year ended June 30, 2010 460,738 bonus units (2010: 379,961 bonus units)		44,894	35,701
Element of loss / (income) and capital losses / (gains) included in prices of units issued less those in units redeemed			
- amount representing accrued losses / (income) and capital losses / (gains) - transferred to Income Statement		4,721	19,976
- amount representing losses / (income) that form part of the statement of unit holders' fund - transferred to Distribution Statement		194	518
		4,915	20,494
Net unrealised appreciation in market value of securities classified as 'available for sale'- transferred from other comprehensive income	5.3	14,006	84,780
Capital loss on sale of investments - net		(1,659)	(16,729)
Other net income for the year		174,545	198,170
Net income for the year		172,886	181,441
Final distribution for the year ended June 30, 2010: Rs. 3.5 per unit (Date of distribution: July 7, 2010) [(2010:Rs.2.5 per unit (Date of distribution: July 7, 2010)]		(10,599)	(24,448)
- Cash distribution		(44,894)	(35,701)
- 460,738 bonus units (2010: 379,961 bonus units)			
First interim distribution for the year ending June 30, 2011: Rs 2.25 per unit (Date of distribution: October 28, 2010) [(2010:Rs.2.25 per unit) (Date of distribution: October 13, 2009)]		(5,660)	(10,964)
- Cash distribution		(29,337)	(51,290)
- 298,593 bonus units (2010: 534,214 bonus units)			
Second interim distribution for the year ending June 30, 2011:Rs 3.00 per unit (Date of distribution: February 11, 2011) [(2010: Rs. 1.50 per unit (Date of distribution: February 24, 2010)]		(4,532)	(1,162)
- Cash distribution		(39,406)	(26,174)
- 403,252 bonus units (2010: 266,344 bonus units)			
Third interim distribution for the year ending June 30, 2011 :Rs 3.00 per unit (Date of distribution: April 25, 2011) [(2010:Rs.1.75 per unit (Date of distribution: April 16, 2010)]		(3,210)	(4,882)
- Cash distribution		(40,391)	(29,360)
- 408,347 bonus units (2010: 297,435 bonus units)			
		(178,029)	(183,981)
Interim distributions: Issue of bonus units		109,134	106,824
Element of loss / (income) and capital losses / (gains) included in the prices of units issued less those in units redeemed - amount representing loss / (income) that form part of unit holders' fund		(194)	(518)
Net assets at the end of the year		1,512,897	1,600,410

The annexed notes 1 to 30 form an integral part of these financial statements.

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

Chief Executive

Director

**HBL INCOME FUND  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30,2011**

	Note	2011 (Rupees in '000)	2010
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net income for the year		172,886	181,441
<b>Adjustments</b>			
Amortisation of preliminary expenses and floatation costs		227	227
Provisoin against non-performing Term Finance Certificates and sukuks	5.4	1,847	21,731
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - net		4,721	19,976
		179,681	223,375
<b>(Increase) / Decrease in assets</b>			
Investments - net		131,028	195,283
Income receivable		3,224	17,274
Advances, deposits, prepayments and other receivables		(22,440)	17,481
		111,812	230,038
<b>Increase / (Decrease) in liabilities</b>			
Payable to HBL Asset Management Limited - Management Company		(3,114)	681
Payable to Central Depository Company of Pakistan Limited-Trustee		(300)	179
Payable to Securities and Exchange Commission of Pakistan		(494)	(1,311)
Accrued expenses and other liabilities		3,561	8,783
		(347)	8,332
<b>Net cash generated from operating activities</b>		291,146	461,745
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Net payments against redemption of units		(274,635)	(946,017)
Distributions paid		(24,001)	(41,456)
<b>Net cash outflow on financing activities</b>		(298,636)	(987,473)
<b>Net decrease in cash and cash equivalents</b>		(7,490)	(525,728)
<b>Cash and cash equivalents at beginning of the year</b>		23,718	549,446
<b>Cash and cash equivalents at the end of the year</b>		16,228	23,718

The annexed notes 1 to 30 form an integral part of these financial statements.

For HBL Asset Management Limited  
(Management Company)

Chief Executive

Director



**1 LEGAL STATUS AND NATURE OF BUSINESS**

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

The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by SECP. The registered office of the Management Company is situated at 8B-8th Floor, Executive Tower, Dolmen City, Block 4, Clifton, Karachi, Pakistan.

The Fund is an open ended mutual fund and offers units for public subscription on a continuous basis. The units are transferable and can also be redeemed by surrendering to the Fund. The Fund is listed on the Lahore Stock Exchange. The units of the Fund were initially offered for public subscription at par from March 15, 2007 to March 17, 2007.

The principal activity of the Fund is to make investments in fixed income securities. Other avenues of investments include ready future arbitrage in listed securities and transactions under Continuous Funding System.

JCR-VIS Credit Rating Agency has assigned an asset manager rating of 'AM3+' to the Management Company and fund stability rating of A(f) to the Fund.

Title to the assets of the Fund are held in the name of CDC 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 requirements of the Trust Deed, 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 Trust Deed, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Trust Deed, the NBFC Rules, the NBFC Regulations or the directives issued by the SECP prevail.

**2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year**

There are certain new standards, amendments and interpretations International Financial Reporting Interpretations Committee (IFRIC) interpretations that became effective during the year and are mandatory for accounting periods beginning on or after July 1, 2010 but are considered not to be relevant or did not have any significant effect on the Fund's operations and are, therefore, not disclosed in these financial statements.

**2.3 Standards, interpretations and amendments to published approved accounting standards, as adopted in Pakistan, that are not yet effective:**

The following revised standard has been published and is mandatory for accounting periods beginning on or after January 1, 2011:

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the revised standard from July 1, 2011. The Fund is currently in the process of assessing the impact, if any, of the revised standard on the related party disclosures.

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There are other amendments to the standards, improvements to International Financial Reporting Standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

#### **2.4 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise their judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies principally relate to classification and valuation of investments and impairment thereagainst (notes 3.2 and 5)

#### **2.5 Accounting convention**

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

#### **2.6 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 Fund classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- available-for-sale investments; and
- loans and receivables

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 and re-evaluates this classification on a regular basis.

##### **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) 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 or (b) financial assets at fair value through profit or loss. These are intended to be held for an indefinite period of time which may be sold in response to the needs for liquidity or change in price.

##### **c) Loans and receivables**

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

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### 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

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

These investments are initially recognised at fair value. Transaction costs are expensed in the Income Statement.

#### b) Available for sale and loans and receivables

These are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of such assets.

### 3.2.4 Subsequent measurement

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

#### a) Basis of valuation of Debt Securities

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its Circular No.1 of 2009 dated January 6, 2009. In the determination of the rates, MUFAP takes into account the holding pattern of these securities and categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

#### b) Basis of valuation of Government Securities

The investment of the Fund in government securities is valued on the basis of rates announced by the Financial Markets Association of Pakistan.

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

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

#### Loans and receivables

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

### 3.2.5 Impairment of financial assets

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

Provision for non-performing debt securities and other exposures is made in accordance with the criteria specified in circular No. 1 dated January 6, 2009 and circular No. 13 dated May 4, 2009 issued by SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of Management Company.

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### **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 Spread transactions (Ready-Future Transactions)**

The Fund enters into certain transactions involving purchase of a security in the ready market and simultaneous sale of the same security in the futures market. Securities purchased by the Fund in the ready market are carried on the Statement of Assets and Liabilities till their eventual disposal and the forward sale of securities in the futures market is accounted for separately as a 'derivative' in accordance with the requirements of International Accounting Standard 39: "Financial Instruments: Recognition and Measurement".

### **3.5 Derivatives**

Derivative instruments are initially recognised at cost and subsequently each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognised in the income statement.

### **3.6 Preliminary expenses and floatation costs**

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund and include underwriting commission, commission to the bankers to the issue, brokerage paid to the members of the stock exchanges and other expenses. These costs are being amortised over a period of five years starting from the end of the initial offering period as per the requirements set out in the Trust Deed of the Fund.

### **3.7 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.

### **3.8 Taxation**

The income of the Fund is exempt from Income Tax as per clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of the accounting income for the year as reduced by capital gains whether realised or unrealised is distributed amongst the unit holders.

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

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

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### **3.9 Accrued expenses**

Accrued expenses are recognised initially at fair value and subsequently stated at amortised cost.

### **3.10 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.

### **3.11 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.

### **3.12 Net Asset Value per unit**

The Net Asset Value (NAV) per unit, as disclosed on the Statement of Assets and Liabilities, is calculated by dividing the net assets of the Fund by the number of units in circulation at the year end.

### **3.13 Earnings Per Unit (EPU)**

Earnings Per Unit (EPU) for the year ended June 30, 2011 has not been disclosed as in the opinion of the management, determination of weighted average units for calculating EPU is not practicable.

### **3.14 Revenue recognition**

- Realised capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealised gains / (losses) arising on marking to market of investments classified as ' Financial assets at fair value through profit or loss ' are included in the Income Statement in the period in which they arise.
- Dividend income is recognised when the right to receive dividend is established i.e. on the date of book closure of the investee company / institution declaring the dividend.
- Profit on bank deposits is recognised on an accrual basis.
- Profit on investments is recognised on an accrual basis.
- Income from government securities is recognised using the effective interest method.

### **3.15 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.

	Note	2011	2010
		(Rupees in '000)	
<b>4 BANK BALANCES</b>			
Current accounts		16	16
Savings accounts		16,212	23,702
		<u>16,228</u>	<u>23,718</u>
<b>5 INVESTMENTS</b>			
Available for sale			
- Term Finance Certificates - Listed	5.1.1	477,842	629,681
- Term Finance Certificates - Unlisted	5.1.2	275,288	392,142
- Government Securities	5.2	689,268	539,444
		<u>1,442,398</u>	<u>1,561,267</u>

#### 5.1 Available for sale investments

All Term Finance Certificates have a face value of Rs 5,000 each unless stated otherwise

Name of the Investee Company	-----Number of certificates-----				Market value/ Carrying value* as at June 30, 2011	Market value as a percentage of total investment
	As at July 1, 2010	Purchases during the year	Sales / Matured during the year	As at June 30, 2011		

----Rupees in '000----

#### 5.1.1 Term Finance Certificates - Listed

<b>Financial Services</b>						
Orix Leasing Pakistan Limited	28,300	-	-	28,300	45,361	3.14%
Jahangir Siddiqui & Company Limited	2,000	-	-	2,000	10,101	0.70%
Saudi Pak Leasing Company Limited - note 5.1.3	2,000	-	-	2,000	3,661	0.25%
	<u>32,300</u>	<u>-</u>	<u>-</u>	<u>32,300</u>	<u>59,123</u>	<u>4.10%</u>
<b>Banks</b>						
Bank Alfalah Limited-II	4,000	-	-	4,000	20,088	1.39%
Bank Al Habib Limited	1,600	-	1,600	-	-	-
Faysal Bank Limited	12,758	-	-	12,758	64,361	4.46%
NIB Bank Limited	33,000	-	2,400	30,600	147,305	10.21%
United Bank Limited	34,000	-	11,800	22,200	109,442	7.59%
	<u>85,358</u>	<u>-</u>	<u>15,800</u>	<u>69,558</u>	<u>341,196</u>	<u>23.65%</u>
<b>Fixed Line Telecommunication</b>						
World Call Telecom Limited	23,750	-	-	23,750	77,523	5.37%
	<u>141,408</u>	<u>-</u>	<u>15,800</u>	<u>125,608</u>	<u>477,842</u>	<u>33.13%</u>
<b>Cost of investment at June 30, 2011</b>					<u><u>411,960</u></u>	

Name of the Investee Company	-----Number of certificates-----				Market value/ Carrying value* as at June 30, 2011	Market value as a percentage of total investment
	As at July 1, 2010	Purchases during the year	Sales / Matured during the year	As at June 30, 2011		

----Rupees in '000----

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

<b>Food Producers</b>						
Al-Abbas Sugar Mills Limited	7,000	-	-	7,000	17,176	1.19%
<b>Chemicals</b>						
Engro Fertilizer Limited - Perpetual I	41,600	-	600	41,000	192,700	13.36%
Engro Fertilizer Limited - Perpetual II	7,000	-	-	7,000	34,502	2.39%
Agri-tech Limited (Formerly Pak American Fertilizers Limited) - note 5.1.4	2,000	-	-	2,000	-	0.00%
	<u>50,600</u>	<u>-</u>	<u>600</u>	<u>50,000</u>	<u>227,202</u>	<u>15.75%</u>
<b>Telecommunication</b>						
Pakistan Mobile Communication Limited	38,000	-	38,000	-	-	-
<b>Construction and Materials</b>						
Maple Leaf Cement Factory Limited -Sukuk - note 5.1.5	7,000	-	-	7,000	21,922	1.52%
<b>Gas Water and Multiutilities</b>						
Sui Southern Gas Company Limited- Sukuk	3,000	-	-	3,000	8,988	0.62%

Name of the Investee Company	-----Number of certificates-----				Market value/ Carrying value* as at June 30, 2011	Market value as a percentage of total investment
	As at July 1, 2010	Purchases during the year	Sales / Matured during the year	As at June 30, 2011		
----Rupees in '000----						
<b>Others</b>						
New Allied Electronics Industries (Pvt) Limited - note 5.1.6	9,000	-	-	9,000	-	-
Kashf Foundation	6,000	-	6,000	-	-	-
New Allied Electronics Industries (Pvt) Limited -Sukuk - note 5.1.6	9,000	-	-	9,000	-	-
Eden Housing Limited - note 5.1.7	4,000	-	-	4,000	-	-
	28,000	-	6,000	22,000	-	-
	133,600	-	44,600	89,000	275,288	19.1%
<b>Cost of investment at June 30, 2011</b>					<b>470,186</b>	

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

### 5.1.3

During the current year, the Issuer of TFCs defaulted towards payment falling due in September 2010. Accordingly, the exposure was classified as non-performing and provision was recognised in accordance with the SECP's provisioning guidelines.

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

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 instalments. The above exposure has been classified as performing by the MUFAP as arrears due on the date of restructuring were rescheduled and the investee company has settled the next two instalments. The management, based on its assessment, maintains that provision should be retained against this company keeping in view factors like deterioration in liquidity and financial condition and other operating uncertainties.

Accordingly a provision of Rs 3.4008 million has been made against this exposure and mark-up due amounting to Rs 0.664 million has also not been accrued.

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

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

**5.1.6** These represent investments in privately placed Term Finance Certificates and Sukuk bonds of the investee company. These investments were fully provided. An amount of Rs. 0.851 million and 2.226 million has been received during the current year in

**5.1.7** The Fund has made a provision of Rs 13.262 million against this exposure based on its classification as non-performing on July 15, 2009 after the default in payment of principal and mark-up due on June 30, 2009. Few adhoc payments were received during one year which did not completely setoff the amounts due as per repayment schedule and accordingly the investment continues to remain classified as non-performing by the Fund. During the year, the fund received principal amounting to Rs. 1.738 million and mark-up amounting to Rs. 2.048 million which was adjusted out of the provision accordingly.

**5.1.8** The Term Finance Certificates and Sukuk bonds held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the issuer.

**5.1.9** Installments amounting to Rs 4,261 thousand have become due for payment of the following TFCs / sukuks and are reflected in note 8.

	2011	2010
	(Rupees in '000)	
Sui Southern Gas Company Limited	1,500	-
Eden Housing Limited	1,762	2,500
Agritech Limited (Formerly Pak American Fertilizers Limited)	999	999
	<u>4,261</u>	<u>3,499</u>

5.1.10 Significant terms and conditions of Term Finance Certificates outstanding as at June 30, 2011 are as follows:

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
<b>Term Finance Certificates - Listed</b>				
Orix Leasing Pakistan Limited	1,665	1.50%+6 Month KIBOR	25-May-07	25-May-12
Jahangir Siddiqui & Company Limited	4,991	2.50%+6 Month KIBOR	21-Nov-06	21-May-12
Saudi Pak Leasing Company Limited	3,531	6% Fixed Rate	13-Mar-08	13-Mar-17
Bank Alfalah Limited-II	4,988	1.50%+6 Month KIBOR	23-Nov-04	23-Nov-12
Faysal Bank Limited	4,993	1.40%+6 Month KIBOR	12-Nov-07	12-Nov-14
NIB Bank Limited	4,994	1.15%+6 Month KIBOR	5-Mar-08	5-Mar-16
United Bank Limited	4,994	0.85%+6 Month KIBOR	14-Feb-08	14-Feb-18
World Call Telecom Limited	3,569	1.60%+6 Month KIBOR	7-Oct-08	7-Oct-13

Name of security	Remaining principal (per TFC)	Mark-up rate (per annum)	Issue date	Maturity date
<b>Term Finance Certificates - Unlisted and Sukuks</b>				
Engro Fertilizer Limited - Perpetual I	5,000	1.70%+6 Month KIBOR	18-Mar-08	18-Mar-18
Engro Fertilizer Limited - Perpetual II	5,000	1.25%+6 Month KIBOR	18-Mar-08	18-Mar-18
Agritech Limited (Formerly Pak American Fertilizers Limited))	4,496	1.75%+6 Month KIBOR	30-Nov-07	30-Nov-14
Maple Leaf Cement Factory Limited -Sukuk	4,994	1.00%+3 Month KIBOR	3-Dec-07	3-Dec-18
Sui Southern Gas Company Limited- Sukuk	3,000	0.20%+3 Month KIBOR	31-Dec-07	31-Dec-12
New Allied Electronics Industries (Pvt) Limited	2,114	2.20%+6 Month KIBOR	3-Dec-07	3-Dec-12
New Allied Electronics Industries (Pvt) Limited - Sukuk	4,905	2.50%+6 Month KIBOR	15-May-07	15-May-11
Eden Housing Limited	3,316	2.50%+6 Month KIBOR	31-Dec-07	31-Dec-12

5.2 Investment in government securities - Available for sale

Issue Date	Tenor	Face value				Market Value as at June 30, 2011	Market Value as a percentage of total investment
		As at July 1, 2010	Purchases during the year	Sales / Matured during the year	As at June 30, 2011		
-----Rupees in '000-----							
<b>Treasury bill</b>							
July 30, 2009	1 Year	-	60,000	60,000	-	-	-
October 8, 2009	1 Year	100,000	-	100,000	-	-	-
February 25, 2010	6 months	-	10,000	10,000	-	-	-
April 22, 2010	6 months	-	145,000	145,000	-	-	-
June 17, 2010	6 months	-	46,000	46,000	-	-	-
July 15, 2010	6 months	-	45,000	45,000	-	-	-
July 29, 2010	3 months	-	45,000	45,000	-	-	-
August 13, 2010	3 months	-	220,000	220,000	-	-	-
August 26, 2010	3 months	-	120,000	120,000	-	-	-
October 7, 2010	3 months	-	185,000	185,000	-	-	-
October 21, 2010	3 months	-	195,000	195,000	-	-	-
November 4, 2010	3 months	-	220,000	220,000	-	-	-
December 2, 2010	3 months	-	135,000	135,000	-	-	-
February 24, 2011	3 months	-	35,000	35,000	-	-	-
April 7, 2011	3 months	-	25,000	25,000	-	-	-
April 21, 2011	3 months	-	85,000	-	85,000	84,602	5.87%
April 21, 2011	6 months	-	50,000	50,000	-	-	-
May 5, 2011	6 months	-	38,000	38,000	-	-	-
May 19, 2011	3 months	-	185,000	185,000	-	-	-
June 2, 2011	3 months	-	110,000	-	110,000	107,822	7.48%
June 2, 2011	1 Year	-	370,000	50,000	320,000	283,990	19.69%
June 16, 2011	3 months	-	180,000	-	180,000	175,541	12.17%
June 30, 2011	3 months	-	35,000	20,000	15,000	14,555	1.01%
April 08, 2010	3 months	60,000	-	60,000	-	-	-
April 22, 2010	3 months	30,000	-	30,000	-	-	-
August 13, 2009	1 Year	100,000	-	100,000	-	-	-
February 10, 2011	3 months	-	48,000	48,000	-	-	-
February 24, 2011	3 months	-	140,000	140,000	-	-	-
January 13, 2011	3 months	-	45,000	45,000	-	-	-
January 27, 2011	3 months	-	30,000	30,000	-	-	-
June 03, 2010	3 months	100,000	-	100,000	-	-	-
June 17, 2010	3 months	135,000	-	135,000	-	-	-
March 10, 2011	3 months	-	350,000	350,000	-	-	-
October 21, 2010	6 months	-	20,000	20,000	-	-	-
		525,000	3,172,000	2,987,000	710,000	666,510	46.2%
<b>Pakistan Investment Bonds</b>							
August 30, 2008	10 Years	25,000	-	-	25,000	22,758	1.58%
September 03, 2009	03 Years	-	25,000	25,000	-	-	-
		25,000	25,000	25,000	25,000	22,758	1.58%
<b>Grand total</b>		550,000	3,197,000	3,012,000	735,000	689,268	47.79%
<b>Cost of investment at June 30, 2011</b>						<u>690,316</u>	



5.3	Net unrealised appreciation / (diminution) in fair value of investments classified as 'available for sale'	Note	2011 (Rupees in '000)	2010
	Market value of investments	5.1.1, 5.1.2 & 5.2	1,442,398	1,561,267
	Less: Cost of Investments	5.1.1, 5.1.2 & 5.2	(1,572,462)	(1,702,751)
			(130,064)	(141,484)
	Less: Provision against non-performing TFCs and sukuks		(87,375)	(84,789)
			(42,689)	(56,695)
	Less: Net unrealised diminution in fair value of investments classified as 'available for sale' at the beginning of the year		(56,695)	(141,475)
			14,006	84,780
5.4	Movement in provision against investment			
	Opening balance		88,288	66,557
	Add: Charge for the year		19,682	21,731
	Less: Reversals / write-offs		(17,835)	-
	Net Charge		1,847	21,731
	Closing balance		90,135	88,288
	Classified under investments		87,375	84,789
	Classified under other receivables		2,761	3,499
			90,136	88,288
6	INCOME RECEIVABLE			
	Profit receivable on savings and term deposits		72	69
	Income accrued on Term Finance Certificates		34,071	37,298
	Income accrued on Government Securities		1,003	1,003
			35,146	38,370
7	PRELIMINARY EXPENSES AND FLOATATION COSTS			
	Opening Balance		394	621
	Less: amortised during the year		(227)	(227)
	Closing Balance		167	394
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.			
8	ADVANCE, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	Note	2011 (Rupees in '000)	2010
	Security deposit with National Clearing Company of Pakistan Limited		3,500	2,500
	Security deposit with Central Depository Company of Pakistan Limited		100	100
	Receivable against investments of Term Finance Certificates (TFCs) and Sukuks		4,261	3,499
	Advance against subscription of Term Finance Certificate (TFC)	8.1	30,000	-
	Receivable against sales of securities		-	9,900
	Prepaid fee		-	160
	Others		1	1
			37,862	16,160
	Less: Provision against overdue installments of Term Finance Certificates and Sukuks	5.4	(2,761)	(3,499)
			35,101	12,661
8.1	This represents advance against subscription of privately placed Term Finance Certificates (TFCs) of Bank Al Habib Limited. The issue date of TFCs is June 30, 2011, however the units were credited in the Fund's CDC account subsequent to the year end.			
9	PAYABLE TO HBL ASSET MANAGEMENT LIMITED - MANAGEMENT COMPANY	Note	2011 (Rupees in '000)	2010
	Management fee	9.1	1,858	4,625
	Preliminary expenses and floatation costs on behalf of the Fund		185	432
	Security deposit paid by the management company on behalf of the Fund		-	100
			2,043	5,157

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

10	PAYABLE TO CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED - TRUSTEE	2011 (Rupees in '000)	2010
	Trustee's remuneration	<u>175</u>	<u>475</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, 2011 is as follows:

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

However, the above tariff structure has been revised by the Central Depository Company of Pakistan Limited with effect from January 1, 2011. The revised tariff structure is as follows:

Amounts of funds under management (Average NAV)	Tariff per annum
Up to Rs. 1,000 million	Rs. 0.6 million or 0.17% per annum of Net Asset Value whichever is higher
Exceeding Rs. 1,000 million upto Rs. 5000 million	Rs. 1.7 million plus 0.085% per annum of Net Asset Value exceeding Rs. 1,000 million
Exceeding Rs. 5,000 million	Rs. 5.1 million plus 0.07% per annum of Net Asset Value exceeding Rs. 5,000 million

The remuneration is paid to the trustee monthly in arrears.

11	PAYABLE TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN	2011 (Rupees in '000)	2010
	Annual fee	<u>1,145</u>	<u>1,639</u>

11.1 Under the provisions of the Non Banking Finance Companies & Notified Entities Regulations, 2008, a collective investment scheme categorised as income scheme is required to pay as annual fee to the SECP, an amount equal to 0.075% of the average annual net assets of the scheme. HBL Income Fund has been categorised as an income scheme by the management company.

12	ACCRUED EXPENSES AND OTHER LIABILITIES	Note	2011 (Rupees in '000)	2010
	Auditors' remuneration		321	360
	Brokerage payable		71	37
	Payable to unit holders against redemption of units		15	19,525
	Provision for Workers' Welfare Fund	16	12,301	8,771
	Other payables		<u>72</u>	<u>36</u>
			<u>12,780</u>	<u>28,729</u>

### 13 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2011 and June 30, 2010.

	For the year ended June 30, 2011	For the year ended June 30, 2010
	(Rupees in '000)	
<b>14 PROFIT ON BANK DEPOSITS</b>		
Income on savings deposits	871	8,157
Income on term deposit receipts	11,318	12,284
	<u>12,189</u>	<u>20,441</u>
	<b>2011</b>	<b>2010</b>
	(Rupees in '000)	
<b>15 AUDITORS' REMUNERATION</b>		
Statutory audit fee	250	250
Half yearly review fee	75	75
Reporting on compliance with the Code of Corporate Governance	25	25
Out of pocket expenses	17	35
	<u>367</u>	<u>385</u>
<b>16 PROVISION FOR WORKERS' WELFARE FUND</b>		

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all Collective Investment Schemes / mutual funds (CISs) whose income exceeds Rs 0.5 million in a tax year, have been brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever is higher. In this regard, a constitutional petition has been filed by certain CISs through their trustees in the Honourable High Court of Sindh (the Court), challenging the applicability of WWF to the CISs, which is pending adjudication. However, without prejudice to the above, the Management Company made a provision for WWF contribution in the annual financial statements for the year ended June 30, 2010.

Subsequent to the year ended June 30, 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.

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs. 12.301 million (including Rs. 3.530 million for the current year) in these financial statements.

**17 FINANCIAL INSTRUMENTS BY CATEGORY**

	-----As at June 30, 2011-----		
	Loans and receivables	Assets at fair value through profit or loss	Available for sale
	-----Rupees in '000-----		
<b>Financial assets</b>			<b>Total</b>
Bank balances	16,228	-	16,228
Investments	-	-	1,442,398
Income receivable	35,146	-	35,146
Advances, deposits and other receivables	35,101	-	35,101
	<u>86,475</u>	<u>-</u>	<u>1,442,398</u>
		<b>Liabilities at fair value through profit or loss</b>	<b>Other financial liabilities</b>
		-----Rupees in '000-----	
<b>Financial liabilities</b>			<b>Total</b>
Payable to HBL Asset Management Limited - Management Company	-	2,043	2,043
Payable to Central Depository Company of Pakistan Limited - Trustee	-	175	175
Accrued expenses and other liabilities	-	479	479
	<u>-</u>	<u>2,697</u>	<u>2,697</u>

	-----As at June 30, 2010-----			Total
	Loans and receivables	Assets at fair value through profit or loss	Available for sale	
	-----Rupees in '000-----			
<b>Financial assets</b>				
Bank balances	23,718	-	-	23,718
Investments	-	-	1,561,267	1,561,267
Income receivable	38,370	-	-	38,370
Advances, deposits and other receivables	12,501	-	-	12,501
	<u>74,589</u>	<u>-</u>	<u>1,561,267</u>	<u>1,635,856</u>

	-----As at June 30, 2010-----			Total
	Liabilities at fair value through profit or loss	Other financial liabilities		
	-----Rupees in '000-----			
<b>Financial liabilities</b>				
Payable to HBL Asset Management Limited - Management Company	-	5,157		5,157
Payable to Central Depository Company of Pakistan Limited - Trustee	-	475		475
Accrued expenses and other liabilities	-	19,958		19,958
	<u>-</u>	<u>25,590</u>		<u>25,590</u>

## 18 TRANSACTIONS WITH CONNECTED PERSONS

Connected persons include HBL Asset Management Limited being the Management Company, Habib Bank Limited being the Sponsor, Central Depository Company of Pakistan Limited, being the Trustee of the Fund, other collective investment schemes managed by the Management Company, directors and officers of the Management Company.

Transactions with connected persons are in the normal course of business, at contracted rates and terms determined in accordance with market rates.

Remuneration payable to Management Company and Trustee is determined in accordance with the provisions of the NBFC Regulations and the Trust Deed respectively.

Details of the transactions with connected persons and balances with them, if not disclosed elsewhere in these financial statements are as follows:

	For the year ended June 30, 2011	For the year ended June 30, 2010
	(Rupees in '000)	
<b>18.1 Transactions during the year</b>		
<b>HBL Asset Management Limited - Management Company</b>		
Management fee	22,906	32,770
Issue of 699,580 units (2010: nil units)	70,000	-
Issue of 99,323 bonus units (2010: 67,568 units)	9,737	-
Redemption of 829,198 units (2010: nil units)	82,945	6,513
<b>Habib Bank Limited - Sponsor</b>		
Issue of 980,561 bonus units (2010: 617,161 units)	96,150	59,490
Bank charges paid	96	198
Placement in Term Deposits Receipts	350,000	630,000
Maturity of Term Deposits Receipts	350,000	980,000
Profit on bank deposits and term deposits earned	11,895	13,908
Profit received on bank deposits and term deposits	11,914	14,132

	For the year ended June 30, 2011 (Rupees in '000)	For the year ended June 30, 2010 (Rupees in '000)
<b>Directors and Executives of the Management Company and their relatives</b>		
<b>Directors and their relatives</b>		
Issue of 97,437 units (2010: 308,653 units)	9,600	30,050
Issue of 9,664 bonus units (2010: 37,210 units)	949	3,605
Redemption of 88,347 units (2010: 510,716 units)	8,852	51,000
<b>Executives and their relatives</b>		
Issue of 5,108 units (2010: nil units)	500	-
Issue of 441 bonus units (2010: nil units)	43	-
<b>Associated companies</b>		
Profit earned on Tern Finance Certificates	23	1,696
Profit received on Term Finance Certificates	156	2,224
<b>Central Depository Company of Pakistan Ltd. - Trustee</b>		
Remuneration	2,341	3,185
Central Depository System Charges	3	4
	<b>2011</b>	<b>2010</b>
	<b>(Rupees in '000)</b>	
<b>18.2 Amount outstanding as at year end</b>		
<b>HBL Asset Management Limited - Management Company</b>		
Investment held by the management company in the Fund (826,484 units; 2010: 856,779 units)	84,103	86,483
Management fee payable	1,858	4,625
Preliminary expenses and floatation cost payable	185	432
Security deposit paid by management company on behalf of the Fund - payable	-	100
<b>Habib Bank Limited - Sponsor</b>		
Investment held in the Fund (8,806,339 units ; 2010: 7,825,778 units)	896,170	789,934
Profit receivable on bank deposits	43	63
Balance in savings account	6,212	20,539
Balance in current account	16	16
<b>Directors and Executives of the Management Company and their relatives</b>		
<b>Directors and their relatives</b>		
Investment held in the Fund (97,267 units ; 2010: 78,512 units)	9,898	7,925
<b>Executives and their relatives</b>		
Investment held in the Fund: Units 5,459 (2010: Nil)	565	-
<b>Associated companies</b>		
Investment in Term Finance Certificates	-	4,281
Profit receivable on COIs and TFCs	-	133
<b>Central Depository Company of Pakistan Ltd. - Trustee</b>		
Remuneration payable	175	475
Central Depository System Charges payable	-	4

**19 PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER**

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

	Designation	Qualification	Experience in years	
1	Shahid Ghaffar	Chief Executive Officer	MBA	34
2	Rehan N Shaikh	Chief Operating Officer	M.Com	16
3	Amir Khan	Fund Manager - HBL Income Fund	MBA	18
4	Umar Farooq	Fund Manager	MBA	11
5	Noman Qurban	Manager Compliance	ACA	3

**19.1** Amir Khan is the Manager of the Fund. He has obtained a Masters Degree in Business Administration. He is also the Fund Manager of HBL Money Market Fund and HBL Islamic Money Market Fund.

**20 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID****Top ten brokers during the year ended June 30, 2011**

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

**Top ten brokers during the year ended June 30, 2010**

- 1 Alfalah Securities (Private) Limited.
- 2 Atlas Capital Markets (Private) Limited
- 3 BMA Capital Market Limited.
- 4 First Capital Equities Limited
- 5 Global Securities Pakistan Limited.
- 6 IGI Finex Securities Limited
- 7 Invest Capital and Securities (Private) Limited
- 8 Invisor Securities (Private) Limited
- 9 JS Global Capital Limited
- 10 KASB Securities Limited

**21 PATTERN OF UNIT HOLDING**

	As at June 30, 2011		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	402	167,805	11.09%
Associated companies	2	980,277	64.79%
Directors	1	1,132	0.07%
Insurance companies	1	248	0.02%
Banks / DFIs	3	139,100	9.19%
Retirement funds	5	13,415	0.89%
Others	7	210,920	13.95%
	<b>421</b>	<b>1,512,897</b>	<b>100%</b>

	As at June 30, 2010		
	Number of unit holders	Investment amount (Rupees in '000)	Percentage investment
Individuals	422	163,744	10.23%
Associated companies	2	876,406	54.76%
Directors	2	7,925	0.50%
Insurance companies	1	237	0.01%
Banks and DFIs	6	282,780	17.67%
Retirement funds	11	26,414	1.65%
Others	8	242,904	15.18%
	<b>452</b>	<b>1,600,410</b>	<b>100%</b>

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## 22 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 23rd, 24th, 25th, 26th, 27th and 28th board meetings were held on July 7, 2010, September 16, 2010, October 28, 2010, February 11, 2011, March 31, 2011 and April 25, 2011 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. R. Zakir Mahmood *	5	4	1	26th meeting
2 Mr. Shahid Ghaffar	6	6	-	-
3 Mr. Sohail Malik	6	5	1	27th meeting
4 Mr. Abid Sattar	6	5	1	25th meeting
5 Mr. Towfiq H. Chinoy **	6	5	1	23rd meeting
6 Ms. Sadia Khan	6	5	1	23rd meeting

\* Mr. R. Zakir Mahmood, Chairman has resigned from the Directorship of HBL Asset Management Limited on March 31, 2011.

\*\* Mr. Towfiq H. Chinoy has taken charge as Chairman of HBL Asset Management Limited on March 31, 2011.

## 23 FINANCIAL RISK MANAGEMENT

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

### 23.1 Market risk

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

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

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

#### 23.1.1 Currency risk

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

#### 23.1.2 Interest rate risk

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

##### a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates and Sukuks that expose the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on June 30, 2011, with all other variables held constant, the net assets and net income of the Fund for the year would have been higher / lower by Rs 2,317,585 (2010: Rs 2,692,640).

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

As at June 30, 2011, the Fund holds Treasury Bills and Pakistan Investment Bonds which are classified as available for sale, exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by the Financial Market Association on June 30, 2011, with all other variables held constant, the net assets would be lower by Rs. 3,869,582 (2010: 1,945,120). In case of 100 basis points decrease in rates announced by the Financial Market Association on June 30, 2011, with all other variables held constant, the net assets would be higher by Rs. 3,929,512 (2010: 2,023,708).

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by Financial Market Association is expected to change over time. Therefore, the sensitivity analysis prepared as of June 30, 2011 is not necessarily indicative of the effect on the Fund's net assets due to future movements in interest rates.

Yield / interest rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

----- As at June 30, 2011 -----						
----Exposed to Yield/Interest rate risk----						
Yield / interest rate (%)	Total	Upto three months	More than three months and upto one year	More than one year	Not exposed to Yield/ Interest rate risk	
----- (Rupees in '000) -----						
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	5 - 6.5	16,228	16,212	-	-	16
Investments	12.00 - 14.75	1,442,398	926,918	492,722	22,758	-
Income receivable		35,146	-	-	-	35,146
Advances, deposits and other receivables		35,101	-	-	-	35,101
		1,528,873	943,130	492,722	22,758	70,263
<b>Financial liabilities</b>						
Accrued expenses and other liabilities		479	-	-	-	479
Payable to HBL Asset Management Limited - Management Company		2,043	-	-	-	2,043
Payable to Central Depository Company of Pakistan Limited -Trustee		175	-	-	-	175
		2,697	-	-	-	2,697
<b>On-balance sheet gap 2011</b>		1,526,176	943,130	492,722	22,758	67,566
<b>Off-balance sheet financial instruments</b>		-	-	-	-	-
<b>Off-balance sheet gap 2011</b>		-	-	-	-	-

----- As at June 30, 2010 -----						
----Exposed to Yield/Interest rate risk----						
Yield / interest rate (%)	Total	Upto three months	More than three months and upto one year	More than one year	Not exposed to Yield/ Interest rate risk	
----- (Rupees in '000) -----						
<b>On-balance sheet financial instruments</b>						
<b>Financial assets</b>						
Bank balances	1.00 - 13.50	23,718	23,702	-	-	16
Investments	12.00 - 18.18	1,561,267	1,014,169	523,093	24,005	-
Income receivable		38,370	-	-	-	38,370
Advances, deposits and other receivables		12,501	-	-	-	12,501
		1,635,856	1,037,871	523,093	24,005	50,887
<b>Financial liabilities</b>						
Accrued expenses and other liabilities		28,729	-	-	-	28,729
Payable to HBL Asset Management Limited - Management Company		5,157	-	-	-	5,157
Payable to Central Depository Company of Pakistan Limited -Trustee		475	-	-	-	475
		34,361	-	-	-	34,361
<b>On-balance sheet gap 2010</b>		1,601,495	1,037,871	523,093	24,005	16,526
<b>Off-balance sheet financial instruments</b>		-	-	-	-	-
<b>Off-balance sheet gap 2010</b>		-	-	-	-	-

Investments in Term Deposit Receipts, Pakistan Investment Bonds and Treasury Bills are not subject to cash flow interest rate risk.

### 23.1.3 Price Risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instrument traded in the market. The Fund is not exposed to any price risk as on June 30, 2011.



### 23.2 Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due. Credit risk arises from the inability of the relevant brokerage house or the counter party to fulfil their obligations. There is a possibility of default by participants or failure of the financial markets / stock exchanges, the depositories, the settlements or clearing system, etc.

The Fund's credit risk is primarily attributable to its investment in debt securities. The Fund is also exposed to counterparty credit risk on balances with banks, advances, deposits and other receivables. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings.

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 analysis below summarises the credit quality of the Fund's investment in Term Finance Certificates and Sukuks as at June 30:

Debt securities by rating category	2011	2010
AA+	7.36%	10.63%
AA	45.89%	41.07%
AA-	11.21%	8.29%
A+	21.84%	28.17%
A	10.29%	11.41%
A-	0.00%	0.43%
BBB-	3.41%	0.00%
	<u>100%</u>	<u>100%</u>

The maximum exposure to credit risk before any credit enhancement as at June 30, 2011 is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

Carrying amount of debt securities classified as available for sale that would otherwise be past due or impaired whose terms have been restructured is Rs. 34.955 million.

Out of the total bank balances of Rs 16.212 million maintained in savings accounts and short-term placements, amounts aggregating Rs 16.209 million have been placed with banks having short-term credit rating of A1+, an amount of Rs 504 with a bank having short-term rating of A1, whereas remaining amount is placed with a bank having minimum short term credit rating of A2. Management, after giving due consideration to their strong financial standing, does not expect non-performance by these counter parties on their obligations to the Fund.

An analysis of the financial assets that are individually impaired as per the requirements of Circular No. 1 dated January 6, 2009 and Circular No. 13 dated May 4, 2009 issued by the Securities and Exchange Commission of Pakistan are as under:

Term Finance Certificates	Cost	
	2011	2010
	(Rupees in '000)	
15 to 89	51,630	21,007
90 to 179	7,820	12,257
180 to 270	2,820	3,507
270 to 365	10,320	7,507
over 365	55,855	81,950

#### Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

### 23.3 Liquidity risk

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

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

In order to manage the Fund's overall liquidity, the Fund may also withhold daily redemption request in excess of ten percent of the units in issue and such requests would be treated as redemption request qualifying for being processed on the next business day. Such procedure would continue until the outstanding redemption requests come down to a level below ten percent of the units then in issue. The Fund did not withhold any redemptions during the year.

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

-----As at June 2011-----				
	Total	Upto three months	Over three months and upto one year	Over one year
------(Rupees in '000)-----				
<b>Financial liabilities</b>				
Accrued expenses and other liabilities	479	479	-	-
Payable to HBL Asset Management Limited - Management Company	2,043	2,043	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	175	175	-	-
	<u>2,697</u>	<u>2,697</u>	-	-
-----As at June 2010-----				
	Total	Upto three months	Over three months and upto one year	Over one year
------(Rupees in '000)-----				
<b>Financial liabilities</b>				
Accrued expenses and other liabilities	28,729	28,729	-	-
Payable to HBL Asset Management Limited - Management Company	5,157	5,157	-	-
Payable to Central Depository Company of Pakistan Limited - Trustee	475	475	-	-
	<u>34,361</u>	<u>34,361</u>	-	-

## 24 UNITS HOLDERS' FUND RISK MANAGEMENT

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

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

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

In accordance with the risk management policies stated in note 23, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by 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 (e.g. Pakistan Investment Bonds and Treasury Bills) 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 fair value of financial assets (e.g Terms Finance Certificates and Sukuks) that are not traded in an active market is determined with reference to the values quoted by MUFAP. The fair value quoted by MUFAP is calculated in accordance with valuation methodology prescribed by Circular 1 of 2009 dated January 6, 2009 issued by the Securities and Exchange Commission of Pakistan (SECP).

If a security is not quoted by MUFAP due to it being 'non-performing status', its values is determined by applying discount in accordance with Circular No. 1 of 2009 issued by the SECP.

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

The Fund adopted the amendment to IFRS 7, effective 1 January 2009. This 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).

Assets	-----June 30, 2011-----			
	Level 1	Level 2	Level 3	Total
Financial assets available for sale				
- Debt securities	-	753,130	87,585	840,715
- Government treasury bills	-	689,268	-	689,268

Assets	-----June 30, 2010-----			
	Level 1	Level 2	Level 3	Total
Financial assets available for sale				
- Debt securities	-	983,578	38,245	1,021,823
- Government treasury bills	-	539,444	-	539,444

## 26 DISCLOSURE UNDER CIRCULAR NO. 16 OF 2010 ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN - CATEGORIZATION OF OPEN END SCHEME

The Securities and Exchange Commission of Pakistan vide circular no. 7 of 2009 dated March 6, 2009 required all Asset Management Companies to classify funds under their management on the basis of categorisation criteria laid down in the circular. HBL Asset Management Limited (Management Company) classified HBL Income Fund (the Fund) as 'Income Scheme' in accordance with the said circular. As at June 30, 2011, the Fund is compliant with all the requirements of the said circular except for clause 9(v) which requires that the rating of any security in the portfolio shall not be lower than the investment grade.

Name of Non-Complaint Investment	Type of Investment	Value of Investment before Provision	Provision held (if any)	Value of Investment after Provision	% of Net Assets	% of Gross Assets
-----Rupees in '000-----						
New Allied Electronics Industries (Pvt) Limited	TFC	19,331	19,331	-	0%	0%
New Allied Electronics Industries (Pvt) Limited	Sukuk	44,149	44,149	-	0%	0%
Eden Housing Limited	Sukuk	13,262	13,262	-	0.00%	0.00%
Agritech Limited (Formerly Pak American Fertilizers Limited)	TFC	9,992	9,992	-	0.00%	0.00%
Maple Leaf Cement Factory Limited	Sukuk	21,922	-	21,922	1.45%	1.43%
Saudi Pak Leasing Company Limited	TFC	7,062	3,401	3,661	0.24%	0.24%

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**27 NON-ADJUSTING EVENT AFTER THE REPORTING DATE**

The Board of Directors of the Management Company in their meeting held on July 07, 2011 has declared final dividend at Rs. 3.25 per unit (2010: Rs. 3.5 per unit) in the form of bonus units for Class 'A' and Class 'B' units and cash dividend of Rs 3.25 per unit (2010: Rs. 3.5 per unit) for Class 'C' unit for the year ended June 30, 2011. The financial statements of the Fund for the year ended June 30, 2011 do not include the effect of the final dividend which will be accounted for in the financial statements of the Fund for the year ending June 30, 2012.

**28 CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. No major reclassifications were made.

**29 DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue by the Board of Directors of the Management Company on October 11, 2011.

**30 GENERAL**

Figures have been rounded off to the nearest thousand rupees.

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

**Chief Executive**

**Director**