



Bachat ka Doosra Naam

**Annual Report
2012**



MCB

DYNAMIC

CASH FUND

Kum Risk, Bala Nasheen

Arif Habib Investments Limited (A subsidiary of MCB Bank Limited)

MCB DYNAMIC CASH FUND

CONTENTS

1	Vision, Mission & Core Values	2
2	Fund's Information	3
3	Report of the Director of Management Company	4
4	Report of the Fund Manager	8
5	Trustee Report to the Unit Holders	9
6	Statement of Compliance with the Code of Corporate Governance	10
7	Review Report to the Unit Holders on the Statement of Compliance with the best Practices of the Code of Corporate Governance	12
8	Independent Auditors Report to the Unit Holders	13
9	Statements of Assets and Liabilities	16
10	Income Statement	17
11	Distribution Statement	18
12	Statement of Movement in Unit Holders' Fund	19
13	Cash Flow Statement	20
14	Notes to and Forming part of the Financial Statements	21
15	Pattern of holding as per Requirement of Code of Corporate Governance	44
16	Pattern of Unit Holding by Size	45
17	Performance Table	46

Vision

To become synonymous with Savings

Mission

To become a preferred Savings and Investment Manager in the domestic and regional markets, while maximizing stakeholder's value.

Core Values

The Company takes pride in its orientation towards client service. It believes that its key success factors include continuous investment in staff, systems and capacity building, and its insistence on universal best practices at all times.

MCB DYNAMIC CASH FUND FUND'S INFORMATION

Management Company	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Board of Directors of the Management Company	Mian Mohammad Mansha Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
Audit Committee	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir	Chairman Member Member Member
Human Resource Committee	Dr. Salman Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
Company Secretary & CFO of the Management Company	Mr. Muhammad Saqib Saleem	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	MCB Bank Limited Bank Al-Falah Limited Habib Metro Bank Limited Bank Al-Habib Limited Faysal Bank Limited NIB Bank Limited Allied Bank Limited	
Auditors	M. Yousuf Adil Saleem & Co. Chartered Accountants Cavish Court, 8-35 Block 7-8 KUSHU, Shara-e-Faisal, Karachi.	
Legal Advisor	Bawaney & Partners 404, 4th Floor, Beaumont Plaza, Beaumont Road, Civil Lines, Karachi-75530	
Transfer Agent	Arif Habib Investments Limited 8th Floor, Techno City, Corporate Tower, Hasrat Mohani Road, Karachi	
Rating	AM2 - Management Quality Rating assigned by PACRA	

MCB DYNAMIC CASH FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2012

The board of Directors of Arif Habib Investment Limited, the Management Company of MCB Dynamic Cash Fund (MCB DCF), is pleased to present the Annual Report on the affairs of MCB DCF for the year ended June 30, 2012.

Economy and Money Market Overview

Despite continued macro-economic challenges throughout the period, the year under review (July '11-June '12) could be classified as a mixed bag for the economy and capital markets as some of the key macroeconomic indicators have depicted positive trend during the period under review despite having burgeoning fiscal challenges.

The external account, which was the top performing sector during the previous year, couldn't maintain its positive trend during FY12 owing to widening trade deficit on the back of lower cotton and higher oil prices despite having record-high workers' remittances. During the year, export dipped by 3% while imports grew by 12% causing the overall trade deficit to widen to around US\$ 15.4 billion, 46% higher YoY. Despite record-high level of workers' remittances flow of US\$ 13.2 billion, higher trade and income deficit caused the current account balance to post a deficit of US\$ 4.5 billion as against a surplus of US\$ 214 million last year. Given higher current account deficit coupled with meager financial account flows, country's balance of payment position declined significantly during the year by around US\$ 3.3 billion - taking the FX reserves down to a level of US\$ 15.3 billion, while also causing sizeable depreciation of 10% in the PKR-USD exchange rate during the year.

Inflationary pressures, on the other hand, have remained largely on the lower side during the period with YoY CPI Inflation averaging 11.0% amid change in CPI methodology as well as high base-effect of last year. Moreover, real economy has shown a relatively improved picture during the year with FY12 real GDP growth stood at 3.7%, slightly higher than the revised GDP growth of 3.0% during the last year.

Fiscal indiscipline continued to remain a cause of concern for the economic managers as the country is expected to witness a higher deficit of over 8% of the GDP during FY12 (including one-off circular debt adjustments). Even during the first 9M of the fiscal year, the country witnessed a fiscal deficit of Rs. 895 billion, 4.3% of the GDP. Although growth in tax revenue collection has been strong, lower non-tax revenue on the back of non-realization of CSF proceeds coupled with higher current expenditure has been the chief reason behind ballooning fiscal deficit. Unfortunately, development expenditure is expected to be under-spent for yet another year to meet revised fiscal deficit targets. In addition of having a higher fiscal deficit, the financing mix is also alarming as the country had to resort to domestic sources of funding to a large extent in the absence of sizeable foreign flows during the period under review. Government borrowing from Central Bank has gone up by Rs. 508 billion during FY12, which is staggering 44% of total outstanding stock.

Considering the volatility in the macroeconomic variables, the State Bank of Pakistan has also altered its monetary stance at least twice during the year. Given benign YoY CPI Inflation coupled with lower GoP borrowing from SBP as well as contained external current account deficit during the earlier part of the year, the SBP cut its policy discount rate cumulatively by 200 bps to 12.0%. However, gradual deterioration in the macro-economic environment lately has compelled the central bank to keep its policy DR unchanged for the next 4 policies during the latter part of the year. Due to an overall relatively lower interest rate environment, 1 year PKRV averaged at around 12.4% during FY12, much lower than the average 13.4% a year ago.

During FY12, key monetary indicators have shown reasonable improvement with money supply (M2) posting a strong growth of 14.4%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY decline of 32% in Net Foreign Assets (NFA) has been very alarming - also reflecting weak BOP position.

Significant credit demand by the government coupled with an attractive risk-return profile has kept government papers a very attractive investment vehicle for the investors during this year also. However, in absence of new credit creation, existing Term Finance Certificates (TFC) market became liquid and bank issued TFCs continued to command improvement in prices during the period under review. Moreover, GoP Ijarah Sukuk (GIS), like previous year, has remained an attractive instrument during the year for conventional markets in general and Shariah compliant markets in particular. In addition of giving strong interest yield, GIS has also provided potential for capital gains due to its demand-supply gap and therefore has seen significant activities during this year also in both primary as well as secondary markets.

Future outlook

Although medium term macroeconomic picture remains gloomy, benign CPI inflation trend coupled with the release of US\$ 1.18 billion under Coalition Support Fund by the US does provide a short term breather thereby creates a potential room for monetary easing by the State Bank of Pakistan in the upcoming monetary policy announcement. We continue to emphasize that the realization of sizeable foreign inflows holds the key in rejuvenating economic engine, while a potential return to IMF program in the next 6-8 months would adversely affect the liquidity and interest rate scenario.

In this fast changing interest rates scenario, the fund will remain committed towards superior quality assets while continue to exploit attractive opportunities in the market.

Fund's Performance

The net assets of the fund were grown significantly by 33% on a YoY basis to around PKR 6.7 billion as on June 30, 2012. The investment objective of the fund is to provide an attractive return to short term investors or investors with very low appetite for risk while taking into account the capital security and liquidity considerations. The fund is benchmarked against 1-month KIBOR. Through active management and carefully selected trading positions, the fund was able to yield an annualized return of 10.8% during the period under review which was lower than the Fund's benchmark return of 12.2% during the same period. The under-performance was due to provisioning of certain non-performing TFCs/ Sukuks during the period.

The overall liquidity situation remained relatively better during the fiscal year under-review as compared to that of last year's. The fund continued to deploy assets cautiously, without aggressively chasing, and has maintained a strong focus on the credit quality of the instruments. Considering the risk-return profile of government papers, the fund increased its exposure significantly towards government

**MCB DYNAMIC CASH FUND
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2012**

papers while maintaining decent allocations towards TFCs especially of financial sector. Although the fund maintained decent exposure towards government papers throughout the year, it managed its portfolio's duration actively to take advantage of the fast changing interest rate scenario.

The Fund yields for the period under review remained as follows:

Performance Information (%)	DCF	Benchmark
Last twelve Months Return(Annualized)	10.8%	12.2%
Since Inception (CAGR)	10.7%	11.8%

During the year your fund earned net income of Rs 605.727 million. The Board in the meeting held on June 25, 2012 has declared final distribution amounting to Rs. 125.429 million (i.e. Rs. 1.9425 per unit).

Date of distribution	Distribution PKR / Unit
28 September 2011	Re. 3.3774 per unit
27 January 2012	Re. 3.4026 per unit
29 March 2012	Re. 1.6677 per unit

During the period, units worth Rs.7,008.063 million (including Rs. 548.504 million worth of bonus units) were issued and units with a value of Rs. 5,331.582 million were redeemed. As on 30 June 2012 the NAV of the Fund was Rs. 101.447 per unit.

Update on Workers' Welfare Fund

Through the Finance Act, 2008 an amendment was made in section 2(f) of the Workers' Welfare Fund Ordinance, 1971 (the WWF Ordinance) whereby the definition of 'Industrial Establishment' has been made applicable to any establishment to which West Pakistan Shops and Establishment Ordinance, 1969 applies. As a result of this amendment it appears that WWF Ordinance has become applicable to all Collective Investment Schemes (CISs) whose income exceeds Rs. 0.5 million in a tax year. In light of this, the Mutual Funds Association of Pakistan (MUFAP) filed a constitutional petition in the Honorable Sindh High Court challenging the applicability of WWF on CISs which was dismissed mainly on the ground that MUFAP is not an aggrieved party.

Subsequently, clarifications were 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. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

Further, a fresh Constitutional Petition filed with the Honorable High Court of Sindh by a CIS / mutual fund and a pension fund through their trustee and an asset management company inter alia praying to declare that mutual funds / voluntary pension funds being pass through vehicles / entities are not industrial establishments and hence, are not liable to contribute to the WWF under the WWF Ordinance. The proceedings of the Honorable Court in this matter have concluded and the Honorable Court has reserved its decision.

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.

In view of the afore mentioned developments, the Management Company firmly believes that there is no compelling reason to make provision on account of WWF contribution in the financial statements. Further, the Management Company also expects that the constitutional petition pending in the Honorable High Court of Sindh on the subject as referred above will be decided in favour of the Mutual Funds. However the auditor of the Fund because of pending adjudication of the Constitutional petition in Honorable Sindh High Court and included an emphasis of matter paragraph in auditor's report highlighting the said issue.

Corporate Governance

The Fund is committed to high standards of corporate governance and the Board of Directors of the Management Company is accountable to the unit holders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the code of corporate governance particularly with regard to independence of non-executive directors. The Fund remains committed to conduct business in line with listing regulations of Lahore Stock Exchange.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

**MCB DYNAMIC CASH FUND
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2012**

- a. Financial statements present fairly the statement of affairs, the results of operations, cash flows and Change in unit holders' fund.
- b. Proper books of accounts of the Fund have been maintained during the year.
- c. Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates are based on reasonable prudent judgment.
- d. Relevant International Accounting Standards, as applicable in Pakistan, provisions of the Non Banking Finance Companies (Establishment & Regulations) Rules, 2003, Non Banking Finance Companies and Notified Entities Regulations, 2008, requirements of the respective Trust Deeds and directives issued by the Securities & Exchange Commission of Pakistan have been followed in the preparation of financial statements.
- e. The system of internal control is sound in design and has been effectively implemented and monitored.
- f. There are no significant doubts upon the Fund's ability to continue as going concern.
- g. There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h. Key financial data as required by the Code of Corporate Governance has been summarized in the financial statements.
- i. Outstanding statutory payments on account of taxes, duties, levies and charges, if any have been fully disclosed in the financial statements.
- j. The statement as to the value of investments of provident fund is not applicable on the Fund but applies to the Management Company; hence appropriate disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 24 to the attached financial statements. During the year four meetings of Audit Committee were held on 19th September 2011, 26th October 2012, 26 January 2012 and 24th April 2012, the details of attendance is as follows:

S. No.	Name	Designation	Attendance required	Attended	Leave granted
1.	Mr. Haroun Rashid	Chairman	4	3	1
2.	Mr. Nasim Beg	Member - Executive Vice Chairman	4	4	-
3.	Mr. Samad A. Habib	Member	4	2	2
4.	Mr. Ali Munir	Member	4	2	2

- m. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
- n. The trades in Units of the Fund carried out by Directors, CEO, CFO/Company Secretary of the Management Company and their spouses and minor children are as under:

S. No.	Name	Designation	Investment	Redemption	Bonus
			(Number of Units)		
1.	Mr. Nasim Beg	Executive Vice Chairman	-	-	-
2.	Mr. Yasir Qadri	Chief Executive Officer	3891	389	5642
3.	Mr. Muhammad Saqib Saleem	Company Secretary & Chief Financial Officer	-	-	-

**MCB DYNAMIC CASH FUND
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2012**

External Auditors

The Fund's external auditors, M. Yousuf Adil Saleem & Co., Chartered Accountants, have expressed their willingness to continue as the Fund auditors for the ensuing year ending June 30, 2013. The audit committee of the Board has recommended reappointment of M. Yousuf Adil Saleem & Co., Chartered Accountants, as auditors of the Fund for the year ending June 30, 2013.

Acknowledgement

The Board of Directors of the Management Company is thankful to the valued investors of the Fund for their reliance and trust in Arif Habib Investments Limited. The Board also likes to thank the Securities and Exchange Commission of Pakistan, State Bank of Pakistan, Central Depository Company of Pakistan Limited (the Trustee of the Fund) and the management of the Lahore Stock Exchange for their continued cooperation, guidance, substantiation and support. The Board also acknowledges the efforts put in by the team of the Management Company for the growth and meticulous management of the Fund.

For and on behalf of the board

Yasir Qadri
Chief Executive Officer

Karachi: August 15, 2012

MCB DYNAMIC CASH FUND REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2012

Fund Type and Category

MCB Dynamic Cash Fund (MCB DCF) is an open-end Income scheme, for which SECP categorization is in process.

Fund Benchmark

The benchmark for MCB DCF is 1-month KIBOR.

Investment Objective

To provide an attractive return to short term investors or investors with a very low appetite for risk while taking into account capital security and liquidity considerations. The fund achieved its objective by posting a decent return while minimizing risk.

Investment Strategy

The Fund through active management will aim to provide optimum returns for its Unit Holders by investing primarily in money market and short term instruments. The fund may also invest a portion of the Fund in medium term assets in order to provide higher returns to Unit Holders.

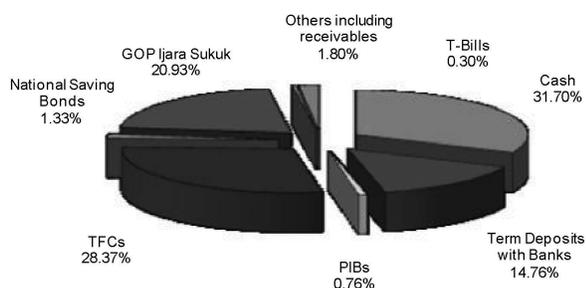
Manager's Review

The fund was able to generate an annualized return of 10.8% during the year under review, which was lower than the fund's benchmark return of 12.2% during the same period.

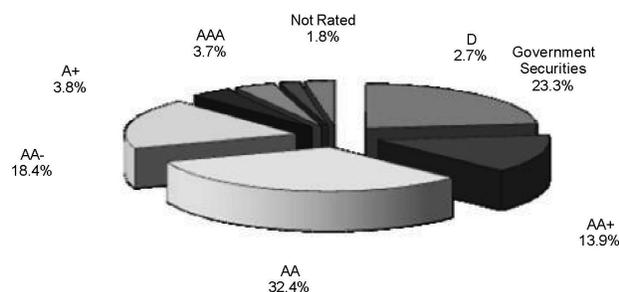
The fund remained focused towards credit quality of the portfolio and hence deployed its assets cautiously. During the year, the fund continued to emphasize on the government papers owing to better risk-return proposition while maintaining a decent exposure in some good quality TFCs especially of financial sector. During the period under review, the fund also capitalized on attractive TDRs opportunities whenever available in order to enhance fund's returns. In addition of capitalizing on conventional government papers, the fund has timely accumulated its exposure in different issues of GoP Ijarah Sukuk (GIS), which were not only offering attractive yield but also providing capital gain potential.

The net assets of the fund stood at PKR 6.7 billion by the end of June 2012, which was up by around PKR 1.7 billion during the period under review. We believe that the fund's exposure towards good quality TFCs along with well-timed accumulation of Government papers should contribute towards decent returns going forward.

Asset Allocation as on June 30, 2012 (% of total assets)



Asset Quality as of June 30, 2012 (% of total assets)



Mr. Kashif Rafi
Fund Manager

Karachi: August 15, 2012

**MCB DYNAMIC CASH FUND
TRUSTEE REPORT TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2012**

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

CDC House, 99-B, Block 'B'
S.M.C.H.S. Main Shakra-e-Faisal
Karachi - 74400. Pakistan.
Tel: (92-21) 111-111-500
Fax: (92-21) 34326020 - 23
URL: www.cdcpakistan.com
Email: info@cdcpak.com



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TRUSTEE REPORT TO THE UNIT HOLDERS

MCB DYNAMIC CASH FUND

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

We Central Depository Company of Pakistan Limited, being the Trustee of MCB Dynamic Cash Fund (the Fund) are of the opinion that Arif Habib Investments Limited being the Management Company of the Fund has in all material respects managed the Fund during the year ended June 30, 2012 in accordance with the provisions of the following:

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

A handwritten signature in black ink, appearing to read 'Muhammad Hanif Jakhura', is written over a horizontal line.

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

Karachi: October 17, 2012

MCB DYNAMIC CASH FUND STATEMENT OF THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2012

This statement is being presented by the Board of Directors of Arif Habib Investments Limited ("the Management Company"), the Management Company of MCB Dynamic Cash Fund ("the Fund") to comply with the Code of Corporate Governance contained in Listing Regulations of Lahore Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

MCB Dynamic Cash Fund is an open end mutual fund and is listed at Lahore Stock Exchange. The Fund, being a unit trust scheme, does not have its own Board of Directors. The Management Company, Arif Habib Investments Limited, on behalf of the Fund, has applied the principles contained in the Code in the following manner:

1. The Management Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes

Category	Names
Independent Directors	1. Dr. Salman Shah 2. Mr. Haroun Rashid 3. Mr. Mirza Mehmood
Executive Directors	1. Mr. Nasim Beg - Executive Vice Chairman 2. Mr. Yasir Qadri - Chief Executive Officer
Non - Executive Directors	1. Mian Mohammad Mansha 2. Mr. Ahmed Jehangir 3. Mr. Samad Habib

The independent directors meets the criteria of independence under clause i (b) of the Code.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Management Company.
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 period no casual vacancy occurred on the board of the Management Company
5. The Management Company had prepared a 'Code of Conduct' and ensured that appropriate steps had been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed vision / mission statement, overall corporate strategy and significant policies of the Management Company. A complete record of particulars of significant policies 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 Chief Executive Officer, other executive and non-executive directors, have been taken by the Board. No new appointment of Chief Executive Officer, other executive and non-executive directors were made during the year.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Accordingly, the Management Company is compliant with this requirement for the current year. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
10. No new appointments of Chief Financial Officer and Company Secretary were made during the year. The Board has approved the remuneration and terms and conditions of employment, as determined by the Chief Executive Officer. Subsequent to the year end, the Management Company has appointed Head of Internal Audit who is also planned to be designated as the secretary to the Audit Committee in the upcoming Audit Committee meeting.
11. The Directors' Report of the fund for the year ended June 30, 2012 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Fund were duly endorsed by Chief Executive Officer and Chief Financial Officer of the Management Company before approval of the Board.
13. The Directors, Chief Executive Officer and executives of the Management Company do not hold any interest in the units of the Fund other than that disclosed in the pattern of unit holding.
14. The Management Company has complied with all the corporate and financial reporting requirements of the Code.

**MCB DYNAMIC CASH FUND
STATEMENT OF THE COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2012**

15. The Board has formed an Audit Committee for the Management Company. It comprises of four members, three of whom are the directors of the Management Company. Two are non-executive directors and the Chairman of the Committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of the interim and final results of the Fund and as required by the Code. The terms of reference of the committee have been approved by the Board and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises four members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. During the year, the Management Company has outsourced the internal audit function to Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants who are considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Management Company.
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 (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and units of the fund. The firm and all its partners are also in compliance with International Federation of Accountants guidelines on code of ethics as adopted by ICAP.
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 International Federation of Accountants guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities and Fund's unit, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the Code have been complied with towards which reasonable progress is being made by the company to seek compliance by the end of next accounting year.

On behalf of the Board

Yasir Qadri
Chief Executive Officer

Karachi: August 15, 2012

**MCB DYNAMIC CASH FUND
REVIEW REPORT TO THE UNIT HOLDERS ON THE
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES
OF THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2012**

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

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Fax: +92 (0) 21- 3454 1314
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**REVIEW REPORT TO THE UNIT HOLDERS ON STATEMENT OF COMPLIANCE WITH BEST
PRACTICES OF THE CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Arif Habib Investments Limited**, the Management Company of **MCB Dynamic Cash 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.

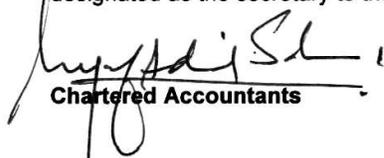
The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's 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 Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We 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.

Regulation 35 (x) of the Listing Regulations requires the Management 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 above requirements 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 for and on behalf of the Fund, 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, 2012.

We draw attention to paragraph 10 of the annexed statement which highlights that subsequent to the year end the Management Company has appointed the Head of Internal Audit who is also planned to be designated as the secretary to the Audit Committee in the upcoming Audit Committee meeting.


Chartered Accountants

Karachi
Date: August 15, 2012

Member of
Deloitte Touche Tohmatsu Limited

**MCB DYNAMIC CASH FUND
INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2012**

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

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INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **MCB Dynamic Cash Fund** (the Fund), which comprises the statement of assets and liabilities as at June 30, 2012, and the income statement, distribution statement, statement of movements in unit holder's fund, cash flow statement and a summary of significant accounting policies together with other explanatory notes.

Management Company's responsibility for the financial statements

Management Company of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with the requirement of the approved accounting standards as applicable in Pakistan. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of
Deloitte Touche Tohmatsu Limited

**MCB DYNAMIC CASH FUND
INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS
FOR THE YEAR ENDED JUNE 30, 2012**

Deloitte.

M. Yousuf Adil Saleem & Co
Chartered Accountants

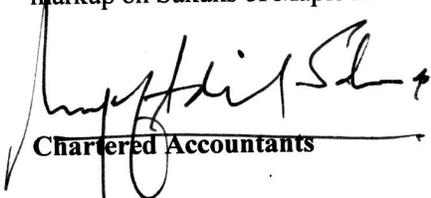
Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at June 30, 2012 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the financial statements have been prepared in accordance with the relevant provisions of Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008.

The financial statements for the year ended June 30, 2011 were audited by another firm of Chartered Accountants whose report dated August 03, 2011 contained a qualified opinion, due to recording of markup on Sukuks of Maple Leaf Cement Factory on receipt basis instead of accrual basis.



Chartered Accountants

Engagement Partner
Mushtaq Ali Hirani

Karachi
Date: August 15, 2012

FINANCIAL STATEMENTS

**MCB DYNAMIC CASH FUND
STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2012**

	Note	2012 (Rupees in '000)	2011
ASSETS			
Balances with banks	5.	2,147,211	2,124,800
Investments	6.	4,505,117	3,149,605
Profit and other receivables	7.	115,214	85,586
Security deposits and prepayments	8.	3,299	3,488
Preliminary expenses and floatation costs	9.	-	1,526
Total assets		6,770,841	5,365,005
LIABILITIES			
Payable to Management Company	10.	9,530	5,780
Payable to Trustee	11.	515	397
Annual fee payable to the Securities and Exchange Commission of Pakistan	12.	4,388	3,913
Accrued expenses and other liabilities	13.	60,195	335,215
Total liabilities		74,628	345,305
NET ASSETS		6,696,213	5,019,700
Unit holders' fund (as per statement attached)		6,696,213	5,019,700
CONTINGENCIES AND COMMITMENTS			
	14.		
		(Number of units)	
NUMBER OF UNITS IN ISSUE		66,006,910	49,540,717
		(Rupees)	
NET ASSET VALUE PER UNIT	4.22	101.45	101.32

The annexed notes 1 to 31 form an integral part of these financial statements.



Chief Executive Officer

**For Arif Habib Investments Limited
(Management Company)**



Director

**MCB DYNAMIC CASH FUND
INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012**

	Note	2012 (Rupees in '000)	2011
INCOME			
Income from government securities		374,311	272,932
Income from term finance certificates		258,027	240,875
Profit on bank deposits and term deposit receipts		135,376	68,720
Capital gain on sale of investments		13,888	99,299
Income from money market placements		4,194	2,632
		<u>785,796</u>	<u>684,458</u>
Net unrealised appreciation / (diminution) on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	6.3.6	17,826	(19,663)
Total income		<u>803,622</u>	<u>664,795</u>
EXPENSES			
Remuneration of Management Company		87,740	78,255
Sales tax on remuneration of Management Company		14,038	-
Remuneration of Trustee		5,694	5,803
Annual fee - Securities and Exchange Commission of Pakistan	12.	4,388	3,913
Brokerage and settlement charges		1,054	2,126
Amortisation of preliminary expenses and floatation costs		1,526	2,302
Auditors' remuneration	15.	1,038	1,000
Bank charges		253	294
Provision/(reversal) against debt securities	6.3	76,931	(64,766)
Other expenses		948	769
Total expenses		<u>193,610</u>	<u>29,696</u>
Net income from operating activities		<u>610,012</u>	<u>635,099</u>
Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed		8,077	(31,486)
Provision for Workers' Welfare Fund	16.	12,362	12,072
Net income for the year before taxation		<u>605,727</u>	<u>591,541</u>
Taxation	17.	-	-
Net income for the year after taxation		<u>605,727</u>	<u>591,541</u>
Other comprehensive income for the year		-	-
Total comprehensive income for the year		<u>605,727</u>	<u>591,541</u>
Earnings per unit	4.13	<u>-</u>	<u>-</u>

The annexed notes 1 to 31 form an integral part of these financial statements.



Chief Executive Officer

**For Arif Habib Investments Limited
(Management Company)**



Director

**MCB DYNAMIC CASH FUND
DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012**

	2012	2011
	(Rupees in '000)	
Undistributed income brought forward		
- Realised income	212,019	386,170
- Unrealised loss	(146,389)	(188,774)
	65,630	197,396
Final distribution for the year ended June 30, 2010 at Rs 2.4194 per unit (Date of distribution July 02, 2010)		
- Cash distribution	-	(26,850)
- Bonus distribution	-	(112,820)
Interim distributions during the year ended June 30, 2011:		
Rs 2.7051 per unit (Date of distribution October 18, 2010)		
-Cash distribution	-	(18,293)
-Bonus distribution	-	(139,560)
Rs 3.00 per unit (Date of distribution January 28, 2011)		
-Cash distribution	-	(17,555)
-Bonus distribution	-	(123,855)
Rs 3.4059 per unit (Date of distribution April 27, 2011)		
-Cash distribution	-	(17,339)
-Bonus distribution	-	(119,185)
Rs 3.0199 per unit (Date of distribution June 22, 2011)		
- Cash distribution		(12,315)
- Bonus distribution		(127,347)
Interim distributions during the year ended June 30, 2012:		
Rs. 3.3774 per unit (Date of distribution September 28, 2011)		
-Cash distribution	(13,793)	-
-Bonus distribution	(156,301)	-
Rs 3.4026 per unit (Date of distribution January 27, 2012)		
- Cash distribution	(23,698)	-
- Bonus distribution	(173,811)	-
Rs 1.6677 per unit (Date of distribution March 29, 2012)		
- Cash distribution	(11,623)	-
- Bonus distribution	(92,963)	-
Rs 1.9425 per unit (Date of distribution June 25, 2012)		
- Cash distribution	-	-
- Bonus distribution	(125,429)	-
Element of income / (loss) and capital Gains / (losses) included in the prices of units issued less those in units redeemed - amount that forms part of the unit holder's fund	21,816	(8,188)
Net income for the year after taxation	605,727	591,541
Undistributed income carried forward	95,555	65,630
Realised income	212,248	212,019
Unrealised loss	(116,693)	(146,389)
	95,555	65,630

The annexed notes 1 to 31 form an integral part of these financial statements.



Chief Executive Officer

**For Arif Habib Investments Limited
(Management Company)**

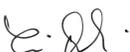


Director

**MCB DYNAMIC CASH FUND
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	2012 (Rupees in '000)	2011
Net assets at beginning of the year	5,019,700	5,970,309
Issue of 63,080,770 units (2011: 48,459,378 units)	6,459,559	4,969,477
Redemption of 52,041,395 units (2011: 62,788,558 units)	(5,331,582)	(6,450,761)
Issue of 1,248,618 bonus units in respect of final distribution for the year ended June 30, 2012 (2011: 1,117,032 bonus units)	125,429	112,820
Issue of 5,426,818 interim bonus units (2011: 5,023,773 units)	423,075	509,947
	1,676,481	(858,517)
Element of (income) / loss and capital (gains) / losses included in prices of units issued less those in units redeemed		
· amount representing (income) / loss and capital (gains) / losses - transferred to income statement	(8,077)	31,486
· amount representing (loss) / income that form part of unit holders' fund - transferred to distribution statement	(21,816)	8,188
	(29,893)	39,674
Element of income / (loss) and capital gains / (loss) included in prices of units issued less those in units redeemed - amount representing unrealised income	21,816	(8,188)
Net unrealised diminution on re-measurement of investment classified as 'financial assets at fair value through profit or loss'	17,826	(19,663)
Other net operating income	587,901	611,204
Net income for the year	605,727	591,541
Final distribution for the year ended June 30, 2010 at Rs 2.4194 per unit		
- Cash distribution	-	(26,850)
- Bonus distribution	-	(112,820)
Interim distributions during the year ended June 30, 2012		
On September 28, 2011 at Rs. 3.3774 per unit (On October 18, 2010 at Rs. 2.7051 per unit)		
- Cash distribution	(13,793)	(18,293)
- Bonus distribution	(156,301)	(139,560)
On January 27, 2012 at Rs. 3.4026 per unit (On January 28, 2011 at Rs. 3.00 per unit)		
- Cash distribution	(23,698)	(17,555)
- Bonus distribution	(173,811)	(123,855)
On March 29, 2012 at Rs. 1.6677 per unit (On April 27, 2011 at Rs. 3.4059 per unit)		
- Cash distribution	(11,623)	(17,339)
- Bonus distribution	(92,963)	(119,185)
On June 25, 2012 at Rs. 1.9425 per unit (On June 22, 2011 at Rs. 3.0199 per unit)		
- Cash distribution	-	(12,315)
- Bonus distribution	(125,429)	(127,347)
	6,696,213	5,019,700

The annexed notes 1 to 31 form an integral part of these financial statements.


Chief Executive Officer

**For Arif Habib Investments Limited
(Management Company)**


Director

**MCB DYNAMIC CASH FUND
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012**

	Note	2012	2011
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year before taxation		605,727	591,541
Adjustments for non - cash charges and other items			
Income from government securities		(374,311)	(272,932)
Income from term finance certificates		(258,027)	(240,875)
Profit on bank deposits and term deposits receipts		(135,376)	(68,720)
Capital gain on sale of investments		(13,888)	(99,299)
Income from money market placements		(4,194)	(2,632)
Net unrealised (appreciation) / diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'		(17,826)	19,663
Amortisation of preliminary expenses and floatation costs		1,526	2,302
Element of loss / (income) and capital losses / (gains) included in the prices of units issued less those in units redeemed		(8,077)	31,486
		(204,446)	(39,466)
(Increase) / decrease in assets			
Investments - net		(425,597)	1,561,234
Other receivables		(9,250)	(2,726)
Security deposits and prepayments		189	346
		(434,658)	1,558,854
Increase / (decrease) in liabilities			
Payable to Management Company		3,750	(1,250)
Payable to Trustee		118	(154)
Annual fee payable to Securities and Exchange Commission of Pakistan		475	(2,316)
Accrued expenses and other liabilities		(275,020)	297,329
		(270,677)	293,609
		(909,781)	1,812,997
Mark-up received on term finance certificates		275,789	236,000
Profit received on bank deposits		117,924	67,280
Income received from money market placements		4,194	2,632
Income received from government securities		353,623	270,130
Net cash (used in)/generated from operating activities		(158,251)	2,389,039
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt from issue of units		6,459,559	4,969,477
Payment made on redemption of units		(5,331,582)	(6,466,109)
Cash distribution		(49,114)	(92,352)
Net cash generated from/(used in) operating activities		1,078,863	(1,588,984)
Net increase in cash and cash equivalents during the year		920,612	800,055
Cash and cash equivalents at the beginning of the year		2,250,955	1,450,900
Cash and cash equivalents at the end of the year	19.	3,171,567	2,250,955

The annexed notes 1 to 31 form an integral part of these financial statements.



Chief Executive Officer

**For Arif Habib Investments Limited
(Management Company)**



Director

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 MCB Dynamic Cash Fund (the Fund) was established under a Trust Deed dated, November 09, 2006, executed between MCB Asset Management Company Limited (now merged with and into Arif Habib Investments Limited) as the Management Company and Central Depository Company of Pakistan Limited as the Trustee. The Trust Deed was amended through a supplemental Trust Deed dated January 21, 2007. The Fund was approved by the Securities and Exchange Commission of Pakistan (SECP) as a Collective Investment Scheme under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 on December 12, 2006.
- 1.2 Based on shareholder's resolution of MCB Asset Management Company Limited and Arif Habib Investments Limited the two companies merged as of June 27, 2011 through operation of an order from the SECP issued under Section 282L of the Companies Ordinance 1984 (Order through letter no. SCD/NBFC-II/MCBAMCL & AHIL/271/2011 dated June 10, 2011). Arif Habib Investments Limited being a listed company is the surviving entity and in compliance of SBP's approval, it is a subsidiary of MCB Bank. However, subsequent to the completion of the merger, the SECP issued an order postponing the effective date of the merger to July 30, 2011 (through letter no. SCD/PR & DD/AMCW/MCB-AMCL & AHI/348/2011 dated June 27, 2011). Since the merger had already taken place and subsequent order of the SECP could not be complied with, the company has sought a ruling by the honorable Sindh High Court (SHC). The honorable Sindh High Court (SHC) has held the SECP's subsequent order in abeyance and instruct the SECP to treat the companies as merged pending the final ruling. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.
- 1.3 The Management Company of the Fund has been licensed to act as an Asset Management Company under the NBFC Rules through a certificate of registration issued by the SECP. The registered office of the Management Company is situated at 8th Floor, Techno City Corporate Tower, Hasrat Mohani Road, Karachi.
- 1.4 The Fund has been categorised as an open ended fixed income mutual fund and offers units for public subscription on a continuous basis. The units of the Fund are transferable and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.
- 1.5 The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM2 (positive outlook) dated May 8, 2012 to the Management Company and a rating of "A+(f)" dated March 20, 2012 to the Fund.
- 1.6 The Fund primarily invests in money market and other short-term instruments which includes short-term corporate debt and government securities, repurchase agreements and spread transactions. The Fund may also invest a portion of the fund in medium term assets in order to provide higher return to the unit holders.
- 1.7 Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as Trustee of the Fund.

2. STATEMENT OF COMPLIANCE

- 2.1 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 These financial statements comprise of statement of assets and liabilities, income statement, distribution statement, statement of movement in unit holders' fund and cash flow statement together with the notes forming part thereof.

2.3 *Standards / amendments / interpretations*

*Effective date (accounting periods
beginning on or after)*

<i>Amendment to IAS 1 - Presentation of Financial Statements</i>	<i>January 01, 2011</i>
<i>IAS 24 (as revised in 2009) - Related Party Disclosures</i>	<i>January 01, 2011</i>
<i>Amendment to IAS 34 - Interim Financial Reporting</i>	<i>January 01, 2011</i>
<i>Amendment to IFRS 7 - Disclosures - Transfer of Financial Assets</i>	<i>July 01, 2011</i>
<i>Amendment to IFRIC 13 - Customer Loyalty Programmes</i>	<i>January 01, 2011</i>
<i>Amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement</i>	<i>January 01, 2011</i>

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

2.4 Standards, interpretations and amendments to approved accounting standards not yet effective

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned against the respective standard or interpretation: -

<i>Standards / amendments / interpretations</i>	<i>Effective for annual periods beginning on or after</i>
<i>Amendments to IAS 1 - Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>	<i>July 01, 2012</i>
<i>Amendments to IAS 12 - Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>	<i>January 01, 2012</i>

The Fund expects that the adoption of the above standards and interpretations will not have any material impact on its financial statements in the period of initial application except for increase in disclosure requirement.

Further, the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of applicability in Pakistan.

Standards or interpretations

IFRS 1 – First Time Adoption of International Financial Reporting Standards

IFRS 9 – Financial Instruments

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 13 – Fair Value Measurement

IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11

IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non- adoption of IFRS 10 and IFRS 11

3. BASIS OF PREPARATION

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been marked to market and carried at fair value in accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial Instruments' : Recognition and Measurement'.

3.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its 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 area where various assumptions and estimates are significant to the Fund's financial statements or where judgment was exercised in application of accounting policies primarily related to classification and valuation of investments and impairment there against (note 4.1 and 4.5).

3.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the Fund's functional and presentation currency.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated:

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

4.1 Financial assets

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.

4.2 Regular way contracts

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

4.3 Initial recognition and measurement

a) Financial assets at fair value through profit or loss

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

b) Available for sale and loans and receivables

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

4.4 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 at fair values determined 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 categorizes 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 Market Association of Pakistan, except the Government of Pakistan Ijarah Sukuks, which are valued on the basis of rates announced by Reuters.

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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

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 derecognized or impaired. At this time, the cumulative gain or loss previously recognized directly in the 'statement of comprehensive income' is transferred to the 'income statement'.

Loans and receivables

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

4.5 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 recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized 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 the Management Company.

4.6 Derecognition

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

4.7 Offsetting of financial assets and liabilities

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

4.8 Financial liabilities

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

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

4.9 Issue and redemption of units

Units issued are recorded at the offer price of the day on which cleared funds are received in the Trustee bank accounts during business hours. The offer price represents the net asset value per unit as of the close of the business day.

Units redeemed are recorded at the redemption price announced as of the close of the business day on which a correctly filled-in redemption form is submitted within the business hours. The redemption price represents the net asset value per unit as of the close of the business day.

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

An equalization 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 Fund records that portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period which pertains to unrealized gains / (losses) that form part of the Unit Holders' Funds in a separate reserve account and any amount remaining in this reserve account at the end of an accounting period (whether gain or loss) is included in the amount available for distribution to the unit holders. The remaining portion of the net element of income / (loss) and capital gains / (losses) relating to units issued and redeemed during an accounting period is recognized in the Income Statement.

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

4.11 Proposed distributions

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

4.12 Provisions

Provisions are recognized 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.

4.13 Earnings per unit

Earnings per unit (EPU) has not been disclosed as in the opinion of the management determination of weighted average units for calculating EPU is not practicable.

4.14 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 realized or unrealized 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 unutilized tax losses to the extent that it is no longer probable that the related tax benefit will be realized. However, the Fund has not recognized 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 realized or unrealized, to its unit holders every year.

4.15 Preliminary expenses and floatation costs

Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. These costs are being amortized over a period of five years commencing from March 1, 2007, in accordance with the requirements set out in the Trust Deed of the Fund.

4.16 Revenue recognition

- Realized capital gains / (losses) arising on sale of investments are included in the Income Statement on the date at which the transaction takes place.
- Unrealized gains / (losses) arising on mark 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 recognized when the right to receive dividend is established i.e. on the date of book closure of the investee company / institution declaring the dividend.
- Income from government securities is recognized using the effective interest method.
- Profit on investments is recognized on an accrual basis.
- Profit on bank deposits is recognized on an accrual basis.

4.17 Cash and cash equivalents

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

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

4.18 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognized in the Income Statement within the fair value net gain or loss.

4.19 Derivatives

Derivative instruments are initially recognized at fair value and subsequent to initial measurement each derivative instrument is remeasured to its fair value and the resultant gain or loss is recognized in the income statement.

4.20 Securities under repurchase / resale agreements

Transactions of purchase under an agreement for resale (reverse-repo) of marketable and government securities, including the securities purchased under continuous funding system, are entered into at contracted rates for specified periods of time. Securities purchased with a corresponding commitment to resell at a specified future date (reverse-repo) are not recognized in the statement of assets and liabilities. Amount paid under these agreements are included as receivable in respect of reverse repurchase transactions / against continuous funding system transactions. The difference between purchase and resale price is treated as income from reverse repurchase transactions / continuous funding system and accrued over the life of the reverse-repo agreement.

All reverse repo / marginal trading system transactions are accounted for on the settlement date.

4.21 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates. The financial statements are presented in Pakistani Rupees, which is the Fund's functional and presentation currency.

4.22 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.

	Note	2012 Rupees in '000	2011
5. BALANCES WITH BANKS			
In deposit accounts	5.1	<u>2,147,211</u>	<u>2,124,800</u>
5.1 These carry mark-up at rates ranging between 5% to 13.5% per annum (2011: 5% to 13.9% per annum).			
6. INVESTMENTS			
Financial assets at fair value through profit or loss			
Government securities	6.1	1,583,254	1,747,639
Listed debt securities	6.2	1,042,732	737,485
Unlisted debt securities	6.3	879,131	664,481
		3,505,117	3,149,605
Loans and receivables	6.4	1,000,000	-
		<u>4,505,117</u>	<u>3,149,605</u>

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

6.1 Government securities

Name of investee company	Face Value					Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2011	Purchased during the year	Disposed during the year	Matured during the year	As at June 30, 2012	Carrying Value	Market value	Diminution		
Treasury Bills - 1 year	-	4,213,000	3,613,000	600,000	-	-	-	-	-	-
Treasury Bills - 6 months	86,000	7,895,000	3,366,000	4,615,000	-	-	-	-	0.00%	0.00%
Treasury Bills - 3 months	129,000	10,405,000	7,432,000	3,077,000	25,000	24,357	24,356	(1)	0.36%	0.54%
National Saving Bonds	99,900	-	10,000	-	89,900	89,900	89,900	-	1.34%	2.00%
Pakistan Investment Bonds -10 years	50,000	475,000	525,000	-	-	-	-	-	0.00%	0.00%
Pakistan Investment Bonds -05 years	-	902,700	850,000	-	52,700	51,501	51,289	(212)	-	1.14%
Pakistan Investment Bonds -03 years	25,000	1,075,000	1,075,000	25,000	-	-	-	-	0.00%	0.00%
GoP Ijara Sukuk Certificate -03 years	1,360,000	1,237,000	1,180,000	-	1,417,000	1,425,830	1,417,709	(8,121)	21.17%	31.47%
Total	1,749,900	26,202,700	18,051,000	8,317,000	1,584,600	1,591,588	1,583,254	(8,334)	22.88%	35.14%

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

	2012	2011
	(Rupees in '000)	
6.2 Listed debt securities	1,052,246	737,485
Less: Provision charged during the year	6.2.1	
Saudi Pak Leasing Company Limited	9,514	-
	<u>1,042,732</u>	<u>737,485</u>

Less: Provision charged during the year
Saudi Pak Leasing Company Limited

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

6.2.1 Listed debt securities - term finance certificates

Certificates have a face value of Rs 5,000 each unless stated otherwise in 6.3.5

Name of investee company	Number of Certificates				Balance as at June 30, 2012			Market value as a percentage of total investment
	As at July 1, 2011	Purchased during the year	Disposed during the year	As at June 30, 2012	Carrying value	Market value	Appreciation / (diminution)	
-----Rupees in '000-----								
Commercial banks								
Allied Bank Ltd (December 6, 2006, issue)	11,800	-	-	11,800	60,157	59,407	(750)	0.89%
Allied Bank Ltd (August 28, 2009, issue)	-	10,000	-	10,000	49,575	50,366	791	0.75%
Askari Bank Ltd -I (February 4, 2005, issue)	12,550	875	-	13,405	67,036	66,825	(211)	1.00%
Askari Bank Ltd -III (November 18, 2009, issue)	23,000	-	-	23,000	118,831	121,491	2,660	1.81%
Faysal Bank Limited TFC - I (November 12, 2007)	7,515	-	-	7,515	37,896	37,769	(127)	0.56%
NIB Bank Limited (March 05, 2008)	14,176	29,632	-	43,808	214,058	217,706	3,648	3.25%
Faysal Bank (formerly Royal Bank of Scotland February 10, 2005)	300	-	-	300	382	376	(6)	0.01%
Sonnet Bank Limited (May 05, 2005)	4,000	50	-	4,050	9,782	10,092	310	0.15%
United Bank Limited -I (September 08, 2006, issue)	15,000	-	-	15,000	63,307	61,946	(1,361)	0.93%
United Bank Limited -TFC (August 10, 2004)	3,100	-	-	3,100	4,342	5,078	736	0.08%
United Bank Ltd TFC - IV (February 14, 2008, issue)	51,761	30,247	3,000	79,008	391,043	397,760	6,717	5.94%
Fertilizer								
Engro Chemical Pakistan Ltd - 111 (November 30, 2007, issue)	162	-	-	162	779	801	22	0.01%
Leasing Companies								
Saudi Pak Leasing Company Limited (March 13, 2010)	10,000	-	-	10,000	20,604	22,629	2,025	0.34%
Total - 2012	153,344	70,804	3,000	221,148	1,037,792	1,052,246	14,454	15.7%
Total - 2011					715,337	737,485	22,148	14.69%

6.2.2 Saudi Pak Leasing Company Limited, has started defaulting in Principal repayments since October 2011. The Fund has recognized a provision against the amount of redemption receivable, not received since the date of default. Total amount of Rs. 3,443 million has been setoff against the redemption receivable. The Board of directors has also approved a discretionary provision amounting to Rs. 6,071 million against the principal amount outstanding as on June 30, 2012. The total provision for the period amounts to Rs. 9,514 million.

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	Note	2012 (Rupees in '000)	2011
6.3 Unlisted debt securities	6.3.1	1,010,424	728,357
Less: Provison as on July 1			
New Allied Electronics Industries (Private) Limited		57,571	-
Security Leasing Corporation Limited -Sukuk Bonds	6.3.2	6,305	-
		63,876	-
Less: Provison charged during the year			
New Allied Electronics Industries (Priavte) Limited		-	60,487
Security Leasing Corporation Limited - Sukuk Bonds	6.3.3	5,229	6,305
Security Leasing Corporation Limited - Term Finance Certificates	6.3.3	5,075	-
Maple Leaf Cement Factory Limited II	6.3.4	13,310	-
Maple Leaf Cement Factory Limited - sukuk bonds	6.3.5	50,279	68,504
		73,893	135,296
Add: Reversal of provision during the year			
Security Leasing Corporation Limited - Sukkuk Bonds		6,305	71,420
New Allied Electronics Industries (Private) Limited		171	-
		879,131	664,481
Movement in provision against debt securities			
Opening balance		63,876	128,642
Charge for the year			
Listed debt securities		9,514	6,845
Unlisted debt securities		73,893	-
		83,407	6,845
Less: Reversal of provision		6,476	71,611
Charge for the year - net		76,931	(64,766)
Closing balance		140,807	63,876

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

6.3.1 Unlisted debt securities - term finance certificates and other securities
Certificates have a face value of Rs 5,000 each unless stated otherwise in 6.3.5

Name of investee company	Number of Certificates				Balance as at June 30, 2012			Market value as a percentage of net assets of net assets	Market value as a percentage of total investment
	As at July 1, 2011	Purchased during the year	Disposed/ matured during the year	As at June 30, 2012	Carrying value	Market value	Appreciation / (diminution)		
Askari Bank Ltd - II (October 31, 2005)	6,980	-	-	6,980	35,228	34,913	(315)	0.52%	0.77%
Askari Bank Limited IV (PPTFC)	-	100	5	95	94,981	98,018	3,037	1.46%	2.18%
Bank Alfalah Limited-IV (December 2, 2009)	11,500	-	3,000	8,500	43,052	44,792	1,740	0.67%	0.99%
Bank Alfalah Limited -II (November 23, 2004, issue)	22,079	-	10,000	12,079	20,497	20,165	(332)	0.30%	0.45%
Bank Alfalah Limited-IV (December 2, 2009) Fixed	-	18,700	-	18,700	95,676	97,837	2,161	1.46%	2.17%
Engro Chemical Pakistan Limited- Perpetual TFC - IV (March 18, 2008)	2,419	-	-	2,419	11,369	11,502	133	0.17%	0.26%
Jahangir Siddiqui Company Ltd-V (July 04, 2007)	24,000	-	-	24,000	119,899	119,293	(606)	1.78%	2.65%
JDW Sugar Mills Ltd-PPTFCs (June 23, 2008)	15,000	-	-	15,000	31,323	33,084	1,761	0.49%	0.73%
Maple Leaf Cement Factory Limited -I (December 03, 2009)	71,000	-	-	71,000	216,507	216,796	289	3.24%	4.81%
Maple Leaf Cement Factory Limited -II (March 31, 2010)	2,662	-	-	2,662	13,310	13,310	-	0.20%	0.30%
New Allied Electronics Industries (Pvt) Ltd (May 15, 2007)	10,400	-	-	10,400	22,337	22,337	-	0.33%	0.50%
New Allied Electronics Industries (Pvt) Ltd -Sukuk 1 (July 25, 2007)	112,000	-	-	112,000	35,063	35,063	-	0.52%	0.78%
Security Leasing Corporation Limited -PPTFC (March 28, 2010)	10,000	-	-	10,000	5,598	7,044	1,446	0.11%	0.16%
Security Leasing Corporation Limited -Sukuk (March 18, 2010)	5,000	-	-	5,000	3,878	6,270	2,392	0.09%	0.14%
Standard Chartered Bank (Pak) Limited (February 01, 2006)	10,000	-	10,000	-	-	-	-	0.00%	0.00%
Standard Chartered Bank Pakistan Limited PPTFC	-	50,000	-	50,000	250,000	250,000	-	3.73%	5.55%
Total - 2012	303,040	68,800	23,005	348,835	998,718	1,010,424	11,706	15%	22%
Total - 2011		770,885			728,357		(42,528)	14.51%	23.13%

* Carrying value before provision. Provision details are specified in note 6.1.3.

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

- 6.3.2 The terms of repayment of Security Leasing company Limited TFCs and Sukuks were restructured in March 2011, after which it started making regular repayments. However, since March 2012, it started making part payments against the redemption amount receivable as per the Redemption Schedule. Therefore, the fund started to set off the deficit amount not received from March 2012 to June 2012. The Board of directors has also approved a discretionary Provision of Rs. 3.75 million each against principal amount outstanding on both Sukuk Bonds and the Term Finance Certificates as on June 30, 2012. The total provision against the securities during the year ended June 30, 2012 amounts to Rs. 10.304 million.
- 6.3.3 Maple Leaf Cement Factory Limited Sukuk-II due to be fully redeemed on March 31, 2012. However, the issuer defaulted on the entire repayment. The Fund has, therefore, set off the entire amount receivable on redemption, which amounted to Rs. 13.310 million.
- 6.3.4 Maple Leaf Cement Factory Limited defaulted in Profit payments in September 2011 and has not been paying the profit amounts since then. The Fund has suspended income accrued over the year amounting to Rs. 37.78 Million. Moreover, the Board of Directors has also approved a discretionary Provision of Rs. 50.279 million against principal amount outstanding as on June 30, 2012.
- 6.3.5 Significant terms and conditions of term finance certificates and other securities outstanding at the year end are as follows:

Name of security	Number of certificates	Face Value	Unredeemed Face value / Redemption value (Rupees)	Mark-up rate (Per annum)	Maturity	Secured / unsecured	Rating
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Listed debt securities

Allied Bank Ltd - I	11,800	5,000	4,989	6 month KIBOR+1.9%	December 6, 2014	Unsecured	AA-
Askari Bank Ltd - I	13,405	5,000	4,986	6 month KIBOR+1.5%	February 4, 2013	Unsecured	AA-
Askari Bank Ltd-III	23,000	5,000	4,995	6 month KIBOR+2.5%	November 18, 2019	Unsecured	AA-
Faysal Bank Limited TFC - 1	7,515	5,000	4,991	6 month KIBOR+1.4%	November 12, 2014	Unsecured	AA-
NIB Bank Limited	43,808	5,000	4,992	6 month KIBOR+1.15%	March 5, 2016	Unsecured	A+
Faysal Bank Ltd (formerly Royal Bank of Scotland)	300	5,000	1,248	6 month KIBOR+1.9%	February 10, 2013	Unsecured	AA-
Soneri Bank Limited	4,050	5,000	2,494	6 month KIBOR+1.6%	May 5, 2013	Unsecured	A+
United Bank Limited -TFC	15,000	5,000	4,158	6 month KIBOR+1.7%	September 8, 2014	Unsecured	AA
United Bank Limited -TFC I	3,100	5,000	4,988	8.45%	August 10, 2012	Unsecured	AA
United Bank Ltd TFC - IV	79,008	5,000	4,994	6 month KIBOR+0.85%	February 14, 2018	Unsecured	AA
Engro Chemical Pakistan Ltd - 111	162	5,000	4,993	6 month KIBOR+1.55%	November 30, 2015	Secured	AA
Saudi Pak Leasing Company Limited	10,000	5,000	2,967	6.00%	March 13, 2017	Secured	*NPDS
Allied Bank Limited - II	10,000	5,000	4,995	6 month KIBOR+0.85%	August 28, 2019	Secured	AA-

Unlisted debt securities

Bank AlFalah Limited-IV (June 15, 2009)	8,500	5,000	4,995	6 month KIBOR+2.5%	December 2, 2017	Unsecured	AA-
Engro Perpetual TFC - IV	2,419	5,000	5,000	6 month KIBOR+1.7%	March 18, 2018	Secured	AA
Jahangir Siddiqui Company Ltd-V	24,000	5,000	4,991	6 month KIBOR+1.7%	July 4, 2013	Secured	AA
JDW Sugar Mills Ltd-PPTFCs	15,000	5,000	2,222	3 month KIBOR+1.25%	June 23, 2014	Secured	A
Maple I	71,000	5,000	4,989	3 month KIBOR+1.0%	December 3, 2018	Secured	*NPDS
Maple-II	2,662	5,000	5,000	3 month KIBOR+1.0%	March 31, 2012	Secured	*NPDS
Security Leasing-PPTFC	10,000	5,000	820.38	-	March 28, 2014	Secured	*NPDS
Security Leasing-SUKUK	5,000	5,000	1,367	-	March 18, 2014	Secured	*NPDS
Askari Bank Limited II	6,980	5,000	4,987	3 month KIBOR+1.5%	October 31, 2013	Unsecured	AA-
Bank AlFalah Limited - TFC II	12,079	5,000	1,663	6 month KIBOR+1.5%	November 23, 2012	Unsecured	AA-
Bank AlFalah Ltd -IV (Fixed)	18,700	5,000	4,995	15%	December 2, 2017	Unsecured	AA-
Askari Bank Limited IV (PPTFC)	95	1,000,000	999,800	6 month KIBOR+1.75%	December 23, 2021	Unsecured	AA-
Standard Chartered PPTFC	50,000	5,000	5,000	6 month KIBOR+0.75%	June 29, 2022	Unsecured	Rating not yet available

*NPDS represents Non performing debt securities

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

MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 (Rupees in '000)	2011
6.3.6 Net unrealised diminution on re-measurement of investments classified as financial 'assets at fair value through profit or loss'			
Carrying value of investments	6.1, 6.2.1 & 6.3.1	3,628,098	3,233,144
Market value of investments	6.1, 6.2.1 & 6.3.1	3,645,924	3,213,481
		<u>17,826</u>	<u>(19,663)</u>

6.4 Loans and receivables

Particulars	Profit / mark-up rate	Maturity date	Closing balance as at June 30, 2012	Value as a percentage of net assets	Value as percentage of investments
(Rupees in '000)					
Term deposit receipts	12.15%	6-Jul-12	900,000	13.44	19.98
Term deposit receipts	12.40%	18-Jul-12	100,000	1.49	2.22
Total - 2012			<u>1,000,000</u>	<u>14.93</u>	<u>22.20</u>
Total - 2011			<u>-</u>	<u>-</u>	<u>-</u>

	2012 (Rupees in '000)	2011
7. PROFIT AND OTHER RECEIVABLES		
Profit on term deposits	16,885	-
Profit on savings deposits	4,916	4,349
Income accrued on term finance certificates	52,157	69,919
Income accrued on government securities	28,724	8,036
Others	12,532	3,282
	<u>115,214</u>	<u>85,586</u>

8. SECURITY DEPOSITS AND PREPAYMENTS

Security deposits with		
- National Clearing Company of Pakistan Limited	3,000	3,000
- Central Depository Company of Pakistan Limited	200	200
Prepayments	99	288
	<u>3,299</u>	<u>3,488</u>

9. PRELIMINARY EXPENSES AND FLOATATION COSTS

Preliminary expenses and floatation costs incurred	1,526	3,828
Less: amortization	1,526	2,302
Closing balance	-	1,526

10. PAYABLE TO MANAGEMENT COMPANY

	Note	2012 (Rupees in '000)	2011
Management fee	10.1	<u>9,530</u>	<u>5,780</u>

10.1 Under the provisions of the Non-Banking Finance Companies and 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. In the current year, the Management Company has charged remuneration at a rate of 1.5 percent.

10.2 During the year, the provincial government has levied General Sales Tax at the rate of 16% on the remuneration of the Management Company through Sindh Sales Tax on Services Act 2011 effective from July 01, 2011.

	Note	2012 (Rupees in '000)	2011
11. PAYABLE TO TRUSTEE			
Remuneration payable	11.1	<u>515</u>	<u>397</u>

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

- 11.1** The Trustee, Central Depository Company of Pakistan Limited is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering Documents as per the tariff specified therein, based on the daily net asset value of the Fund. As per the Trust Deed and Offering Document the tariff structure applicable to the Fund in respect of trustee fee is as follows:

Tariff applicable from July 1, 2011 to June 30, 2012.

Amount of funds under management (average NAV)	Tariff per annum
Upto Rs 1,000 million	Rs 0.6 million or 0.17% per annum of NAV, whichever is higher
Rs 1,000 million to 5,000 million	Rs 1.7 million plus 0.085% per annum of NAV, exceeding Rs 1,000 million
On an amount exceeding Rs 5,000 million	Rs 5.1 million plus 0.07% per annum of NAV, exceeding Rs 5,000 million.

The remuneration is paid to the Trustee monthly in arrears.

12. ANNUAL FEE PAYABLE TO THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Under the provisions of the NBFC Regulations, the Fund is required to pay as an annual fee to the SECP, an amount equal to 0.075 percent of the average annual net assets of the Fund.

	Note	2012 (Rupees in '000)	2011
13. ACCRUED EXPENSES AND OTHER LIABILITIES			
Auditors' remuneration		570	470
Withholding tax		56	18
Sales Load		641	6,378
Dividend		-	12,315
Provision for Workers' Welfare Fund	16.	58,404	46,042
Advance received for issuance of Units		-	269,460
Others		524	532
		60,195	335,215

14. CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2012

	2012 (Rupees in '000)	2011
15. AUDITOR'S REMUNERATION		
Annual audit fee	320	320
Half yearly review fee	180	180
Other certifications	450	450
Out of pocket expenses	88	50
	1,038	1,000

16. PROVISION FOR WORKERS' WELFARE FUND

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

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

Subsequent to the year ended June 30, 2010, the Ministry of Labour and Manpower (the Ministry), vide its letter dated July 15, 2010 clarified that mutual funds are not liable to contribute to WWF on the basis of their income. However on December 14, 2010 the Ministry filed its response against the Constitutional petition requesting the court to dismiss the petition. According to the legal council who is handling the case, there is a contradiction between the aforementioned clarification issued by the Ministry and the response filed by the Ministry in Court.

Subsequent to the year ended 30 June 2011, the Honourable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional and struck them down. 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. Considering the unit holding structure of the funds, concentrated on few large ticket investors, coupled with the recent changes in Tax Laws, the Management Company as a matter of abundant precaution has decided to charge the provision for WWF, amounting to Rs 58.404 million (including Rs. 12.362 million for the current year) in these financial statements in order to protect the interest of small investor/unitholders.

The scheme has maintained provisions against Workers Welfare Fund Liability to the tune of Rs. 58.404 million, if the same were not made the NAV per unit/return would have been higher by Rs. 0.88/0.865%.

17. TAXATION

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

18. COMPLIANCE WITH THE INVESTMENT CRITERIA AS SPECIFIED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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. MCB Asset Management Company Limited (Management Company) now merged with and into Arif Habib Investments Limited, classified MCB Cash 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 investment grade. The following investments were held by the fund which were in the non- investment grade:

Category of non-compliant investment	Type of Investment / Name of Company	Value of investment before provision	Provision held, if any	Value of investment after provision	Percentage of net assets	Percentage of gross assets
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-----Rupees in '000'-----

Investment in Debt securities (note 17.1):

a) Maple Leaf Cement Factory Limited -Sukuk	216,796	50,279	166,517	2.49%	2.46%
b) Maple Leaf Cement Factory Limited -Sukuk II	13,310	13,310	-	-	-
c) New Allied Electronics Industries (Pvt) Ltd. -TFC	22,337	22,337	-	-	-
d) New Allied Electronics Industries (Pvt) Ltd. -Sukuk	35,234	35,234	-	-	-
e) Security Leasing Corporation Limited -Sukuk	6,270	3,750	2,520	0.04%	0.04%
f) Security Leasing Corporation Limited -PPTFC	7,044	3,750	3,294	0.05%	0.05%
g) Saudi Pak Leasing Company Limited	22,629	6,071	16,558	0.25%	0.24%

18.1 At the time of purchase the TFCs and Sukuks were in compliance with the aforementioned circular. They subsequently defaulted or were downgraded to non investment grade.

2012 2011
(Rupees in '000)

19. CASH AND CASH EQUIVALENTS

Balances with banks	2,147,211	2,124,800
Term deposit receipts	1,000,000	-
Treasury bills due within 3 months	24,356	126,155
	<u>3,171,567</u>	<u>2,250,955</u>

MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

20. TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

Connected persons of the Fund include the Management Company, other collective investment schemes being managed by the Management Company, the Trustee, directors and key management personnel and other associated undertakings.

The transactions with connected persons are in the normal course of business and at contracted rates.

Remuneration payable to the Management Company and the Trustee is determined in accordance with the provisions of the Non-Banking Finance Companies & Notified Entities Regulations, 2008 and the Trust Deed respectively.

20.1	Details of transactions with connected persons are as follows:	2012	2011
		(Rupees in '000)	
	MCB Bank Limited		
	Profit on deposit accounts	42,717	4,337
	Distribution of Nil bonus units (2011: 79,821 units)	-	8,062
	Redemption of Nil units (2011: 3,412,051 units)	-	346,553
	Bank charges	158	16
	MCB Asset Management Company Limited (now merged with and into Arif Habib Investments Limited)		
	Remuneration of management company	87,740	78,255
	Issuance of 3,123,190 units (2011: Nil units)	323,785	-
	Redemption of 1,613,249 units (2011: 970,133 units)	165,000	100,000
	Distribution of 285,471 bonus units (2011: 355,979 units)	28,852	36,125
	MCB Employees Provident Fund		
	Distribution of 81,919 bonus units (2010: 101,217 units)	8,279	10,268
	MCB Employees Pension Fund		
	Distribution of 81,919 bonus units (2010: 101,217 units)	8,279	10,268
	Central Depository Company of Pakistan Limited		
	Remuneration and settlement charges for the year	5,694	5,803
	Adamjee Insurance Company Limited		
	Issuance of 7,477,938 units (2011: 3,606,620 units)	777,286	-
	Redemption of 6,383,058 units (2011: 4,590,244 units)	652,546	465,964
	Distribution of 824,098 bonus units (2011: 971,150 units)	83,288	-
	Adamjee Insurance Company Limited - Employees Provident Fund		
	Redemption of Nil units (2010: 178,077 units)	-	-
	Distribution of Nil bonus units (2010: 4,166 units)	-	-
	D.G Khan Cement Company Limited Employees Provident Fund Trust		
	Distribution of 246 bonus units (2011: 304 units)	25	31
	MCB Asset Management Company Staff Provident Fund		
	Distribution of 1,435 bonus units (2011: 1,772 units)	145	180
	Adamjee Life Assurance Company Limited		
	Distribution of 1,413 bonus units (2011: 72,807 units)	143	7,379
	Key management personnel		
	Issuance of 14,988 units (2011: 37,972 units)	1,570	3,885
	Redemption of 16,467 units (2011: 25,697 units)	1,685	2,654
	Distribution of 6,842 bonus units (2011: 7,363 units)	7	747

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	2012	2011
	(Rupees in '000)	
20.2 Amount outstanding as at year end		
MCB Bank Limited		
Bank balance	43,142	571,205
Profit receivable on deposit accounts	675	1,535
MCB Asset Management Company Limited (now merged with and into Arif Habib Investments Limited)		
Remuneration payable to management company	9,530	5,780
3,716,139 units held as at June 30, 2012 (2011: 1,920,728)	376,907	194,617
Adamjee Insurance Company Limited		
8,914,091 units held as at June 30, 2012 (2011: 6,995,112 units)	904,106	708,778
MCB Employees Provident Fund		
849,582 units held as at June 30, 2012 (June 2011: 767,663)	86,168	77,783
MCB Employees Pension Fund		
849,582 units held as at June 30, 2012 (June 2011: 767,663)	86,168	77,783
MCB Asset Management Company Staff Provident Fund		
14,879 units held as at June 30, 2012 (June 2011: 13,444 units)	1,509	1,362
D.G Khan Cement Company Limited Employees Provident Fund Trust		
2,556 units held as at June 30, 2012 (2011: 2,309 units)	259	234
Adamjee Life Assurance Company Limited		
14,652 units held as at June 30, 2012 (2011: 20,893 units)	14,652	2,117
Key management personnel		
67,583 units held as at June 30, 2012 (2011: 61,907)	6,855	6,273
Central Depository Company of Pakistan Limited		
Security Deposit	200	200
Remuneration and settlement charges payable	515	397

21. PARTICULARS OF INVESTMENT COMMITTEE AND FUND MANAGER

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

----- 2012 -----		
Designation	Experience in years	Qualification
1 Mr. Yasir Qadri	Chief Executive	17
2 Mr. Kashif Rafi	Senior Vice President Investments	11
3 Mr. Muhammad Asim	Vice President-Head of Equities	9
4 Mr. Syed Akbar Ali	Vice President-Head of Research	7
5 Mr. Mohsin Pervez	Vice President-Investments	11

MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

21.2 Mr. Kashif Rafi is the Fund Manager. He is also the Fund Manager of MCB Cash Management Optimizer and MCB Dynamic Allocation Fund.

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

	2012
	(Percentage)
1 BMA Capital Management Company Limited	31.29
2 Invest Capital and Securities (Pvt) Limited	23.43
3 Investment and Finance Securities Pakistan (Pvt) Limited	11.33
4 JS Global Capital Limited	8.77
5 C&M Capital Management (Pvt) Limited	5.42
6 KASB Securities Limited	5.25
7 Alfalah Securities (Pvt) Limited	4.68
8 Invest one markets Limited	3.59
9 Pearl Securities (Pvt) Limited	3.38
10 Invisor Securities (Pvt) Limited	0.69
	2011
	(Percentage)
1 Jahangir Siddiqui Capital Markets Limited	23.08
2 BMA Capital Management Company Limited	21.41
3 KASB Securities Limited	12.14
4 IGI Finex Securities Limited	11.72
5 Investment and Finance Securities Pakistan (Pvt) Limited	11.16
6 Invest Capital and Securities (Pvt) Limited	10.05
7 Invisor Securities (Pvt) Limited	5.80
8 Global Securities Pakistan Limited	1.91
9 Elixir Securities Pakistan (Pvt) Limited	1.83
10 Atlas Capital Markets (Pvt) Limited	0.91

23. PATTERN OF UNIT HOLDINGS

-----June 30, 2012-----				
Category	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
Rupees '000'				
Individuals	3,352	39,376,642	3,994,648	59.66%
Associated companies / Directors	6	5,503,354	558,300	8.34%
Insurance companies	2	8,925,867	905,504	13.52%
Banks / DFIs	8	6,188,911	627,847	9.38%
NBFCs	1	1,054,257	106,951	1.60%
Retirement funds	39	1,430,744	145,145	2.17%
Public limited companies	39	3,436,681	348,641	5.21%
Others	3	90,454	9,176	0.14%
	3,450	66,006,910	6,696,213	100%

-----June 30, 2011-----				
Category	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
Rupees '000'				
Individuals	2,406	28,032,965	2,840,433	27.53%
Associated companies / Directors	14	10,708,358	1,085,021	26.79%
Insurance companies	-	-	-	2.25%
Banks / DFIs	2	5,076,904	514,416	20.94%
NBFCs	-	-	-	0.00%
Retirement funds	43	1,905,250	193,049	4.97%
Public limited companies	29	3,729,270	377,867	10.22%
Others	1	87,970	8,914	7.30%
	2,495	49,540,717	5,019,700	100%

MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

24. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 89th, 90th, 91st, 92nd, 93rd, 94th, 95th, 96th and 97th Board meetings were held on July 04, August 08, September 10, September 22, October 26, 2011, January 27, March 29, April 27 and June 25, 2012, respectively. Information in respect of attendance by Directors in the meetings is given below:

Name of persons attending the meetings	No. of meetings held	Number of Meetings			Meeting not attended
		Attendance required	Attended	Leave granted	
1 Mr. Mian Mohammad Mansha	9	9	4	5	89th, 90th, 93rd, 96th and 97th meeting
2 Mr. Nasim Beg	9	9	9	-	-
3 Mr. Yasir Qadri (Chief Executive Officer)	9	9	9	-	-
4 Dr. Syed Salman Ali Shah	9	9	8	1	92nd meeting
5 Mr. Haroun Rashid	9	9	6	3	91st, 92nd and 95th meeting
6 Mr. Ahmed Jahangir	9	9	7	2	91st and 92nd meeting
7 Mr. Samad A. Habib	9	9	6	3	89th, 91st and 96th meeting
8 Mr. Mirza Mehmood Ahmed	9	9	7	2	89th and 97th meeting
9 Mr. Saqib Saleem (CFO & Company Secretary)	9	9	9	-	-

25. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and Receivables	Assets at fair value through profit and loss	Total
(Rupees in '000)			
Assets			
Balances with banks	2,147,211	-	2,147,211
Investments	1,000,000	3,505,117	4,505,117
Profit and receivables	115,214	-	115,214
Security deposits	3,200	-	3,200
	<u>3,265,625</u>	<u>3,505,117</u>	<u>6,770,742</u>
	Liabilities at fair value through profit and loss	Other financial liabilities	Total
(Rupees in '000)			
Liabilities			
Payable to Management Company	-	9,530	9,530
Payable to Trustee	-	515	515
Annual fee payable to the Securities and Exchange Commission	-	4,388	4,388
Accrued expenses and other liabilities	-	60,195	60,195
	-	<u>74,628</u>	<u>74,628</u>

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	Loans and Receivables	Assets at fair value through profit and loss	Total
(Rupees in '000)			
Assets			
Balances with banks	2,124,800	-	2,124,800
Investments	-	3,149,605	3,149,605
Profit and other receivables	85,586	-	85,586
Security deposits	3,200	-	3,200
	<u>2,213,586</u>	<u>3,149,605</u>	<u>5,363,191</u>
Liabilities at fair			
	value through profit and loss	Other financial liabilities	Total
(Rupees in '000)			
Liabilities			
Payable to Management Company	-	5,780	5,780
Payable to Trustee	-	397	397
Annual fee payable to the Securities and Exchange Commission	-	-	-
Accrued expenses and other liabilities	-	289,173	289,173
	<u>-</u>	<u>295,350</u>	<u>295,350</u>

26. FINANCIAL RISK MANAGEMENT

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

26.1 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result 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.

26.1.1 Currency risk

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

26.1.2 Interest rate risk

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

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing term finance certificates and sukuks exposing the Fund to cash flow interest rate risk. In case of 100 basis points increase / decrease in KIBOR on the last repricing date of these term finance certificates and sukuks, with all other variables held constant, the net assets of the Fund and net income for the year would have been higher / lower by Rs 3.705 million (2011: 5.140 million).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2012, the Fund holds Treasury bills, Pakistan Investment Bonds and Government of Pakistan Ijara Sukuk which are classified as at fair value through profit or loss exposing the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Market Association of Pakistan (FMAP) on June 30, 2012, with all other variables held constant, the net income for the year and net assets would be

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

lower by Rs 0.054 million (2011: Rs 0.269 million) and Rs.1.439 million (2011:Rs 0.344 million) respectively. In case of 100 basis points decrease in rates announced by FMAP on June 30, 2012, with all other variables held constant, the net income for the year and net assets would be higher by Rs 0.051 million (2011: Rs 0.270 million) and Rs. 1.05 million(2011:Rs 0.348 million) respectively.

The composition of the Fund's investment portfolio, KIBOR rates and rates announced by FMAP is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2012 is not necessarily indicative of the impact on the Fund's net assets of 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.

-----June 30, 2012-----					
Yield / effective interest rate (%)	Total	Exposed to Yield/ Interest rate risk			Not exposed to yield / interest risk
		Upto three months	More than three months and upto one year	More than one year	
-----Rupees in '000 -----					
On-balance sheet financial instruments					
Financial Assets					
Balances with banks	5.00 - 13.9	2,147,211	2,147,211	-	-
Investments					
Financial assets at fair value through profit or loss - net					
- Listed debt securities	6.00-16.06	1,042,732	1,042,732	-	-
- Unlisted debt securities	12.79-16.24	879,131	879,131	-	-
- Government securities	11.5-12.50	1,583,254	1,583,254	-	-
Loans and Receivables					
-Term Deposit Receipts	12.15-12.40	1,000,000	1,000,000	-	-
Dividend and other receivables		115,214	-	-	115,214
Security deposits		3,200	-	-	3,200
		6,770,742	6,652,328	-	118,414
Financial Liabilities					
Payable to Management Company		9,530	-	-	9,530
Payable to Trustee		515	-	-	515
Accrued and other liabilities		1,735	-	-	1,735
		11,780	-	-	11,780
On-balance sheet gap		6,758,962	6,652,328	-	106,634
Off-balance sheet financial instruments					
		-	-	-	-

-----June 30, 2011-----					
Yield / effective interest rate (%)	Total	Exposed to Yield/Interest rate risk			Not exposed to yield / interest risk
		Upto three months	More than three months and upto one year	More than one year	
-----Rupees in '000 -----					
On-balance sheet financial instruments					
Financial Assets					
Balances with banks	5.00 - 13.9	2,124,800	2,124,800	-	-
Investments					
Financial assets at fair value through profit or loss - net					
- Listed debt securities	6.00-16.06	737,485	737,485	-	-
- Unlisted debt securities	6.00-16.24	664,481	664,481	-	-
- Government securities	12.57-13.77	1,747,639	1,747,639	-	-
Loans and receivables					
- Term deposit receipts	12.5-12.6	-	-	-	-
Dividend and other receivables		85,586	-	85,586	-
Security deposits		3,200	-	3,200	-
		5,363,191	5,274,405	88,786	-
Financial Liabilities					
Payable to Management Company		5,780	-	5,780	-
Payable to Trustee		397	-	397	-
Accrued and other liabilities		289,155	-	289,155	-
		295,332	-	295,332	-
On-balance sheet gap		5,067,859	5,274,405	(206,546)	-
Off-balance sheet financial instruments					
		-	-	-	-

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

26.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The fund is exposed to Price risk because of Term Finance Certificates (TFCs) held by it and classified as 'Fair value through Profit and Loss'.

In case of a decrease in price as a result of 1% increase in effective yield as on June 30, 2012, the net assets of the Fund would decrease by Rs. 28.895 million, as a result of reduction/increase in Unrealized Gains/(losses). In case of an increase in price of TFCs as a result of 1% decrease in effective yield the net assets of the fund would increase by Rs. 55.794 million as a result of increase/(reduction) in unrealized gains/(losses) on TFCs classified at 'Fair Value through Profit and Loss'."

26.2 Credit risk

Credit risk represents the risk of a loss if the counterparties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in term finance certificates and sukus, loans and receivables and balances with banks. The credit risk on liquid fund is limited because the counter parties are financial institutions with reasonably high credit ratings. In addition, the internal risk management policies and investment guidelines (approved by Investment Committee) require the Fund to invest in debt securities that have been rated as investment-grade by a well known rating agency.

The analysis below summarizes the credit quality of the Fund's investment in term finance certificates and sukus, term deposit receipts and government securities as at June 30, 2012 and June 30, 2011:

Investments by rating category	June 30, 2012	June 30, 2011
Government Securities	35%	33%
AAA, AAA-, AAA+	0%	1%
AA, AA-, AA+	33%	57%
A, A-, A+	6%	3%
BBB, BBB+, BBB-	0%	0%
BB+	0%	4%
CCC	0%	0%
Non - performing, Unrated	26%	2%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2012 is the carrying amount of the financial assets.

Concentration of credit risk

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

26.3 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations 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, if any, at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

The Fund has the ability to borrow in the short term to ensure settlement. During the current year, the Fund did not availed any borrowing (2011: maximum borrowing Rs 466 million). The maximum amount available to the Fund from the borrowing would be limited to fifteen percent of the net assets upto 90 days and would be secured by the assets of the Fund. The facility would bear interest at commercial rates.

In order to manage the Fund's overall liquidity, the Fund also has the ability to withhold daily redemption requests in excess of ten percent of the units in issue and such requests would be treated as redemption requests 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 significant 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.

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

-----June 30, 2012-----				
Total	Upto three months	Over three months	Over one year	
------(Rupees in '000)-----				
Liabilities				
Payable to Management Company	9,530	9,530	-	-
Payable to Trustee	515	515	-	-
Annual fee payable to the Securities and Exchange Commission of Pakistan	4,388	4,388	-	-
Accrued and other liabilities	1,791	1,791	-	-
Total liabilities	16,224	16,224	-	-

-----June 30, 2011-----				
Total	Upto three months	Over three months	Over one year	
------(Rupees in '000)-----				
Liabilities				
Payable to Management Company	5,780	5,780	-	-
Payable to Trustee	397	397	-	-
Annual fee payable to the Securities and Exchange Commission of Pakistan	3,913	3,913	-	-
Accrued and other liabilities	289,173	289,173	-	-
Total liabilities	299,263	299,263	-	-

27. OPERATING SEGMENTS

Investment committee is responsible for the Fund's entire portfolio and considers the business to have a single operating segment. The Investment committee's assets allocation decisions are based on a single, integrated investment strategy, and the Company's performance is evaluated on an overall basis. The Fund manager works under the supervision of the Investment Committee and follows the directions given by the Investment Committee.

The internal reporting provided to the Investment Committee for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting standards as applicable in Pakistan.

28. UNIT HOLDERS' FUND RISK MANAGEMENT

The Unit Holders' Fund is represented by redeemable units. They are entitled to distributions and to payment of a proportionate share based on the Fund's net asset value per share 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 to the fund.

The Fund's objectives when managing unit holder's fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns for units holders and to maintain a strong base of assets to meet unexpected losses or opportunities.

In accordance with the risk management policies as stated in note 24, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by short-term borrowings or disposal of investments when necessary.

29. 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 the 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.

Financial assets which are tradeable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

According to the amendments to International Financial Reporting Standard 7, Financial Instruments : Disclosure - Improving disclosures about financial instruments, an entity shall 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, whether directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2) ; and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

	----- As at June 30, 2012 -----			
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
ASSETS				
Investments	1,921,863	1,583,254	1,000,000	4,505,117
	----- As at June 30, 2011 -----			
	Level 1	Level 2	Level 3	Total
	----- Rupees in '000 -----			
ASSETS				
Investments	-	3,085,729	63,876	3,149,605

30. GENERAL

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

31 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on **August 15, 2012** by the Board of Directors of the management company.



Chief Executive Officer

**For Arif Habib Investments Limited
(Management Company)**



Director

**MCB DYNAMIC CASH FUND
PATTERN OF HOLDING AS PER REQUIREMENT OF
CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2012**

Category	No.of Unit Holders	Units
Associated Companies, undertakings and related Parties		5,444,835
Arif Habib Investment Limited	1	3,716,139
MCB Employees Provident Fund	1	849,582
MCB Employees Pension Fund	1	849,582
MCB Asset Management Company Staff Provident Fund	1	14,880
Adamjee Life Assurance Company Limited	1	14,652
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	11	16,169,035
Director, CEO and their spouses and minor children		58,519
Yasir Qadir	1	58,519
Trust	39	1,430,744
Corporate	39	3,436,681
Individuals	3352	39,376,642
Others	3	90,454
	3,450	66,006,910

**MCB DYNAMIC CASH FUND
PATTERN OF UNIT HOLDING BY SIZE
FOR THE YEAR ENDED JUNE 30, 2012**

No. of Unit Holders	Units Holdings	Total Units Held
1,879	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	3,961,378.48
605	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	4,535,417.16
313	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	3,789,730.05
162	(SHAREHOLDING FROM 15001.0000 TO 20000.0000)	2,844,697.95
110	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	2,453,207.32
76	(SHAREHOLDING FROM 25001.0000 TO 30000.0000)	2,120,488.70
40	(SHAREHOLDING FROM 30001.0000 TO 35000.0000)	1,303,959.80
51	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	1,938,894.22
24	(SHAREHOLDING FROM 40001.0000 TO 45000.0000)	1,021,200.91
28	(SHAREHOLDING FROM 45001.0000 TO 50000.0000)	1,345,961.68
12	(SHAREHOLDING FROM 50001.0000 TO 55000.0000)	628,785.79
16	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	926,239.17
13	(SHAREHOLDING FROM 60001.0000 TO 65000.0000)	798,907.71
9	(SHAREHOLDING FROM 65001.0000 TO 70000.0000)	614,646.61
6	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	433,209.32
7	(SHAREHOLDING FROM 75001.0000 TO 80000.0000)	534,669.53
5	(SHAREHOLDING FROM 80001.0000 TO 85000.0000)	418,122.76
4	(SHAREHOLDING FROM 85001.0000 TO 90000.0000)	353,451.13
4	(SHAREHOLDING FROM 90001.0000 TO 95000.0000)	366,870.95
9	(SHAREHOLDING FROM 95001.0000 TO 100000.0000)	887,094.07
8	(SHAREHOLDING FROM 100001.0000 TO 105000.0000)	805,111.40
5	(SHAREHOLDING FROM 105001.0000 TO 110000.0000)	536,804.95
1	(SHAREHOLDING FROM 110001.0000 TO 115000.0000)	110,808.79
2	(SHAREHOLDING FROM 115001.0000 TO 120000.0000)	234,106.07
4	(SHAREHOLDING FROM 120001.0000 TO 125000.0000)	489,528.87
4	(SHAREHOLDING FROM 125001.0000 TO 130000.0000)	511,249.63
1	(SHAREHOLDING FROM 130001.0000 TO 135000.0000)	132,837.74
2	(SHAREHOLDING FROM 135001.0000 TO 140000.0000)	275,362.57
1	(SHAREHOLDING FROM 140001.0000 TO 145000.0000)	140,611.45
3	(SHAREHOLDING FROM 145001.0000 TO 150000.0000)	439,733.74
2	(SHAREHOLDING FROM 150001.0000 TO 155000.0000)	306,414.58
1	(SHAREHOLDING FROM 155001.0000 TO 160000.0000)	155,609.46
1	(SHAREHOLDING FROM 160001.0000 TO 165000.0000)	163,155.45
1	(SHAREHOLDING FROM 165001.0000 TO 170000.0000)	166,780.60
1	(SHAREHOLDING FROM 170001.0000 TO 175000.0000)	185,910.92
1	(SHAREHOLDING FROM 175001.0000 TO 180000.0000)	195,501.27
2	(SHAREHOLDING FROM 180001.0000 TO 185000.0000)	424,519.43
1	(SHAREHOLDING FROM 185001.0000 TO 190000.0000)	219,735.29
1	(SHAREHOLDING FROM 190001.0000 TO 195000.0000)	234,632.38
1	(SHAREHOLDING FROM 195001.0000 TO 200000.0000)	239,093.88
1	(SHAREHOLDING FROM 200001.0000 TO 205000.0000)	241,451.22
1	(SHAREHOLDING FROM 205001.0000 TO 210000.0000)	296,386.37
2	(SHAREHOLDING FROM 210001.0000 TO 215000.0000)	624,597.31
1	(SHAREHOLDING FROM 215001.0000 TO 220000.0000)	316,261.04
1	(SHAREHOLDING FROM 220001.0000 TO 225000.0000)	339,056.82
1	(SHAREHOLDING FROM 225001.0000 TO 230000.0000)	340,916.94
1	(SHAREHOLDING FROM 230001.0000 TO 235000.0000)	363,703.92
1	(SHAREHOLDING FROM 235001.0000 TO 240000.0000)	377,986.13
1	(SHAREHOLDING FROM 240001.0000 TO 245000.0000)	399,361.17
1	(SHAREHOLDING FROM 245001.0000 TO 250000.0000)	419,836.92
1	(SHAREHOLDING FROM 250001.0000 TO 255000.0000)	616,220.04
1	(SHAREHOLDING FROM 255001.0000 TO 260000.0000)	622,045.06
1	(SHAREHOLDING FROM 260001.0000 TO 265000.0000)	683,820.15
2	(SHAREHOLDING FROM 265001.0000 TO 270000.0000)	1,699,164.53
1	(SHAREHOLDING FROM 270001.0000 TO 275000.0000)	961,598.23
1	(SHAREHOLDING FROM 275001.0000 TO 280000.0000)	1,054,256.65
1	(SHAREHOLDING FROM 280001.0000 TO 285000.0000)	1,295,271.92
1	(SHAREHOLDING FROM 285001.0000 TO 290000.0000)	3,716,139.33
1	(SHAREHOLDING FROM 290001.0000 TO 295000.0000)	5,482,398.35
1	(SHAREHOLDING FROM 295001.0000 TO 300000.0000)	8,914,090.52
3450	Total :	66,006,910

**MCB DYNAMIC CASH FUND
PERFORMANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2012**

Performance Information	2012	2011	2010	2009	2008	2007
Total Net Assets Value – Rs. in million	6,696.21	5,020.00	5,970.00	9,487.00	12,896.89	9,143.86
Net Assets value per unit – Rupees	101.45	101.32	103.42	103.17	106.46	103.38
Highest offer price per unit	105.9686	107.0111	106.2858	105.1300	108.0900	103.3800
Lowest offer price per unit	102.5150	102.5526	101.5228	97.1400	100.1700	100.0000
Highest Redemption price per unit	104.4026	105.4059	104.6915	105.1300	108.0900	103.3800
Lowest Redemption price per unit	101.0000	101.0143	100.0000	97.1400	100.1700	100.0100
Distribution per unit (interim) – Rs. October 08,2009 (2009: October 27, 2008 & 2008: April 24, 2008)		3.34	2.00	3.17	6.46	3.38
Net Assets Value before distribution		103.34	102.97	103.17	106.46	103.38
Net Assets Value after distribution		100.00	100.97	100.00	100.00	100.00
Distribution per unit (interim) – Rs. Jan 23, 2010 (2009: May 27, 2009)			2.50	3.00	-	-
Net Assets Value before distribution			104.07	103.91		-
Net Assets Value after distribution			101.57	101.08		-
Distribution per unit (interim) – Rs. 22 April 2010			2.80	3.00		-
Net Assets Value before distribution			104.69	105.13		-
Net Assets Value after distribution			101.89	102.17		-
Distribution per unit (Annual)* – Rs. June 30, 2010			2.42			-
Net Assets Value before distribution			103.42			-
Net Assets Value after distribution			101.00			-
Distribution per unit (Annual) – Rs. (15 Oct-10)		2.71				
Net Assets Value before distribution		104.21				
Net Assets Value after distribution		101.50				
Distribution per unit (Annual) – Rs. (27 Jan-11)		3.00				
Net Assets Value before distribution		104.57				
Net Assets Value after distribution		101.57				
Distribution per unit (Annual) – Rs. (26 Apr-11)		3.41				
Net Assets Value before distribution		105.41				
Net Assets Value after distribution		102.00				
Distribution per unit (Annual) – Rs. (22 Jun-11)		3.02				
Net Assets Value before distribution		104.02				
Net Assets Value after distribution		101.00				
Distribution per unit (Annual) – Rs. (28 sep-11)	3.38					
Net Assets Value before distribution	104.38					
Net Assets Value after distribution	101.00					
Distribution per unit (Annual) – Rs. (26 Jan-12)	3.40					
Net Assets Value before distribution	104.40					
Net Assets Value after distribution	101.00					
Distribution per unit (Annual) – Rs. (28 Mar-12)	1.67					
Net Assets Value before distribution	102.67					
Net Assets Value after distribution	101.00					
Distribution per unit (Annual) – Rs. (22 Jun-12)	1.94					
Net Assets Value before distribution	103.20					
Net Assets Value after distribution	101.26					
Average Annual Return - %						
One year	10.80	12.90	11.00	9.40		10.10
Two year	12.50	12.70	10.7	10.03		N/a
Three year (inception date Mar 01, 2007)	12.95	12.30	11.1	10.30		N/a
Net Income loss for the year / period – Rs. in million	605.73	591.54	738.14	926,406.00		298.95
Income Distribution – Rs. in million	597.61	575.45	680.41	926,406.00		298.95
Accumulated Capital Growth – Rs. in million	33.40	73.82	57.73	-	-	-
Weighted average Portfolio Duration (years)	657.00	682.55	2.37	2.48	2.10	2.90

Disclaimer

The past performance is not necessarily indicative of future performance and unit prices and investments and returns may go down, as well as up.