

MCB DYNAMIC CASH FUND CONTENTS

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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	Chairman(subject to the approval of SECP)
Mr. Nasim Beg	Executive Vice Chairman
Mr. Yasir Qadri	Chief Executive (subject to the approval of SECP)
Syed Salman Ali Shah	Director (subject to the approval of SECP)
Mr. Haroun Rashid	Director (subject to the approval of SECP)
Mr. Ahmed Jahangir	Director (subject to the approval of SECP)
Mr. Samad A. Habib	Director
Mr. Mirza Mahmood Ahmad	Director (subject to the approval of SECP)

Company Secretary & CFO of the Management Company

Mr. Muhammad Saqib Saleem

Audit Committee

Mr. Nasim Beg
Mr. Haroun Rashid
Mr. Samad A. Habib
Mr. Ali Munir

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
Habib Metropolitan Bank Limited
Bank Alfalah Limited
Bank Al-Habib Limited
Faysal Bank Limited
NIB Bank Limited
Allied Bank Limited

Auditors

A.F. Ferguson & Co. - Chartered Accountants
State Life Building No. 1-C,
I.I. Chundrigar Road, Karachi-74000.

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 (Positive Outlook) –
Management Quality Rating assigned by PACRA

MCB DYNAMIC CASH FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011

The Board of Directors of Arif Habib Investments 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 ending 30th June, 2011.

Economy and Money Market Overview

Despite continued macro-economic challenges throughout the period, the year under review (July '10-June '11) was not as turbulent as it was expected to be due to concerns over payments from foreign donor agencies and devastation caused by floods throughout the country. Record-high levels of remittances and cotton prices saved the day and kept external account position under control.

During the year, exports rose to US\$ 25.4 billion, 29% higher on a YoY basis, reducing the trade deficit to around US\$ 10.3 billion, 11% lower YoY. In addition to contained trade deficit, record-high level of workers' remittances flow has taken the current account balance to a surplus of US\$ 437 million, for the first time after FY04. Despite meager financial account flows, country's balance of payment position improved significantly during the year by around US\$ 2.5 billion - taking the FX reserves to a record level of US\$ 18.2 billion, consequently keeping PKR-USD exchange rate largely stable during the year.

Post-flood, inflationary pressures have risen significantly amidst supply-side issues as well as phasing out of power subsidies, CPI inflation averaged higher at around 14.6% during 1H FY11. Due to relatively lower food inflation as well as no major electricity pass-through during the latter half, CPI inflation averaged at a lower level of 13.3% - taking the average FY11 inflation to 13.9%. Real economy, however, did not have much to show with Real GDP growth stood at a paltry 2.4%, much lower than the target. Loss in agriculture produce because of floods caused a major dent towards country's economic growth during the period under review. Services sector, however, was able to provide some support with a growth of 4.1%, bringing the overall GDP growth to 2.4%.

Fiscal indiscipline has remained a cause of concern for the economic managers as the country is expected to witness yet again a deficit of over 6% of the GDP during FY11. Even during the first 9M of the fiscal year, the country witnessed a fiscal deficit of Rs. 783 billion, 4.3% of the revised GDP. Slower growth in revenue collection 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.

Considering the volatility in the macroeconomic variables, the State Bank of Pakistan has also altered its monetary stance at least twice during the year. Citing the deteriorating macroeconomic fundamentals during the 1H FY11 mainly in the backdrop of floods, the SBP raised its policy discount rate cumulatively by 150 bps to 14.0%. However, gradual improvement towards external account through remittances and increased textile exports as well as lower levels of government borrowing from SBP has compelled the central bank to keep its policy DR unchanged for the next 3 policies during 2H FY11. Due to an overall higher interest rate environment, 1 year PKRV averaged at around 13.4% during FY11, much higher than the average 12.2% a year ago.

During FY11, key monetary indicators have also been better as compared to that of last year with money supply (M2) posting a strong growth of 15.9%. Although Net Domestic Asset (NDA) growth has been a key contributor behind M2 growth during this year as well, sizeable YoY growth of 43% in Net Foreign Assets (NFA) has been commendable - also reflecting strong BOP position.

In absence of foreign donor payments coming through, government's need to borrow continues to be a barrier in way of significant drop in interest rates or growth in credit. However, in absence of new credit creation, existing Term Finance Certificates (TFC) market became liquid and bank issued TFCs commanded improvement in prices during the period under review. Moreover, GoP Ijarah Sukuk (GIS) has also emerged as 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 the year in both primary as well as secondary markets.

Future outlook

Citing contained inflationary pressures, strong external account position and lower levels of government borrowing from SBP, the central bank decided to lower its policy discount rate by 50 bps to 13.5% in its Jul'11 monetary policy review.

We believe that the materialization of sizeable foreign inflows will continue to be the single most important variable especially in the backdrop of sustained oil prices, downward trend in cotton prices and debt repayments including IMF. Going forward, liquidity and interest rate direction will be largely dependent on the magnitude and sources of fiscal funding. In the absence of foreign flows, greater reliance will be on domestic sources - which could rebound inflation and interest rates.

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 around PKR 5.0 billion as on June 30, 2011. 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 12.9% during the period under review which was marginally higher than the Fund's benchmark return of 12.8% during the same period.

MCB DYNAMIC CASH FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011

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 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.

In addition, the portfolio return continued its upward movement during the period while at the same time maintaining the exposure to interest rate risk on the lower side. The Fund yields for the period under review remained as follows:

Performance Information (%)	DCF	Benchmark
Last twelve Months Return	12.9%	12.8%
Since Inception	10.7%	11.7%

* One-off hit 4% due to SECP directives on TFCs portfolio

During the year your fund earned net income of Rs 591.54 million. The Board in the meeting held on 23rd June, 2011 has declared final distribution amounting to Rs.139.66 million (i.e. Rs. 3.0199 per unit).

Date of Distribution	Distribution PKR / Unit
18th October, 2010	2.7051
28th January, 2011	3.0000
27th April, 2011	3.4059

During the period, units worth Rs. 4.97 billion (including Rs. 240.17 million worth of bonus units) were issued and units with a value of Rs. 6.45 billion were redeemed. As on 30th June 2011 the NAV of the Fund was Rs. 101.32 per unit.

Reply to Auditors' Qualification

While we respect and understand the Auditors opinion and view, we do have our reservations. We feel that the Circular 01, 2009 is not followed in true spirit and value in case of restructured securities.

Maple Lead Cement Factory Limited defaulted in payment of coupon of the Sukuk (issue date; 3rd December, 2007) due on 3rd December, 2009. The term of repayment was restructured on March 30, 2010 according to which the markup due on December 03, 2009 was settled partially through cash payment and partially through issuance of new sukuk, "Maple Leaf Cement Factory Limited -Sukuk II (MLCFL II)". The Sukuk was reclassified as performing by MUFAP on October 13, 2010, on the basis of receipt of two installments subsequent to restructuring. It is pertinent to mention here that in this case the aforesaid two conditions for reclassification are considered as completed in following ways:

- In accordance with the restructuring terms, the entire overdue markup was capitalized and recorded as separate issue with the name Maple Leaf Cement Factory Limited - SUKUK II (hereinafter referred to as SUKUK II). While considering the reclassification of MLCFL's SUKUK from non-performing to performing, this capitalization has been treated as received in cash, which was not the case.
- As per the repayment terms agreed with the issuer in the restructuring agreement, the issuer has paid 0.5% of the markup accrued on the basis of 3 months KIBOR + 1% annual rate on SUKUK leaving 99.5% to be paid in 24 installments over 6 years.

Keeping in view the financial crisis MLCFL is either facing or expected to face in near future, we in the best interest of the unit holders, strongly believe that accrual of an amount which is expected to be received in 6 years may not be inline with Regulation 38(a) of NBFC & NE Regulations and may hurt the interest of the unit holders. Hence, as a matter of prudence and abundant caution the markup on MLCFL SUKUK is recorded on receipt basis i.e. 0.5% of markup as mentioned in point no. 2 above and remaining is being booked as receivable in the books of the fund without passing on the impact of accrual on the NAV of the fund.

Subsequent to June 30, 2011 Maple Leaf Cement Limited defaulted on its first major payment after restructuring due on September 03, 2011 validating management view on the said company.

Update on Worker's Welfare Fund

The amendments made through Finance Act, 2008 to the Workers' Welfare Fund (WWF) Ordinance, 1971, brought Mutual Funds in embed of the said Ordinance. MUFAP on behalf CIS filed a Constitutional Petition in Sindh High Court challenging the applicability of WWF to the CIS. However, after the court order dispensing the filed petition, your Fund has recorded the entire liability and started accruing the provision on daily basis.

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.

MCB DYNAMIC CASH FUND REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY FOR THE YEAR ENDED JUNE 30, 2011

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 after the receipt of decision made of LHC firmly believes that there is no compelling reason to make further provision on account of WWF contribution. However, as matter of abundant caution and prudence the Management Company of the Fund has decided not reverse the provision already till the decision of Honorable Sind High Court.

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:

- 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 the 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. As per note 1.2 of financial statements, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011:

Before the said merger the 20th, 21st, 22nd, 23rd, 24th and 25th BoD meetings of MCB Asset Management Company Limited were held on July 1, 2010, September 7, 2010, October 18, 2010, January 28, 2011, April 27, 2011 and June 23, 2011 respectively. Information in respect of attendance by Directors in the meetings is given below:

**MCB DYNAMIC CASH FUND
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2011**

S.#	Name of persons attending the meetings	Designation	Number of Meetings			
			No. of Meeting Held	Attendance Required	Attended	Leave Granted
1.	Mian Mohammad Mansha	Chairman	6	6	5	1
2.	Mr. U.A. Usmani	Director	6	6	6	-
3.	Mr. Ali Munir	Director	6	6	6	-
4.	Mr. Ahmed Jahangir	Director	6	6	6	-
5.	Mr. Haroun Rashid	Director	6	6	3	3
6.	Mr. Syed Waliullah Shah	Director	6	6	4	2
7.	Mr. Samir Saigol	Director	6	6	6	-
8.	Mr. Ismail Arif Rafi *	Director	6	5	4	1
9.	Mr. Yasir Qadri	Chief Executive	6	6	6	-

* The above director was appointed during the year and only five meetings of the Board were held after his appointment

Pursuant to merger, the 88th BoD meeting of Arif Habib Investments Limited was held on June 27, 2011. Information in respect of attendance by Directors in the meetings is given below:

S.#	Name of persons attending the meetings	Designation	Number of Meetings			
			No. of Meeting Held	Attendance Required	Attended	Leave Granted
1.	Mr. Shafi Malik *	Former Chairman	1	1	1	-
2.	Mr. Nasim Beg **	Exe Vice Chairman	1	1	1	-
3.	Mr. Muhammad Akmal Jameel *	Former Director	1	1	1	-
4.	Mr. Muhammad Kashif *	Former Director	1	1	-	1
5.	Syed Ajaz Ahmed *	Former Director	1	1	-	1
6.	Mr. Sirajuddin Cassim *	Former Director	1	1	-	1
7.	Mr. S. Gulrez Yazdani *	Former Director	1	1	1	-
8.	Mr. Samad A. Habib	Director	1	1	1	-
9.	Mian Mohammad Mansha ***	Chairman	1	1	1	-
10.	Mr. Yasir Qadri ***	Chief Executive	1	1	1	-
11.	Syed Salman Ali Shah ***	Director	1	1	1	-
12.	Mr. Haroun Rashid ***	Director	1	1	1	-
13.	Mr. Ahmed Jahangir ***	Director	1	1	1	-
14.	Mr. Mirza Mahmood Ahmad ***	Director	1	1	1	-

* The above directors resigned in the 88th meeting held on 27th June, 2011.
** Mr. Nasim Beg resigned as Chief Executive on 27th June, 2011 and appointed as Executive Vice Chairman on the same date.
*** Appointed on 27th June, 2011 and their approval of appointment from SECP is awaited.

m. During the period under review following trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary and their spouses and minor children, including those disclosed in note # 19 to the financial statements:

Name	Designation	Unit Purchased	Units Redeemed
Mr. Yasir Qadri	CEO	24,162	11,621
Mr. Muhammad Saqib Saleem	CFO / Company Secretary	-	-

External Auditors

The fund's external auditors, Messers A.F. Ferguson & Co., Chartered Accountants, have retired after the conclusion of audit for current year. Due to completion of maximum time allowed under Code Corporate Governance, they are not eligible for reappointment. The audit committee of the Board has recommended appointment of M. Yousuf Adil Saleem & Co., Chartered Accountants (who have given consent to such appointment) as auditors for the year ending June 30, 2012.

**MCB DYNAMIC CASH FUND
REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY
FOR THE YEAR ENDED JUNE 30, 2011**

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**

Karachi: September 20, 2011

MCB DYNAMIC CASH FUND REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2011

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.

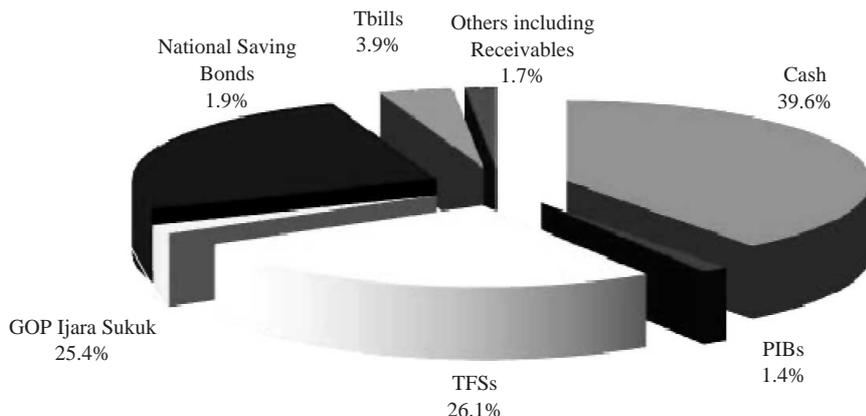
Manager's Review

The fund was able to generate an annualized return of 12.9% during the year under review, which was marginally better than the fund's benchmark return of 12.8% during the same period.

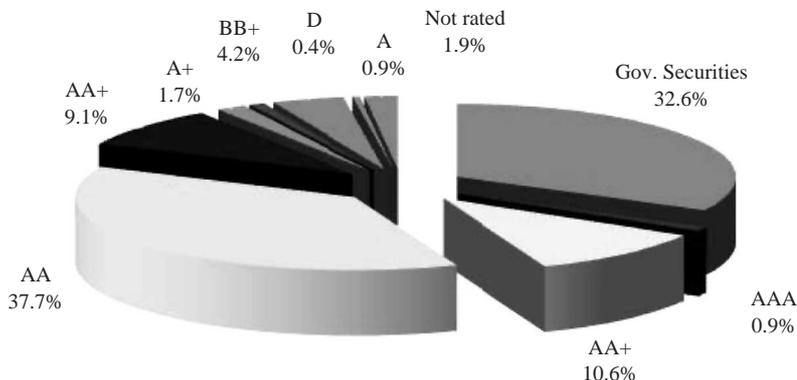
The fund remained focused towards credit quality of the portfolio and hence deployed its assets cautiously. During the year, the fund continued to emphasize on the government papers owing to better risk-return proposition while maintaining a decent exposure in some good quality TFCs especially of financial 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 5.0 billion by the end of June 2011, which was down by around PKR 1.0 billion during the period under review. This was in line with the industry trend as money market funds continued to grow during the period while income funds kept on depleting in terms of assets under management amid investors' preference for the former.

Asset Allocation as on June 30, 2011 (% of total assets)



Asset Quality as of June 30, 2011 (% of total assets)



Mr. Kashif Rafi
Fund Manager

Karachi: September 20, 2011

MCB DYNAMIC CASH FUND TRUSTEE REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2011

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

The MCB Dynamic Cash Fund (the Fund), an open-end fund was established under a trust deed dated November 09, 2006, executed between MCB Asset Management Company Limited (MCB AMC), as the Management Company and Central Depository Company of Pakistan Limited, as the Trustee.

During the year (MCB AMC) merged with and into Arif Habib Investments Limited (AHIL). Based on interim relief granted by the Honorable High Court Sindh at Karachi against the order of the Securities & Exchange Commission of Pakistan (SECP) regarding extension of effective date of merger vide its letter dated June 27, 2011, AHIL is continuing as the Management Company of the fund till the final resolution of the case.

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

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

We would like to draw unit holders attention towards the directives of the SECP issued vide Circulars # 1 of 2009 and 3 of 2010, which require that the debt securities shall only be reclassified as performing on receipt of all arrears i.e. principal as well as interest for the next two installments. The sukuk certificates of Maple Leaf Cement Factory Limited (MLCFL) and were classified as performing in September 2010 based on their restructured plans approved in March 2010.

The Management Company while complying the same has reclassified these sukuk certificates as performing, however, has recorded mark-up received upto June 30, 2011 following receipt basis of accounting. The Management Company has informed us that the same has been done on prudence basis, considering the underlying risk of realisability of the deferred mark-up which will be received in future periods. Moreover, it would be pertinent to note that subsequent to the year end MLCFL has shown their inability to fulfill obligation with respect to coupon payment of mentioned sukuk certificates.

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

Karachi: October 26, 2011

MCB DYNAMIC CASH FUND STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

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 Chapter XI Regulation No. 35 of 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 former management company MCB Asset Management Company Limited (now merged with and into Arif Habib Investments Limited) and 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 three independent non-executive directors out of a total of eight directors.
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 NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. As explained in note 1.2 to the financial statements of the Fund for the year ended June 30, 2011, due to amalgamation of MCB Asset Management Company Limited with and into Arif Habib Investments Limited the Board of Directors of the former Management Company stand dissolved on June 27th, 2011. Mr. Muhammad Shafi Malik, Mr. Sirajuddin Cassim, Mr. Muhammad Akmal Jameel, Mr. Muhammad Kashif, Mr. S. Gulrez Yazdani and Syed Ajaz Ahmed, directors of Arif Habib Investments Limited (post merger Management Company of the Fund) had resigned and were replaced by Mian Mohammad Mansha, Mr. Haroun Rasheed, Mr. Ahmed Jahangir, Mr. Yasir Qadri, Dr. Salman Shah and Mr. Mirza Mehmood Ahmad, respectively, as directors of the Management Company.
5. A casual vacancy occurred in the Board in the last year which was duly filled in by the appointment of another director during the current year.
6. The Management Company has prepared a 'Statement of Ethics and Business Practices', which has been approved by the Board of Directors and signed by all the directors and employees of the Management Company.
7. The Board has developed a 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.
8. 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 (CEO) and Executive Vice Chairman has been taken by the Board. As on June 30, 2011, there are no other executive directors of the Management Company besides the Executive Vice Chairman and Chief Executive.
9. 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, except for emergency meeting for which written notice of less than seven days was served. The minutes of the meetings were appropriately recorded and circulated.
10. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justification for non arm's length transactions and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
11. The Company has planned to conduct an orientation course for its directors, in the near future to appraise them of their duties and responsibilities.
12. The Board has approved appointment, remuneration and terms and conditions of the employment of Chief Financial Officer and Company Secretary and Head of Internal Audit, as determined by the Chief Executive Officer.
13. The Directors' Report of the Fund for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
14. The Directors, CEO 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.
15. The financial statements of the Fund were duly endorsed by the CEO and CFO of the Management Company before approval of the Board.
16. The Management Company has complied with all the corporate and financial reporting requirements of the Code.
17. The Board has formed an audit committee for the Management Company. It comprises of four members, out of which two are non-executive directors.
18. 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.

**MCB DYNAMIC CASH FUND
STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED JUNE 30, 2011**

19. The internal audit function of MCB Asset Management Company (now merged with and into Arif Habib Investments Limited) was outsourced to M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants, Karachi. However, as M/s Ford Rhodes Sidat Hyder & Co was acting as statutory auditors of Arif Habib Investments Limited (post merger Management Company of the Fund), they had resigned on the date of amalgamation. The Management Company has an in-house effective internal audit function and the internal auditors are suitably qualified and experienced for the purpose and are well conversant with the policies and procedures of the Fund .
20. The statutory auditors of the Fund have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Management Company or units of the Fund and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
22. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the board

**Yasir Qadri
Chief Executive**

Karachi: September 20, 2011

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

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) for and on behalf of MCB Dynamic Cash Fund to comply with the requirements of Chapter XI of the Listing Regulations of the Lahore Stock Exchange where the Fund is listed.

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

As part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Sub-Regulation (xiii a) of Listing Regulation No. 35 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 prices 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, 2011.

A.F. Ferguson & Co.
Chartered Accountants
Karachi
Dated: 25th October 2011

MCB DYNAMIC CASH FUND INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS FOR THE YEAR ENDED JUNE 30, 2011

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

Management Company's responsibility for the financial statements

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

Auditor's responsibility

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

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

Basis for Qualified Opinion

As explained in note 5.1.3.2 to the financial statements, the management company has recognised income on Sukuks of Maple Leaf Cement Factory Limited - Sukuk I on receipt basis instead of recognising it on accrual basis using effective interest method as required under International Accounting Standards (IAS) 18 "Revenue". Had the income been recognised on accrual basis, profit after taxation for the year ended June 30, 2011 would have been higher by Rs. 39,585,251 while markup receivable, liability in respect of workers' welfare fund and net asset value as at June 30, 2011 would have been higher by Rs. 40,393,113, Rs. 807,862 and Rs. 39,585,251 respectively.

Qualified Opinion

In our opinion, except for the effects of the matter described in the basis of qualified opinion paragraph, the financial statements give a true and fair view of the financial position of the fund as at June 30, 2011 and of its financial performance, cash flows and transactions for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Other matters

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

A.F. Ferguson & Co.
Chartered Accountants
Engagement Partner: Salman Hussain

Dated: 24th October 2011
Karachi

FINANCIAL STATEMENTS

**MCB DYNAMIC CASH FUND
STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2011**

	Note	2011	2010
(Rupees in '000)			
ASSETS			
Balances with banks	4	2,124,800	328,095
Investments	5	3,149,605	4,829,187
Term Deposit Receipts		-	830,000
Profit and other receivables	6	85,586	73,743
Receivable against sale of investments		-	174,249
Security deposits and prepayments	7	3,488	3,834
Preliminary expenses and floatation costs	8	1,526	3,828
Total assets		5,365,005	6,242,936
LIABILITIES			
Payable to Management Company	9	5,780	7,030
Payable to Trustee	10	397	551
Annual fee payable to the Securities and Exchange Commission of Pakistan	11	3,913	6,229
Payable against redemption of units		-	15,348
Payable against purchase of investments		-	205,583
Accrued expenses and other liabilities	12	335,215	37,886
Total liabilities		345,305	272,627
NET ASSETS		5,019,700	5,970,309
Unit holders' fund (as per statement attached)		5,019,700	5,970,309
CONTINGENCIES AND COMMITMENTS			
	16		
(Number of Units)			
NUMBER OF UNITS IN ISSUE		49,540,717	57,729,092
(Rupees)			
NET ASSET VALUE PER UNIT	3.9	101.32	103.42

The annexed notes 1 to 29 form an integral part of these financial statements.

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

Chief Executive

Director

**MCB DYNAMIC CASH FUND
INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011**

	Note	2011	2010
(Rupees in '000)			
INCOME			
Capital gain / (loss) on sale of investments		99,299	82,130
Profit on bank deposits and term deposit receipts		68,720	190,010
Income from money market placements		2,632	109,704
Income from term finance certificates		240,875	395,828
Income from government securities		272,932	291,861
		<u>684,458</u>	<u>1,069,533</u>
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	5.1.6	(19,663)	(33,304)
Total income		<u>664,795</u>	<u>1,036,229</u>
EXPENSES			
Remuneration of Management Company		78,255	124,589
Remuneration of Trustee		5,803	9,306
Annual fee - Securities and Exchange Commission of Pakistan	11	3,913	6,229
Financial charges		-	281
Brokerage and settlement charges		2,126	2,861
Amortisation of preliminary expenses and floatation costs	8.1	2,302	2,302
Auditors' remuneration	17	1,000	996
Bank charges		294	348
Reversal of provision against debt securities	5.2	(64,766)	(21,751)
Other expenses		769	763
Total expenses		<u>29,696</u>	<u>125,924</u>
Net income from operating activities		<u>635,099</u>	<u>910,305</u>
Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed		(31,486)	(138,194)
Provision for Workers' Welfare Fund	13	12,072	33,970
Net income for the year before taxation		<u>591,541</u>	<u>738,141</u>
Taxation	14	-	-
Net income for the year after taxation		<u>591,541</u>	<u>738,141</u>
Other comprehensive income for the year		-	-
Total comprehensive income for the year		<u>591,541</u>	<u>738,141</u>
Earnings per unit	3.13		

The annexed notes 1 to 29 form an integral part of these financial statements.

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

Chief Executive

Director

**MCB DYNAMIC CASH FUND
DISTRIBUTION STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011**

	2011	2010
	(Rupees in '000)	
Undistributed income brought forward		
- Realised income	386,170	504,099
- Unrealised loss	(188,774)	(212,367)
	197,396	291,732
Final distribution for the year ended June 30, 2009 at Rs 3.1726 per unit (Date of distribution July 02, 2009)		
- Cash distribution	-	(97,116)
- Bonus distribution	-	(194,616)
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, 2010:		
Rs 2 per unit (Date of distribution October 9, 2009)		
- Cash distribution	-	(58,242)
- Bonus distribution	-	(180,536)
Rs 2.50 per unit (Date of distribution January 21, 2010)		
- Cash distribution	-	(38,902)
- Bonus distribution	-	(98,936)
Rs 2.80 per unit (Date of distribution April 22, 2010)		
- Cash distribution	-	(33,709)
- Bonus distribution	-	(130,420)
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)	-
Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed - amount that forms part of the unit holder's fund	(8,188)	-
Net income for the year after taxation	591,541	738,141
Undistributed income carried forward	<u>65,630</u>	<u>197,396</u>
Realised income	212,019	386,170
Unrealised loss	(146,389)	(188,774)
	<u>65,630</u>	<u>197,396</u>

The annexed notes 1 to 29 form an integral part of these financial statements.

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

Chief Executive

Director

**MCB DYNAMIC CASH FUND
STATEMENT OF MOVEMENT IN UNIT HOLDERS' FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	2011	2010
	(Rupees in '000)	
Net assets at beginning of the year	5,970,309	9,487,169
Issue of 48,459,378 units (2010: 119,318,163 units)	4,969,477	12,199,120
Issue of 1,117,032 bonus units relating to the year ended June 30, 2010 (2009: 1,946,176 units)	112,820	194,616
Issue of 5,023,773 interim bonus units (2010: 4,042,029 units)	509,947	409,892
Redemption of 62,788,558 units (2010: 159,531,583 units)	(6,450,761)	(16,364,346)
	(858,517)	(3,560,718)
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	31,486	138,194
amount representing (loss) / income that form part of unit holders' fund - transferred to distribution statement	8,188	-
	39,674	138,194
Element of income and capital gains included in prices of units issued less those in units redeemed - amount representing unrealised income	(8,188)	-
Net unrealised diminution on re-measurement of investment classified as 'financial assets at fair value through profit or loss'	(19,663)	(33,304)
Other net operating income	611,204	771,445
Net income for the year	591,541	738,141
Final distribution for the year ended June 30, 2010 at Rs 2.4194 (On July 2, 2009 at Rs. 3.1726 per unit)		
- Cash distribution	(26,850)	(97,116)
- Bonus distribution	(112,820)	(194,616)
Interim distributions during the year ended June 30, 2011		
On October 18, 2010 at Rs 2.7051 per unit (On October 9, 2009 at Rs 2.00 per unit)		
- Cash distribution	(18,293)	(58,242)
- Bonus distribution	(139,560)	(180,536)
On January 28, 2011 at Rs 3.00 per unit (On January 21, 2010 at Rs 2.50 per unit)		
- Cash distribution	(17,555)	(38,902)
- Bonus distribution	(123,855)	(98,936)
On April 27, 2011 at Rs 3.4059 per unit (On April 22, 2010 at Rs.2.80 per unit)		
- Cash distribution	(17,339)	(33,709)
- Bonus distribution	(119,185)	(130,420)
On June 22, 2011 at Rs 3.0199 per unit (2010: nil)		
- Cash distribution	(12,315)	-
- Bonus distribution	(127,347)	-
	<u>5,019,700</u>	<u>5,970,309</u>

The annexed notes 1 to 29 form an integral part of these financial statements.

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

Chief Executive

Director

**MCB DYNAMIC CASH FUND
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011**

Note	2011	2010
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year before taxation	591,541	738,141
Adjustments for non - cash charges and other items		
Capital gain on sale of investments	(99,299)	(82,130)
Profit on bank deposits and term deposits receipts	(68,720)	(190,010)
Income from money market placements	(2,632)	(109,704)
Income from term finance certificates	(240,875)	(395,828)
Income from government securities	(272,932)	(291,861)
Financial charges	-	281
Net unrealised diminution on re-measurement of investments classified as 'financial assets at fair value through profit or loss'	19,663	33,304
Amortisation of preliminary expenses and floatation costs	2,302	2,302
Element of loss / (income) and capital losses / (gains) included in the prices of units issued less those in units redeemed	31,486	138,194
	<u>(39,466)</u>	<u>(157,311)</u>
(Increase) / decrease in assets		
Investments	1,561,234	164,317
Other receivables	(2,726)	124,444
Security deposits and prepayments	346	(109)
	<u>1,558,854</u>	<u>288,652</u>
Increase / (decrease) in liabilities		
Payable to MCB Asset Management Company Limited - Management Company	(1,250)	(808)
Payable to the Central Depository Company of Pakistan Limited	(154)	(315)
Annual fee payable to Securities and Exchange Commission of Pakistan	(2,316)	(3,763)
Accrued and other liabilities	297,329	21,634
	<u>293,609</u>	<u>16,748</u>
	<u>1,812,997</u>	<u>148,089</u>
Mark-up received on term finance certificates	236,000	447,147
Profit received on bank deposits	67,280	273,548
Income received from money market placements	2,632	121,858
Income received from government securities	270,130	286,627
Financial charges paid	-	(281)
Net cash inflow from operating activities	<u>2,389,039</u>	<u>1,276,988</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from issue of units	4,969,477	12,199,120
Payments made on redemption of units	(6,466,109)	(16,351,882)
Cash distribution	(92,352)	(227,969)
Net cash outflow on financing activities	<u>(1,588,984)</u>	<u>(4,380,731)</u>
Net increase / (decrease) in cash and cash equivalents during the year	<u>800,055</u>	<u>(3,103,743)</u>
Cash and cash equivalents at the beginning of the year	1,450,900	4,554,643
Cash and cash equivalents at the end of the year	<u>2,250,955</u>	<u>1,450,900</u>

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The annexed notes 1 to 29 form an integral part of these financial statements.

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

Chief Executive

Director

MCB DYNAMIC CASH FUND NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

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.

Based on shareholders' resolutions of MCB Asset Management Company Limited and Arif Habib Investments Limited the two companies have merged as of 27th June 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 30th July 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 the subsequent order of the SECP could not be complied with, the Company has sought a ruling by the honourable Sindh High Court (SHC). The honourable Sindh High Court (SHC) has held the SECP's subsequent order in abeyance and instructed SECP to treat the companies as merged pending a final ruling. Irrespective of the final ruling, the Fund's assets and NAV remain unaffected.

1.1 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.

1.2 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.

The Fund primarily invests in money market and other short-term instruments which includes short-term corporate debt and government securities, repurchase agreements, spread transactions and transactions under marginal trading system. The Fund may also invest a portion of the fund in medium term assets in order to provide higher return to the unit holders.

1.3 Title to the assets of the Fund is held in the name of Central Depository Company of Pakistan Limited as Trustee of the Fund.

1.4 The Pakistan Credit Rating Agency (PACRA) Limited has assigned an asset manager rating of AM2 (positive outlook) to the Management Company and a rating of "A+(f)" to the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

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

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

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

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with 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 thereagainst (note 3.2 and 5).

2.5 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'.

2.6 Functional and presentation currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Cash and cash equivalents

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

3.2 Financial assets

3.2.1 Classification

The Fund classifies its financial assets in the following categories:

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

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

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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.

3.2.2 Regular way contracts

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

3.2.3 Initial recognition and measurement

a) Financial assets at fair value through profit or loss

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

b) Available for sale and loans and receivables

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

3.2.4 Subsequent measurement

Subsequent to initial recognition, financial assets designated by the management as at fair value through profit or loss and available for sale are valued 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 categorises them as traded, thinly traded and non-traded securities. The circular also specifies the valuation process to be followed for each category as well as the criteria for the provisioning of non-performing debt securities.

b) Basis of valuation of government securities

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

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

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

c) Loans and receivables

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

3.2.5 Impairment of financial assets

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

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

3.2.6 Derecognition

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

3.2.7 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.3 Financial liabilities

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

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

3.4 Derivatives

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

3.5 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 recognised 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.

3.6 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 amortised 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.

MCB DYNAMIC CASH FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

3.7 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

3.8 Taxation

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

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

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

3.9 Net asset value per unit

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

3.10 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.

3.11 Proposed distributions

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

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

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

The 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 unrealised 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 recognised in the Income Statement.

3.13 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.

MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

3.14 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 recognised in the income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the Income Statement within the fair value net gain or loss.

3.15 Revenue recognition

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

4. BALANCES WITH BANKS

	Note	2011	2010
		(Rupees in '000)	
In deposit accounts	4.1	2,124,800	328,095
		<u>2,124,800</u>	<u>328,095</u>

4.1 These carry mark-up at rates ranging between 5.00% to 13.9% per annum (2010: 5.00% to 10.5% per annum).

5. INVESTMENTS

	Note	2011	2010
		(Rupees in '000)	
Financial assets at fair value through profit or loss	5.1	3,149,605	4,829,187

5.1 Financial assets at fair value through profit or loss

Listed debt securities	5.1.1	737,485	1,333,526
Unlisted debt securities	5.1.2.1	664,481	874,939
Government securities	5.1.5	1,747,639	2,620,722
		<u>3,149,605</u>	<u>4,829,187</u>

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

5.1.1 Listed debt securities - term finance certificates

Certificates have a face value of Rs 5,000 each unless stated otherwise in 5.1.4

Name of investee company	Number of Certificates				Balance as at June 30, 2011			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2010	Purchased during the year	Disposed / matured during the year	As at June 30, 2011	Cost	Market value	Appreciation / (Diminution)		
------(Rupees in 000)-----									
Commercial banks									
Allied Bank Ltd (December 6, 2006, issue)	13,300	-	1,500	11,800	55,990	60,180	4,190	1.20%	1.91%
Askari Bank Ltd -I (February 4, 2005, issue)	5,930	6,600	-	12,530	61,997	62,687	690	1.25%	1.99%
Askari Bank Ltd -III (November 18, 2009, issue)	42,000	12,000	31,000	23,000	114,521	118,877	4,356	2.37%	3.77%
Faysal Bank Limited TFC - 1 (November 12, 2007)	7,515	-	-	7,515	36,164	37,912	1,748	0.76%	1.20%
NIB Bank Limited (March 05, 2008)	60,397	22,999	69,220	14,176	67,817	68,242	425	1.36%	2.17%
Royal Bank of Scotland (February 10, 2005)	300	-	-	300	740	756	16	0.02%	0.02%
Soneri Bank Limited (May 05, 2005)	4,000	-	-	4,000	19,196	19,632	436	0.39%	0.62%
United Bank Limited -I (September 08, 2006, issue)	15,000	-	-	15,000	73,859	75,797	1,938	1.51%	2.41%
United Bank Limited -TFC (August 10, 2004)	-	3,100	-	3,100	14,650	14,650	-	0.29%	0.47%
United Bank Ltd TFC - IV (February 14, 2008, issue)	34,900	57,961	41,100	51,761	244,521	255,172	10,651	5.08%	8.10%
Fertilizer									
Engro Chemical Pakistan Ltd - 111 (November 30, 2007, issue)	162	-	-	162	775	779	4	0.02%	0.02%
Engro Chemical Pakistan Ltd - (December 17, 2009, issue)	40,000	-	40,000	-	-	-	-	-	-
Leasing Companies									
Saudi Pak Leasing Company Limited (March 13, 2010)	10,000	-	-	10,000	25,107	22,801	(2,306)	0.45%	0.72%
Technology & Communication									
World Call Telecom Ltd. (October 07, 2008)	41,000	-	41,000	-	-	-	-	-	-
Investment Bank									
Jahangir Siddiqui and Company Limited (September 30, 2005, issue)	8,000	-	8,000	-	-	-	-	-	-
Total - 2011	282,504	102,660	231,820	153,344	715,337	737,485	22,148	14.7%	23.4%
Total - 2010					1,320,621	1,333,526	12,905	22.34%	23.56%

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

5.1.2 Unlisted debt securities - term finance certificates and other securities

Certificates have a face value of Rs 5,000 each unless stated otherwise in 5.1.4

Name of investee company	Number of Certificates				Balance as at June 30, 2011			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2010	Purchased during the year	Disposed / matured during the year	As at June 30, 2011	Cost	Market value	Appreciation / (Diminution)		
	------(Rupees in 000)-----								
Bank AL Habib Limited TFC (III) (June 15, 2009)	4,900	-	4,900	-	-	-	-	-	-
Bank AlFalah Limited-IV (June 15, 2009)	40,000	4,000	32,500	11,500	55,489	58,270	2,781	1.16%	1.85%
Bank AlFalah Limited -II (November 23, 2004, issue)	-	22,079	-	22,079	109,811	110,879	1,068	2.21%	3.52%
Engro Chemical Pakistan Limited- Perpetual TFC - IV (March 18, 2008)	51,679	-	49,260	2,419	10,793	11,369	576	0.23%	0.36%
Engro Chemical Pakistan Limited- Sukuk TFC - IV (September 06, 2007)	1,400	-	1,400	-	-	-	-	-	0.00%
Jahangir Siddiqui Company Ltd-V (July 04, 2007)	24,000	-	-	24,000	116,968	119,947	2,979	2.39%	3.81%
JDW Sugar Mills Ltd-PPTFCs (June 23, 2008)	15,000	-	-	15,000	45,723	47,990	2,267	0.96%	1.52%
Kashf Foundation	14,000	-	14,000	-	-	-	-	0.00%	0.00%
Standard Chartered Bank (Pak) Limited (February 01, 2006)	-	10,000	-	10,000	45,038	45,707	669	0.91%	1.45%
Maple Leaf Cement Factory Limited -I (December 03, 2009)	71,000	-	-	71,000	265,836	216,808	(49,028)	4.32%	6.88%
Maple Leaf Cement Factory Limited -II (March 31, 2010)	2,662	-	-	2,662	13,310	9,310	(4,000)	0.19%	0.30%
New Allied Electronics Industries (Pvt) Ltd (May 15, 2007)	10,400	-	-	10,400	22,337	22,337	-	0.44%	0.71%
New Allied Electronics Industries (Pvt) Ltd -Sukuk 1 (July 25, 2007)	112,000	-	-	112,000	35,234	35,234	-	0.70%	1.12%
Security Leasing Corporation Limited -PPTFC (March 28, 2010)	10,000	-	-	10,000	8,496	8,960	464	0.18%	0.28%
Askari Bank Ltd - II (October 31, 2005)	-	6,980	-	6,980	34,770	35,241	471	0.70%	1.12%
Security Leasing Corporation Limited -Sukuk (March 18, 2010)	5,000	-	-	5,000	7,080	6,305	(775)	0.13%	0.20%
Total - 2011	362,041	43,059	102,060	303,040	770,885	728,357	(42,528)	14.51%	23.13%
Total - 2010					1,046,943	1,003,581	(43,362)	16.80%	17.72%

* Carrying value before provision. Provision details are specified in note 5.1.3.

MCB DYNAMIC CASH FUND
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	Note	2011 (Rupees in '000)
5.1.2.1 Market value of unlisted debt securities	5.1.2	728,357
Less: Provision against unlisted debt securities	5.1.3	63,876
		<u>664,481</u>
5.1.3 Particulars of provision against debt securities		
New Allied Electronics Industries (Private) Limited - term finance certificates -Opening		25,253
New Allied Electronics Industries (Private) Limited - sukuk bonds -Opening		35,234
	5.1.3.1	60,487
Less: Reversals during the period due to recovery		(2,916)
		<u>57,571</u>
Maple Leaf Cement Factory Limited - sukuk bonds -Opening	5.1.3.2	55,194
Maple Leaf Cement Factory Limited II -Opening	5.1.3.3	13,310
		68,504
Less: Reversals during the period due to reclassification as 'performing securities'		(68,504)
		-
Security Leasing -Sukuk (net)	5.1.3.4	6,305
		<u>63,876</u>

5.1.3.1 These represent investments in privately placed Term Finance Certificates and Sukuk bonds of the investee company. These investments were fully provided. During the period recovery of Rs. 2.916 million was made in term finance certificates on account of realization of insurance proceeds.

The management has recognised impairment loss amounting to Rs 57.571 million till June 30, 2011 which represents the full amount of the Fund's investment in TFC and sukuk, in accordance with the comprehensive provisioning policy duly approved by the Board of Directors. In addition, the income accrued on these term finance certificates and sukuk bonds has also been suspended by the management.

5.1.3.2 The terms of repayment of Maple Leaf Cement factory Limited -I were restructured last year. The sukuk have been classified as performing during the current year by Mutual Fund Association of Pakistan upon complying with the restructuring terms. The management based on its internal risk assessment and considering the financial health of the company has decided to recognise income on receipt basis instead of recognising income on accrual basis using effective interest method. Had the income been recognised on accrual basis, income accrued on term finance certificates would have been higher by 40.393 million.

5.1.3.3 The terms of repayment of Maple Leaf Cement Factory Limited -Sukuk I were restructured last year and as per the terms of restructuring the markup due on December 03, 2009 was settled partially through cash payment and partially through issuance of new sukuk, "Maple Leaf Cement Factory Limited -Sukuk II". The management recognised these Sukuks and created a provision of full amount thereagainst as the price of these sukuk were not quoted by the Mutual Funds Association of Pakistan. During the current year, the price of Maple Leaf Sukuk-II is being quoted by Mutual Funds Association of Pakistan (MUFAP) and as at June 30, 2011, the sukuk is appearing under the category of non-investment grade securities in the MUFAP daily price list. The management has reversed the provision of Rs 13.310 million made in previous years and is carrying the sukuk at an aggregate value of Rs 9.310 million which is based on rate quoted by MUFAP.

5.1.3.4 The management based on the review of financial conditions of the company, has made full provision against this non performing exposure.

**MCB DYNAMIC CASH FUND
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5.1.4 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
Listed debt securities							
Allied Bank Ltd - I	11,800	5,000	4,991	6 month KIBOR+1.9%	December 6, 2014	Unsecured	AA-
Askari Bank Ltd - I	12,530	5,000	4,988	6 month KIBOR+1.5%	February 4, 2013	Unsecured	AA-
Askari Bank Ltd-III	23,000	5,000	4,997	6 month KIBOR+2.5%	November 18, 2019	Unsecured	AA-
Faysal Bank Limited TFC - 1	7,515	5,000	4,993	6 month KIBOR+1.4%	November 12, 2014	Unsecured	AA-
NIB Bank Limited	14,176	5,000	4,994	6 month KIBOR+1.15%	March 5, 2016	Unsecured	A+
Faysal Bank Ltd (formerly Royal Bank of Scotland)	300	2,500	2,496	6 month KIBOR+1.9%	February 10, 2013	Unsecured	AA-
Soneri Bank Limited	4,000	5,000	4,988	6 month KIBOR+1.6%	May 5, 2013	Unsecured	A+
United Bank Limited -TFC	15,000	5,000	4,991	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	51,761	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	3,531	6.00%	March 13, 2017	Secured	Unrated
Unlisted debt securities							
Bank AlFalah Limited-IV (June 15, 2009)	11,500	5,000	4,997	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	4,993	6 month KIBOR+1.7%	July 4, 2013	Secured	AA
JDW Sugar Mills Ltd-PPTFCs	15,000	5,000	3,333	3 month KIBOR+1.25%	June 23, 2014	Secured	A
Maple I	71,000	5,000	4,994	3 month KIBOR+1.0%	December 3, 2018	Secured	*NIGDS
MAPLE-II	2,662	5,000	5,000	3 month KIBOR+1.0%	March 31, 2012	Secured	*NIGDS
Security Leasing-PPTFC	10,000	5,000	1,289	-	March 28, 2014	Secured	Non-rated
Security Leasing-SUKUK	5,000	5,000	2,149	-	March 18, 2014	Secured	Non-rated
Standard Chartered III	10,000	5,000	4,492	6 month KIBOR+2%	February 1, 2013	Unsecured	AAA
Askari Bank Limited II	6,980	5,000	4,989	3 month KIBOR+1.5%	October 31, 2013	Unsecured	AA-
Bank ALFalah Limited - TFC II	22,079	5,000	4,988	6 month KIBOR+1.5%	November 23, 2012	Unsecured	AA-

5.1.4.1 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
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5.1.5 Investment in government securities

Name of investee company	-----Face Value -----					Balance as at June 30, 2011			Market value as a percentage of net assets	Market value as a percentage of total investment
	As at July 1, 2010	Purchased during the year	Disposed during the year	Matured during the year	As at June 30, 2011	Cost	Market value	Appreciation / (Diminution)		
------(Rupees in 000)-----										
Treasury Bills - 1 year	644,000	3,873,000	3,388,000	1,129,000	-	-	-	-	-	-
Treasury Bills - 6 months	1,650,000	3,714,000	4,500,000	778,000	86,000	85,209	85,161	(48)	1.70%	2.70%
Treasury Bills - 3 months	295,000	16,640,000	15,760,000	1,046,000	129,000	126,022	126,155	133	2.51%	4.01%
National Saving Bonds	99,900	-	-	-	99,900	99,900	99,900	-	1.99%	3.17%
Pakistan Investment Bonds -10 years	-	966,000	600,000	316,000	50,000	48,674	49,143	469	0.98%	1.56%
Pakistan Investment Bonds -05 years	-	566,000	553,000	13,000	-	-	-	-	-	0.00%
Pakistan Investment Bonds -03 years	-	500,000	475,000	-	25,000	24,678	24,891	213	0.50%	0.79%
GoP Ijara Sukuk Certificate -03 years	-	21,400	7,800	-	13,600	1,362,439	1,362,389	(50)	27.14%	43.26%
Total	2,688,900	26,280,400	25,283,800	3,282,000	403,500	1,746,922	1,747,639	717	34.82%	55.49%

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Note

2011	2010
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(Rupees in '000)

5.1.6 Net unrealised diminution on re-measurement of investments classified as financial 'assets at fair value through profit or loss'

Cost of investment	5.1.1, 5.1.2 & 5.1.5	3,233,144	4,991,133
Market value of investment	5.1.1, 5.1.2 & 5.1.5	3,213,481	4,957,829
		<u>(19,663)</u>	<u>(33,304)</u>

5.2 Movement in provision against debt securities

Opening balance	128,642	150,393
Charge for the year	6,845	15,219
Less: Reversal of provision	(71,611)	(36,970)
Charge for the year - net	(64,766)	(21,751)
Closing balance	<u>63,876</u>	<u>128,642</u>

**MCB DYNAMIC CASH FUND
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6. PROFIT AND OTHER RECEIVABLES	2011	2010
	(Rupees in '000)	
Profit on term deposits	-	2,054
Profit on savings deposits	4,349	855
Income accrued on term finance certificates	69,919	65,044
Income accrued on government securities	8,036	5,234
Others	3,282	556
	85,586	73,743
7. SECURITY DEPOSITS AND PREPAYMENTS		
Security deposits with		
- National Clearing Company of Pakistan Limited	3,000	3,500
- Central Depository Company of Pakistan Limited	200	200
Prepayments	288	134
	3,488	3,834
8. PRELIMINARY EXPENSES AND FLOATATION COSTS		
Preliminary expenses and floatation costs incurred	3,828	6,130
Less: accumulated amortisation	2,302	2,302
Closing balance	1,526	3,828

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. This expenditure is being amortised over a period of five years commencing from March 1, 2007.

9. PAYABLE TO MANAGEMENT COMPANY	Note	2011	2010
		(Rupees in '000)	
Management fee	9.1	5,780	7,030

9.1 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. PAYABLE TO THE CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED	Note	2011	2010
		(Rupees in '000)	
Remuneration payable	10.1	397	551
		397	551

10.1 The Trustee 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 01, 2010 to December 31, 2010.

Amount of funds under management (average NAV)

Tariff per annum

Upto Rs 1,000 million

Rs 0.7 million or 0.20% per annum of NAV, whichever is higher.

On an amount exceeding Rs 1,000 million

Rs 2 million plus 0.10% per annum of NAV, exceeding Rs 1,000 million

Tariff applicable from January 01, 2011 to June 30, 2011.

**MCB DYNAMIC CASH FUND
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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.

11. 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.

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	2011	2010
(Rupees in '000)			
Auditors' remuneration		470	450
Withholding tax payable		18	-
Sales Load payable		6,378	3,013
Dividend payable		12,315	-
Provision for Workers' Welfare Fund	13	46,042	33,970
Advance received for issuance of units	12.1	269,460	-
Others		532	453
		335,215	37,886

12.1 This represents advance against issue of units received from various individuals during June 2011. In accordance with the requirements of the Trust deed and Offering documents the management intends to issue the units against these amounts upon completion of all documentation formalities.

13. 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 in the annual financial statements for the year ended June 30, 2010.

Subsequent to the year ended June 30, 2010, a clarification was issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. 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 counsel 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. However, pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to continue to maintain the provision for WWF amounting to Rs 46.042 million (including Rs 12.072 million for the current year) in these financial statements.

14. 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 realised or unrealised, is distributed amongst the unit holders. No tax liability has been recognised during the current year as the Fund has distributed 90 percent of its accounting income (as reduced by capital gains whether realised or unrealised) during the current year.

MCB DYNAMIC CASH FUND
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15. FINANCIAL INSTRUMENTS BY CATEGORY

Assets

Balances with banks
Investments
Profit and other receivables
Receivable against sale of investments
Security deposits

-----As at June 30, 2011-----		
Loans and receivables	Assets 'as fair value through profit or loss'	Total
------(Rupees in '000)-----		
2,124,800	-	2,124,800
-	3,149,605	3,149,605
85,586	-	85,586
-	-	-
3,200	-	3,200
<u>2,213,586</u>	<u>3,149,605</u>	<u>5,363,191</u>

Liabilities

Payable to Management Company
Payable to Trustee
Payable against redemption of units
Accrued expenses and other liabilities

-----As at June 30, 2011-----		
Liabilities 'as fair value through profit or loss'	Other financial liabilities	Total
------(Rupees in '000)-----		
-	5,780	5,780
-	397	397
-	-	-
-	289,173	289,173
-	<u>295,350</u>	<u>295,350</u>

Assets

Balances with banks
Investments
Term Deposit Receipts
Dividend and other receivables
Receivable against sale of investments
Security deposits

-----As at June 30, 2010-----		
Loans and receivables	Assets 'as fair value through profit or loss'	Total
------(Rupees in '000)-----		
328,095	-	328,095
-	4,829,187	4,829,187
830,000	-	830,000
73,743	-	73,743
174,249	-	174,249
3,700	-	3,700
<u>1,409,787</u>	<u>4,829,187</u>	<u>6,238,974</u>

**MCB DYNAMIC CASH FUND
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-----As at June 30, 2010-----		
Liabilities 'as fair value through profit or loss'	Other financial liabilities	Total

------(Rupees in '000)-----

Liabilities

Payable to Management Company	-	7,030	7,030
Payable to Trustee	-	551	551
Payable against redemption of units	-	15,348	15,348
Payable against purchase of investments	-	205,583	205,583
Accrued and other liabilities	-	3,916	3,916
	-	232,428	232,428

16. CONTINGENCIES AND COMMITMENTS

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

17. AUDITOR'S REMUNERATION

	2011	2010
	(Rupees in '000)	
Annual audit fee	320	300
Half yearly review fee	180	175
Other certifications	450	450
Out of pocket expenses	50	71
	1,000	996

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 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
--------------------------------------	--------------------------------------	--------------------------------------	------------------------	-------------------------------------	--------------------------	----------------------------

------(Rupees in '000)-----

Investment in debt securities*	a) Maple Leaf Cement Factory Limited -Sukuk	216,808	-	216,808	4.32%	4.04%
	b) Maple Leaf Cement Factory Limited -Sukuk II	9,310	-	9,310	0.19%	0.17%
	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	6,305	6,305	-	-	-
	f) Security Leasing Corporation Limited -PPTFC	8,960	-	8,960	0.18%	0.17%
	g) Saudi Pak Leasing Company Limited	22,801	-	22,801	0.45%	0.42%

At the time of purchase, the above mentioned TFCs and Sukuks were in compliance with the aforementioned circular. However, they subsequently defaulted or were downgraded to non investment grade.

MCB DYNAMIC CASH FUND
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19. CASH AND CASH EQUIVALENTS

	2011	2010
	(Rupees in '000)	
Balances with banks	2,124,800	328,095
Term deposit receipts	-	830,000
Treasury bills	126,155	292,805
	2,250,955	1,450,900

20. TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

20.1 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.

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

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

20.4 Details of transactions with connected persons are as follows:

	2011	2010
	(Rupees in '000)	
MCB Bank Limited		
Profit received on deposit accounts	4,337	5,572
Distribution of 79,821 bonus units (2010: 323,945 units)	8,062	32,745
Redemption of 3,412,051 units (2010: Nil units)	346,553	-
Bank charges	16	38
MCB Asset Management Company Limited (now merged with and into Arif Habib Investments Limited)	78,255	124,589
Remuneration of management company	-	299,159
Issuance of Nil units (2010: 2,915,954 units)	100,000	431,540
Redemption of 970,133 units (2010: 4,216,157 units)	36,125	32,142
Distribution of 355,979 bonus units (2010: 318,241 units)		
MCB Employees Provident Fund		
Distribution of 101,217 bonus units (2010: 64,789 units)	10,268	6,549
MCB Employees Foundation		
Distribution of NIL bonus units (2010: 14,548 units)	-	1,466
Redemption of NIL units (2010: 205,568 units)	-	21,207
MCB Employees Pension Fund		
Distribution of 101,217 bonus units (2010: 64,789 units)	10,268	6,549
Central Depository Company of Pakistan Limited		
Remuneration and settlement charges for the year	5,803	9,314
Adamjee Insurance Company Limited		
Issuance of 3,606,620 units (2010: 30,916,098 units)	365,000	3,150,000
Redemption of 4,590,244 units (2010: 36,100,999 units)	465,964	3,701,181
Distribution of 971,150 bonus units (2010: 1,032,638 units)	98,509	104,122
Adamjee Insurance Company Limited - Employees Provident Fund		
Issuance of NIL units (2010: 247,933 units)	-	25,000
Redemption of 178,077 units (2010: 754,771 units)	18,086	77,757
Distribution of 4,166 bonus units (2010: 35,772 units)	421	3,605

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	2011	2010
	(Rupees in '000)	
D.G Khan Cement Company Limited Employees Provident Fund Trust		
Distribution of 304 bonus units (2010: 195 units)	31	20
MCB AMC Staff Provident Fund		
Issuance of NIL units (2010: 11,672 units)	-	1,200
Distribution of 1,772 bonus units (2010: NIL units)	180	-
Adamjee Life Assurance Company Limited		
Issuance of 425,881 units (2010: 3,244,747 units)	44,000	332,910
Redemption of 1,550,781 units (2010: 3,193,177 units)	159,000	329,572
Distribution of 72,807 bonus units (2010: 88,160 units)	7,379	8,894
Key management personnel		
Issuance of 37,972 units (2010: 107,939 units)	3,885	10,975
Redemption of 25,697 units (2010: 126,503 units)	2,654	12,903
Distribution of 7,363 bonus units (2010: 7,845 units)	747	793
20.5 Amount outstanding as at year end		
	(Rupees in '000)	
MCB Bank Limited		
Bank balance	571,205	268,853
Profit receivable on deposit accounts	1,535	346
Nil units held as at June 2011 (2010: 3,332,230)	-	344,617
MCB Asset Management Company Limited (now merged with and into Arif Habib Investments Limited)		
Remuneration payable to management company	5,780	7,030
1,920,728 units held as at June 30, 2011 (2010: 2,534,882)	194,617	262,156
Adamjee Insurance Company Limited		
6,995,112 units held as at June 30, 2011 (2010: 7,007,586 units)	708,778	724,720
Adamjee Insurance Company Limited - Employees Provident Fund		
NIL units held as at June 30, 2011 (2010: 173,911 units)	-	17,986
MCB Employees Provident Fund		
767,663 units held as at June 30, 2011 (June 2010: 666,446)	77,783	68,923
MCB Employees Pension Fund		
767,663 units held as at June 30, 2011 (June 2010: 666,446)	77,783	68,923
MCB AMC Staff Provident Fund		
13,444 units held as at June 30, 2011 (June 2010: 11,672 units)	1,362	1,207
D.G Khan Cement Company Limited Employees Provident Fund Trust		
2,309 units held as at June 30, 2011 (2010: 2,005 units)	234	207
Adamjee Life Assurance Company Limited		
20,893 units held as at June 30, 2011 (2010: 1,133,299 units)	2,117	117,205
Key management personnel		
61,907 units held as at June 30, 2011 (2010: 48,146)	6,273	4,979
Central Depository Company of Pakistan Limited		
Security Deposit	200	200
Remuneration and settlement charges payable	397	551

**MCB DYNAMIC CASH FUND
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21. PARTICULARS OF THE INVESTMENT COMMITTEE AND THE FUND MANAGER

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

Name	Designation	Experience in years	Qualification
1 Mr. Yasir Qadri	Chief Executive Officer	16	MBA
2 Mr. Kashif Rafi	Fund Manager - Fixed Income	10	MBA, CFA (Level 1)
3 Mr. Muhammad Asim	Fund Manager - Equity Funds	8	MBA & CFA
4 Mr. Syed Akbar Ali	Senior Research Analyst	6	MBA & CFA
5 Mr. Mohsin Pervez	Senior Research Analyst	10	CFA (Level 1)

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

		2011 (Percentage)
1	JS Global Capital Limited	22.43
2	BMA Capital Management Company Limited	20.49
3	KASB Securities Limited	11.14
4	IGI Finex Securities Limited	11.27
5	Invest and Finance Securities Limited	10.72
6	Invest Capital and Securities (Pvt) Limited	12.45
7	Invisor Securities (Pvt) Limited	5.51
8	Global Securities Pakistan Limited	1.84
9	Elixir Securities Pakistan (Pvt) Limited	1.76
10	Summit Capital Markets (Pvt) Limited	1.90
		2010 (Percentage)
1	IGI Finex Securities Limited	20.73
2	Invest Capital Investment Bank Limited	19.66
3	JS Global Capital Limited	18.25
4	KASB Securities Limited	12.34
5	Global Securities Pakistan Limited	10.18
6	Invisor Securities (Private) Limited	5.02
7	Atlas Capital Markets (Private) Limited(ATLAS)	4.13
8	Al Falah Securities (Private) Limited	4.06
9	BMA Capital Management Company Limited	2.03
10	First Capital Securities Limited	1.79

MCB DYNAMIC CASH FUND
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23. PATTERN OF UNIT HOLDING

-----June 30, 2011-----				
Category	Number of Unit Holders	Number of Unit Held	Net Assets value of the amount invested	Percentage of total investment
------(Rupees in '000)-----				
Individuals	2,406	28,032,965	2,840,433	56.58%
Associated companies / Directors	14	10,708,358	1,085,021	21.61%
Insurance companies	-	-	-	-
Banks / DFIs	2	5,076,904	514,416	10.25%
NBFCs	-	-	-	-
Retirement funds	43	1,905,250	193,049	3.85%
Public limited companies	29	3,729,270	377,867	7.53%
Others	1	87,970	8,914	0.18%
	<u>2,495</u>	<u>49,540,717</u>	<u>5,019,700</u>	<u>100%</u>

-----June 30, 2010-----				
Category	Number of Unit Holders	Number of Unit Held	Net Assets value of the amount invested	Percentage of total investment
------(Rupees in '000)-----				
Individuals	1,682	15,891,802	1,643,521	27.53%
Associated companies / Directors	10	15,468,164	1,599,708	26.79%
Insurance companies	3	1,296,689	134,103	2.25%
Banks / DFIs	7	12,088,190	1,250,154	20.94%
NBFCs	-	-	-	-
Retirement funds	51	2,868,340	296,642	4.97%
Public limited companies	5	5,901,267	610,306	10.22%
Others	29	4,214,640	435,875	7.30%
	<u>1,787</u>	<u>57,729,092</u>	<u>5,970,309</u>	<u>100%</u>

24. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

As per note 1 of the financial statements, MCB Asset Management Company Limited merged with and into Arif Habib Investments Limited on June 27, 2011.

Before the said merger the 20th, 21st, 22nd, 23rd, 24th and 25th BoD meetings of MCB Asset Management Company Limited were held on July 1, 2010, September 7, 2010, October 18, 2010, January 28, 2011, April 27, 2011 and June 23, 2011 respectively. Information in respect of attendance by Directors in the meetings is given below:

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Name of persons attending the meeting	No. of Meetings	Number of Meetings			Meeting not attended
		Attendance	Attended	Leave	
1 Mr. Mian Mohammad Mansha	6	6	5	1	21st meeting
2 Mr. U.A. Usmani	6	6	6	-	-
3 Mr. Ali Munir	6	6	6	-	-
4 Mr. Ahmed Jahangir	6	6	6	-	-
5 Mr. Haroun Rashid	6	6	6	3	20th, 21st and 23rd meeting
6 Mr. Syed Waliullah Shah	6	6	4	2	23rd and 25th meeting
7 Mr. Samir Saigol	6	6	6	-	-
8 Mr. Ismail Arif Rafi *	6	5	4	1	25th meeting
9 Mr. Yasir Qadri (Chief Executive Officer)	6	6	6	-	-
10 Mr. Saqib Saleem (CFO & Company Secretary)	6	6	6	-	-

* The above director was appointed during the year and only five meetings of the Board were held after his appointment.

Pursuant to merger, The 88th BoD meeting of Arif Habib Investments Limited was held on June 27, 2011. Information in respect of attendance by Directors in the meetings is given below:

Name of persons attending the meeting	No. of Meetings	Number of Meetings			Meeting not attended
		Attendance	Attended	Leave	
1 Mr. Mian Mohammad Mansha	1	1	1	-	-
2 Mr. Haroun Rashid	1	1	1	-	-
3 Mr. Ahmed Jahangir	1	1	1	-	-
4 Mr. Muhammad Shafi Malik *	1	1	1	-	-
5 Mr. Nasim Beg	1	1	1	-	-
6 Mr. Muhammad Akmal Jameel *	1	1	1	-	-
7 Mr. Muhammad Kashif *	1	1	-	1	88th meeting
8 Mr. Syed Ajaz Ahmed *	1	1	-	1	88th meeting
9 Mr. Sirajuddin Cassim *	1	1	-	1	88th meeting
10 Mr. S. Gulrez Yazdani *	1	1	1	-	-
11 Mr. Samad A. Habib	1	1	1	-	-
12 Mr. Salman Ali Shah	1	1	1	-	-
13 Mr. Mirza Mahmood Ahmad	1	1	1	-	-
14 Mr. Yasir Qadri (Chief Executive Officer)	1	1	1	-	-
15 Mr. Saqib Saleem (CFO & Company Secretary)	1	1	1	-	-

* The above directors retired in the 88th meeting held on June 27, 2011

25. FINANCIAL RISK MANAGEMENT

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

25.1 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.

MCB DYNAMIC CASH FUND

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

25.1.1 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.

25.1.2 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 5.140 million (2010: 4.677 million).

b) Sensitivity analysis for fixed rate instruments

As at June 30, 2011, the Fund holds Treasury bills and Pakistan Investment Bonds which are classified as 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, 2011, with all other variables held constant, the net income for the year and net assets would be lower by Rs 0.269 million (2010: Rs 5.25 million) and Rs 0.344 million respectively. In case of 100 basis points decrease in rates announced by FMAP on June 30, 2011, with all other variables held constant, the net income for the year and net assets would be higher by Rs 0.270 million (2010: Rs 5.29 million) and 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, 2011 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.

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		June 30, 2011				
Yield / effective interest rate %	Total	Exposed to Yield / interest rate risk			Not exposed to Yield / interest rate risk	
		Up to three months	More than three months and up to one year	More than one year		
On-balance sheet financial instruments		------(Rupees in '000)-----				
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	-	-	-
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
Payable against redemption of units		-	-	-	-	-
Payable against purchase of investments		-	-	-	-	-
Accrued and other liabilities		289,155	-	-	-	289,155
		295,332	-	-	-	295,332
On-balance sheet gap		<u>5,067,859</u>	<u>5,274,405</u>	<u>-</u>	<u>-</u>	<u>(206,546)</u>
Off-balance sheet financial instruments		-	-	-	-	-
		June 30, 2010				
Yield / effective interest rate %	Total	Exposed to interest rate risk			Not exposed to interest rate risk	
		Up to three months	More than three months and up to one year	More than one year		
On-balance sheet financial instruments		------(Rupees in '000)-----				
Financial Assets						
Balances with banks	5.00 - 10.50	328,095	328,095	-	-	-
Investments						
Financial assets at fair value through profit or loss - net						
- Listed debt securities	13.14-14.75	1,333,526	1,333,526	-	-	-
- Unlisted debt securities	6.00-15.50	874,939	874,939	-	-	-
- Government securities	9.17-12.29	2,620,722	2,620,722	-	-	-
Term deposit receipts	12.5-12.6	830,000	830,000	-	-	-
Dividend and other receivables		73,743	-	-	-	73,743
Receivable against sale of investments		174,249	-	-	-	174,249
Security deposits		3,700	-	-	-	3,700
		6,238,974	5,987,282	-	-	251,692
Financial Liabilities						
Payable Management Company		7,030	-	-	-	7,030
Payable to Trustee		551	-	-	-	551
Payable against redemption of units		15,348	-	-	-	15,348
Payable against purchase of investments		205,583	-	-	-	205,583
Accrued and other liabilities		3,916	-	-	-	3,916
		232,428	-	-	-	232,428
On-balance sheet gap		<u>6,006,546</u>	<u>5,987,282</u>	<u>-</u>	<u>-</u>	<u>19,264</u>
Off-balance sheet financial instruments		-	-	-	-	-

MCB DYNAMIC CASH FUND

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25.1.3 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. Presently, the Fund is not exposed to equity securities price risk as the Fund does not hold any equity securities as at June 30, 2011.

25.2 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 sukuks, 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 summarises the credit quality of the Fund's investment in term finance certificates and sukuks, term deposit receipts and government securities as at June 30, 2011 and June 30, 2010:

Investments by rating category

	June 30, 2011	June 30, 2010
Governement Securities	33%	46%
AAA, AAA-, AAA+	1%	0%
AA, AA-, AA+	57%	39%
A, A-, A+	3%	10%
BBB, BBB+, BBB-	0%	0.57%
BB+	4%	0%
CCC	0%	0.43%
Non - performing, Unrated	2%	4%

The maximum exposure to credit risk before any credit enhancement as at June 30, 2011 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.

25.3 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 (2010: 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, 2011**

June 30, 2011			
Total	Upto three months	Over three months and upto one year	Over one year

------(Rupees in '000)-----

Liabilities

Payable Management Company	5,780	5,780	-	-
Payable to Trustee	397	397	-	-
Annual fee payable to the Securities & Exchange Commission of pakistan	3,913	3,913	-	-
Payable against redemption of units	-	-	-	-
Accrued and other liabilities	289,138	289,138	-	-
Total liabilities	299,228	299,228	-	-

June 30, 2010			
Total	Upto three months	Over three months and upto one year	Over one year

------(Rupees in '000)-----

Liabilities

Payable to MCB Asset Management Company Limited - Management Company	7,030	7,030	-	-
Payable to the Central Depository Company of Pakistan Limited - Trustee	551	551	-	-
Annual fee payable to the Securities & Exchange Commission of pakistan	6,229	6,229	-	-
Payable against redemption of units	15,348	15,348	-	-
Payable against purchase of investments	205,583	205,583	-	-
Accrued and other liabilities	3,916	3,916	-	-
Total liabilities	238,657	238,657	-	-

26. 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 25, 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.

27. 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.

**MCB DYNAMIC CASH FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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.

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, either directly (that is, as prices) or indirectly (i.e. derived from prices) (level 2).
- Inputs for the assets 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 categorized 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, 2011-----				
	Level 1	Level 2	Level 3	Total
----- (Rupees in '000) -----				
ASSETS				
Investment	-	3,085,729	63,876	3,149,605
-----As at June 30, 2010-----				
	Level 1	Level 2	Level 3	Total
----- (Rupees in '000) -----				
ASSETS				
Investment	-	4,618,244	210,943	4,829,187

28. GENERAL

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

29. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on September 20, 2011 by the Board of Directors of the management company.

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

Chief Executive

Director

**MCB DYNAMIC CASH FUND
PATTERN OF HOLDING AS PER REQUIREMENT OF
CODE OF CORPORATE GOVERNANCE
AS AT JUNE 30, 2011**

Category	No. of Unit Holders	Units
Associated Company, Undertakings, and Related Parties		
Adamjee Insurance Co. Ltd.	1	6,995,112
MCB Asset Management Company Limited	1	1,920,728
MCB Employees Provident Fund	1	767,663
MCB Employees Pension Fund	1	767,663
Staff Provident Fund of Management Company	1	13,444
Adamjee Life Assurance Co. Ltd.	2	20,893
D.G. Khan Cement Company Ltd Employees Provident Fund Trust	1	2,309
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	2	5,076,904
Director, CEO and their spouses and minor children		
Yasir Qadri	1	49,374
Executives	4	12,534
Trust	43	1,905,250
Corporate	29	3,729,270
Individuals	2,407	28,191,602
Others	1	87,970
	<u>2,495</u>	<u>49,540,716</u>

**MCB DYNAMIC CASH FUND
PATTERN OF UNIT HOLDING (SIZE)
AS AT JUNE 30, 2011**

No. of Unit Holders	Units Holdings	Total Units Held
1838	1 - 10000	5,574,309
607	10001 - 100000	15,524,328
45	100001 - 1000000	12,807,093
5	1000001 - onwards	15,634,985
<u>2495</u>		<u>49,540,716</u>

MCB DYNAMIC CASH FUND PERFORMANCE TABLE

Performance Information	2011	2010	2009	2008	2007
Total Net Assets Value – Rs. in million	5,020.00	5,970.00	9,487.00	12,896.89	9,143.86
Net Assets value per unit – Rupees	101.32	103.42	103.17	106.46	103.38
Highest offer price per unit	107.0111	106.2858	105.1300	108.0900	103.3800
Lowest offer price per unit	102.5526	100.0713	97.1400	100.1700	100.0000
Highest Redemption price per unit	105.4059	104.6915	105.1300	108.0900	103.3800
Lowest Redemption price per unit	101.0143	100.0713	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. (18 Oct-10)	2.71				
Net Assets Value before distribution	104.21				
Net Assets Value after distribution	101.50				
Distribution per unit (Annual) – Rs. (28 Jan-11)	3.00				
Net Assets Value before distribution	104.57				
Net Assets Value after distribution	101.57				
Distribution per unit (Annual) – Rs. (27 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				
Average Annual Return - %					
One year	12.90	11.00	9.40		10.10
Two year	12.70	10.7	10.03		N/a
Three year (inception date Mar 01, 2007)	12.30	11.1	10.30		N/a
Net Income loss for the year / period – Rs. in million	591.54	738.14	926,406.00		298.95
Income Distribution – Rs. in million	575.45	680.41	926,406.00		298.95
Accumulated Capital Growth – Rs. in million	73.82	57.73	-	-	-
Weighted average Portfolio Duration (years)	1.87	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.