

MCB DYNAMIC ALLOCATION FUND

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MCB DYNAMIC ALLOCATION 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
Bank Alfalah Limited
NIB Bank Limited
Faysal 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 ALLOCATION 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 Allocation Fund (DAF), is pleased to present the Annual Report on the affairs of DAF for the year ended 30th June, 2011.

Economy & Money Market Overview and Outlook

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.

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.

Equities Market Overview and Outlook

Equities recorded second consecutive year of stellar performance with the KSE-100 index rising by about 29% in FY11 on top of 36% return posted in FY10. Pakistan equity market also remained the 3rd best performing market in the region after Indonesia and Thailand which posted 33% and 31% returns respectively.

KSE -100 Index made the fresh start with 76 points plus at 9,740 on its 1st day and closed the first month in same zeal at +8.2%. However the momentum halted abruptly as severe floods hit across provinces causing substantial damages and losses. Economic gloom pulled the index in the negative territory making a low of 9,488 on August 17, 2010. However persistent foreign inflow amounting to USD 105 m in the first quarter, turned the sentiment at KSE positive and second quarter proved to be the best performing period of the year and about 74% of the total annual performance could be attributed to this period. With the exception of initial period, market remained lackluster during most part of the 2nd half of the year where major dampeners included the political unrest in MENA region and highly volatile US-Pak diplomatic relationship. KSE-100 index closed the year at 12,496, down 2.1% from its year high of 12,768 made on Jan 17, 2011; overall 29% up YoY.

MCB DYNAMIC ALLOCATION FUND

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY

FOR THE YEAR ENDED JUNE 30, 2011

While returns remained impressive, volumes were unprecedentedly low. In its first year, post imposition of CGT, retail investors remained largely inactive as foreign investors and local institutions including Banks, Corporates and Mutual Funds demonstrated marginal interest. During the year, average daily turnover declined significantly to about 95 million shares, down 40% on YoY basis. KSE Management attempted to enthrone the market by introducing leverage products including Margin Trading System and Market Financing System and made few modifications in futures market, but to no avail.

Macro-economic factors challenging the KSE performance included strong detriments like capital gains tax, a cumulative 150 basis points increase in discount rate in an already high interest rate environment, economic loss due to floods and higher Oil prices and lower foreign flows. Some of the positives that propelled KSE in positive territory included strong external account position on the back of increased textile exports, flood-related foreign aids, coalition support fund and record-high remittances ultimately translating in a relatively stable exchange rate and record FX reserves. Moreover, strong liquidity from booming rural economy and persistent foreign interest in domestic equities, which continued to trade at a discount of around 35-40% despite strong dividend yield (near 7%) and corporate earnings growth (+20% YoY) helped the market to exhibit strong performance.

Sector wise, Food Producers, Metals and Mining, Beverages and Chemicals outperformed the KSE-100 index while the major sectors and index heavy weights including Banks and Oil & Gas Sectors remained among the underperformers while best performing stocks included Nestle, FFC, FFBL, POL and LOTPTA.

We believe that the global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. An unexpected 50 bps DR cut by the SBP during the early part of FY12 bodes well for the market, however, a ballooning fiscal deficit would continue to 'crowd out' domestic capital markets. Strong earnings growth, sizeable discount to regional markets, high dividend yields and relatively cheaper PE valuations warrant decent returns for long term investors in our view.

Fund's Performance

The investment objective of the fund is to aim at providing a high absolute return by investing in equity and debt markets. On the equities front, the fund maintained its exposure in those sectors and stocks that are largely immune fundamentally from weak macroeconomic indicators such as Oil & Gas, OMCs, Power and Fertilizer sectors. The fund remained committed towards its philosophy of top-down investment approach, where macroeconomic factors play a critical role in setting the overall strategy of the fund.

On the fixed income side, the fund continued managing its Treasury Bills exposure according to market conditions and interest rate outlook. From time to time, the fund capitalized on attractive TDRs opportunities while also maintained a decent exposure towards high quality TFCs of banking sector. The fund generated a return of 20.9% during the year, while since inception return of the fund stands at -5.5%.

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

| Performance Information (%) | MCB DAF | Benchmark |
|-----------------------------|---------|-----------|
| Last twelve Months Return | 20.9% | N/A |
| Since Inception | -5.5% | N/A |

During the year your fund earned net income of Rs 58.65 million. The Board in the meeting held on 23rd June, 2011 has declared final distribution amounting to Rs. 50.56 million (i.e. Rs. 12.50 per unit).

During the period, units worth Rs.2.08 million (including Rs. 89.40 million worth of bonus units) were issued and units with a value of Rs. 131.42 million were redeemed. As on 30th June, 2011 the NAV of the Fund was Rs. 69.84 per unit.

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.

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.

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

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:

| 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

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

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 no trades in the units of the fund were carried out by the Directors, CEO, CFO/Company Secretary and their spouses and minor children.

External Auditors

The fund's external auditors, Messers A.F. Ferguson & Co., Chartered Accountants, have expressed their willingness to continue as the fund auditors for the ensuing year ending June 30, 2012. The audit committee of the Board has recommended reappointment of A.F. Ferguson & Co., Chartered Accountant as auditors of the fund for the year ending June 30, 2012.

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 ALLOCATION FUND REPORT OF THE FUND MANAGER FOR THE YEAR ENDED JUNE 30, 2011

Fund Type and Category

MCB Dynamic Allocation Fund MCB DAF is an Open-End Asset Allocation Scheme for which SECP categorization in process.

Fund Benchmark

MCB DAF is an absolute return fund and has no benchmark. However, a benchmark has been suggested to the SECP for its approval.

Investment Objective

MCB Dynamic Allocation Fund is an asset allocation fund and its objective is to aim at providing a high absolute return by investing in equity and debt markets.

Investment Strategy

The fund will aim to achieve the above-mentioned objective by investing up to 100% in equity securities or up to 100% in debt securities according to the market conditions.

Manager's Review

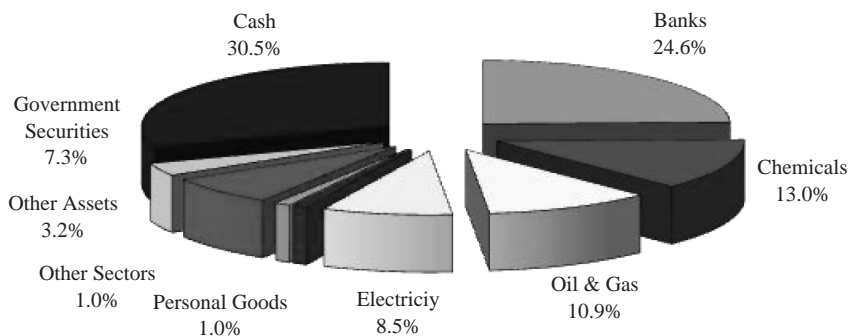
The fund posted a total return of 21% during the year under review, while since inception return of the fund stood at -5.5%. The fund continued to follow a risk-averse strategy and hence refraining from aggressive equities exposures.

Equities market remained extremely volatile during the year under review with volumes remaining depressed. The fund opened the year with an equities exposure of 55% which was gradually reduced to a lowest exposure of 15% during the first quarter and later on enhanced to a highest of 48% towards the ending months of the year. The fund, however, closed the year with an equity exposure of around 45%. Average exposure towards equities during the year under review stood at 37%. The focus was maintained on defensive high dividend yielding stocks with attractive valuations.

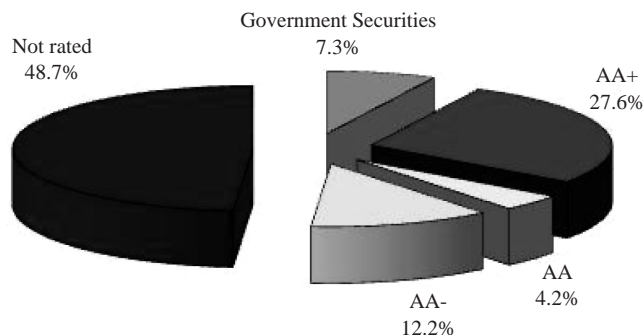
On the fixed income front, the exposure towards government securities was also managed according to the market conditions and their relative risk-return profile. Seasonal opportunities for the placement of Term Deposits were also capitalized at attractive rates. Investments in TFCs, however, were restricted to selected high credit quality instruments of the banking sector while some TFCs of the manufacturing sector deemed risky and were liquidated during the period under review.

Net Assets of the fund declined to PKR 333 million as on June 30, 2011 from PKR 403 million as on June 30, 2010, a decline of 17.4%. Despite decent returns, redemption pressures resulted in the fund size depletion.

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



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



Mr. Muhammad Asim, CFA
Fund Manager

Karachi: September 20, 2011

MCB DYNAMIC ALLOCATION 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 Allocation Fund (the Fund), an open-end fund was established under a trust deed dated November 22, 2007, 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 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.

Muhammad Hanif Jakhura

Chief Executive Officer
Central Depository Company of Pakistan Limited

Karachi: October 26, 2011

MCB DYNAMIC ALLOCATION 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 Allocation 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 Allocation Fund is an open end mutual fund and is listed at the 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 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 NBFII 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 ALLOCATION 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 inhouse 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 or units of the Fund of the Management Company 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 ALLOCATION 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 Allocation 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: October 25, 2011

MCB DYNAMIC ALLOCATION 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 Allocation 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.

Opinion

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

Other matters

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

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

Dated: 25th October 2011
Karachi

FINANCIAL STATEMENTS

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

| | Note | 2011 | 2010 |
|--|------|------------------|------------------|
| (Rupees in '000) | | | |
| ASSETS | | | |
| Bank balances | 4 | 102,768 | 66,796 |
| Investments | 5 | 224,137 | 275,290 |
| Term Deposit Receipts | 6 | - | 50,000 |
| Receivable against sale of investments | | - | 5,378 |
| Dividend and other receivables | 7 | 4,890 | 2,342 |
| Security deposits | 8 | 4,100 | 3,600 |
| Preliminary expenses and floatation costs | 9 | 1,710 | 2,710 |
| Total assets | | 337,605 | 406,116 |
| LIABILITIES | | | |
| Payable to Management Company | 10 | 411 | 520 |
| Payable to the Trustee | 11 | 64 | 69 |
| Annual fee payable to the Securities and Exchange Commission of Pakistan | 12 | 349 | 574 |
| Payable against redemption of units | | 10 | 8 |
| Payable against purchase of investments | | 725 | - |
| Accrued and other liabilities | 13 | 3,466 | 1,904 |
| Total liabilities | | 5,025 | 3,075 |
| NET ASSETS | | 332,580 | 403,041 |
| Unit holders' fund (as per statement attached) | | 332,580 | 403,041 |
| CONTINGENCIES & COMMITMENTS | | | |
| | 15 | | |
| (Number of Units) | | | |
| NUMBER OF UNITS IN ISSUE | | 4,762,337 | 5,152,325 |
| (Rupees) | | | |
| NET ASSET VALUE PER UNIT | 3.10 | 69.84 | 78.23 |

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

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

Chief Executive

Director

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

| Note | 30 June, 2011 | 30 June, 2010 |
|--|-------------------------|------------------|
| | (Rupees in '000) | |
| INCOME | | |
| Capital gain / (loss) on sale of investments | 52,919 | 113,777 |
| (Loss) / income from spread transactions | (1,076) | 1 |
| Dividend income | 11,109 | 15,155 |
| Profit on bank deposits and term deposit receipts | 4,796 | 11,352 |
| Income from money market placements | - | 1,565 |
| Income from MTS | 44 | |
| Income from term finance certificates | 7,191 | 19,854 |
| Income from government securities | 6,197 | 7,352 |
| | 81,180 | 169,056 |
| Net unrealised appreciation / (diminution) on re-measurement of investments classified as financial assets 'at fair value through profit or loss' | 3,853 | (21,169) |
| Total income / (loss) | 85,033 | 147,887 |
| EXPENSES | | |
| Remuneration of Management Company | 5,509 | 9,059 |
| Remuneration of the Trustee | 734 | 1,208 |
| Annual fee - Securities and Exchange Commission of Pakistan | 349 | 574 |
| Brokerage and settlement charges | 2,665 | 5,401 |
| Amortisation of preliminary expenses and floatation costs | 1,000 | 1,000 |
| Auditors' remuneration | 625 | 570 |
| Bank charges | 329 | 69 |
| Other expenses | 612 | 400 |
| | 11,823 | 18,281 |
| Net income from operating activities | 73,210 | 129,606 |
| Element of (loss) / income and capital (losses) / gains included in the prices of units issued less those in units redeemed | (13,358) | (70,699) |
| Provision for Workers' Welfare Fund | (1,197) | (1,178) |
| Net income for the year before taxation | 58,655 | 57,729 |
| Taxation | - | - |
| Net income for the year after taxation | 58,655 | 57,729 |
| Other comprehensive income for the year | - | - |
| Total comprehensive income for the year | 58,655 | 57,729 |
| Earnings per unit | 19 | |

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

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

Chief Executive

Director

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

| | 30 June, 2011 | 30 June, 2010 |
|--|--------------------------|--------------------------|
| | (Rupees in '000) | |
| Accumulated loss brought forward | | |
| - Realised loss | (92,514) | (368,228) |
| - Unrealised income / (loss) | (19,678) | 16,835) |
| | (112,192) | (351,393) |
| Final distribution for the year ended June 30, 2010 : | | |
| On July 01, 2010 at Rs 10.089 per unit | | |
| - Cash distribution | (12,849) | - |
| - Bonus distribution | (39,133) | - |
| Final distribution for the year ended June 30, 2011 : | | |
| On June 23, 2011 at Rs 12.50 per unit | | |
| - Cash distribution | (291) | - |
| - Bonus distribution | (50,271) | - |
| Element of income / (loss) and capital gains / (losses) included in the prices of units issued less those in units redeemed - amount that forms part of the unit holders' fund | 12,427 | 181,472 |
| Net income for the year after taxation | 58,655 | 57,729 |
| Accumulated loss carried forward | (143,654) | (112,192) |
| Accumulated loss comprising of: | | |
| - Realised loss | (145,718) | (92,514) |
| - Unrealised income / (loss) | 2,064 | (19,678) |
| | (143,654) | (112,192) |

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

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

Chief Executive

Director

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

| | 30 June, 2011 | 30 June, 2010 |
|---|--------------------------|--------------------------|
| | (Rupees in '000) | |
| Net assets at the beginning of the year | 403,041 | 714,089 |
| Issue of 1,321,703 units (2010: 917,623 units) | 2,082 | 67,511 |
| Redemption of 1,711,691 units (2010: 6,420,114 units) | (131,416) | (506,987) |
| | (129,334) | (439,476) |
| 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 | 13,358 | 70,699 |
| - amount representing income that forms part of unit holders' fund - transferred to distribution statement | (12,427) | (181,472) |
| | 931 | (110,773) |
| Net unrealised appreciation / (diminution) on re-measurement of investment classified as financial assets 'at fair value through profit or loss' | 3,853 | (21,169) |
| Capital gain on sale of investments | 52,963 | 113,777 |
| Income / (loss) from other operating activities | 1,839 | (34,879) |
| | 58,655 | 57,729 |
| Final distribution for the year ended June 30, 2010 : | | |
| On July 01, 2010 at Rs 10.089 per unit | | |
| - Cash distribution | (12,849) | - |
| Final distribution for the year ended June 30, 2011 : | | |
| On June 23, 2011 at Rs 12.50 per unit | | |
| - Cash distribution | (291) | - |
| Net element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised income | 12,427 | 181,472 |
| Net assets as at the end of the year | 332,580 | 403,041 |

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

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

Chief Executive

Director

**MCB DYNAMIC ALLOCATION FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

| Note | 30 June, 2011 | 30 June, 2010 |
|---|------------------|------------------|
| | (Rupees in '000) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for the year before taxation | 58,655 | 57,729 |
| Adjustments for non-cash charges and other items: | | |
| Capital gain on sale of investment | (52,963) | (113,777) |
| Dividend income | (11,109) | (15,155) |
| Net unrealised (appreciation) / diminution on remeasurement of investment classified as financial assets 'at fair value through profit or loss' | (3,853) | 21,169 |
| Amortisation of preliminary expenses and floatation costs | 1,000 | 1,000 |
| Element of loss / (income) and capital losses / (gains) included in the prices of units issued less those in units redeemed | 13,358 | 70,699 |
| | 5,088 | 21,665 |
| (Increase) / decrease in assets | | |
| Investments - net | 114,072 | 336,430 |
| Other receivable | (2,132) | 3,969 |
| Profit receivable on MTS | (31) | |
| Profit receivable on bank deposits | (268) | 157 |
| Security deposits and prepayments | (500) | - |
| | 111,141 | 340,556 |
| Increase / (decrease) in liabilities | | |
| Payable against redemption of units | 2 | 8 |
| Payable to the Management Company | (109) | (634) |
| Payable to the Trustee | (5) | (48) |
| Annual fee payable to the Securities and Exchange Commission of Pakistan | (225) | (309) |
| Accrued and other liabilities | 1,562 | 693 |
| | 1,225 | (290) |
| Dividend income received | 10,992 | 17,684 |
| Net cash inflow from operating activities | 128,446 | 379,615 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net receipts from issue of units | 2,082 | 67,511 |
| Net payment on redemption of units | (131,416) | (506,987) |
| Distributions paid | (13,140) | - |
| Net cash outflow on financing activities | (142,474) | (439,476) |
| Net decrease in cash and cash equivalents | (14,028) | (59,861) |
| Cash and cash equivalents at the beginning of the year | 116,796 | 176,657 |
| Cash and cash equivalents at the end of the year | 102,768 | 116,796 |

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

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

Chief Executive

Director

MCB DYNAMIC ALLOCATION 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 Allocation Fund (the Fund) was established under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) and Non Banking Finance Companies and Notified Entities Regulations, 2007 and was approved as an open end investment scheme by the Securities and Exchange Commission of Pakistan (SECP) on December 17, 2007. It was constituted under a Trust Deed dated November 22, 2007 between MCB Asset Management Company Limited as the Management Company, a company incorporated under the Companies Ordinance, 1984 and Central Depository Company of Pakistan Limited as the Trustee, also incorporated under the Companies Ordinance, 1984.

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 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 is an open ended mutual fund and offers units for public subscription on a continuous basis. The units of the Fund can be transferred to / from the funds managed by the Management Company and can also be redeemed by surrendering to the Fund. The units are listed on the Lahore Stock Exchange.

The Fund is an asset allocation fund and is allowed to shift total exposure into debt or equity instruments as per market conditions and the discretion of the Management Company. The objective of the Fund is to provide a high return which commensurate the higher risk taken due to pro-active allocation of funds across various asset and debt classes.

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 Limited (PACRA) has assigned an asset manager rating of AM2 (positive outlook) to the Management Company and a rating of '3-Star-normal to the Fund.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the 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 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 detailed in these financial statements.

MCB DYNAMIC ALLOCATION 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 July 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 2010 and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Fund's operations and are therefore not detailed in these financial statements.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in the process of applying the Fund's accounting policies. The estimates, judgments and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas where various assumptions and estimates are significant to the Fund's financial statements or where judgement was exercised in application of accounting policies principally relate to classification and valuation of financial assets (note 3.1 and 5).

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except for investments classified as financial assets 'at fair value through profit or loss' category which are carried at fair value.

2.6 Functional and presentation currency

The financial statements are presented in Pak Rupees, which is the functional and presentation currency of the Fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below:

3.1 Financial assets

3.1.1 Classification

The Fund classifies its financial assets in the following categories: financial assets 'at fair value through profit or loss' and 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this classification on a regular basis.

a) Financial assets at fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as held for trading in the financial assets 'at fair value through profit or loss' category.

b) Loans and receivables

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

MCB DYNAMIC ALLOCATION FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

3.1.2 Regular way contracts

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset.

3.1.3 Initial recognition and measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried 'at fair value through profit or loss'. Financial assets carried 'at fair value through profit or loss' are initially recognised at fair value while the related transaction costs are expensed out in the income statement.

3.1.4 Subsequent measurement

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

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

— 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 Fund 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.

— 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.

— Basis of valuation of equity securities

The investment of the Fund in equity securities is valued on the basis of closing quoted market prices available at the stock exchange.

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

(b) Loans and receivables

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

Gain or loss is also recognised in the 'income statement' when financial assets carried at amortised cost are derecognised or impaired, and through the amortisation process.

3.1.5 Impairment

The Fund assesses at each reporting date whether there is objective evidence that the financial asset or a group of financial assets is impaired. If any such indication exists, the recoverable amount of such asset or group of assets is estimated and impairment losses are recognised in the income statement.

MCB DYNAMIC ALLOCATION FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

Loans and receivables

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit and loss account.

Debt securities and other non-performing investments

Provision in respect of debt securities and other non-performing investments is made in accordance with the criteria for provision of non-performing debt securities specified in Circular No. 1 of 2009 dated January 06, 2009 and Circular No. 13 of 2009 dated May 04, 2009 issued by the SECP. The provisioning policy has been duly formulated and approved by the Board of Directors of the Management Company.

3.1.6 Derivatives

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

3.2 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.

3.3 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 Offsetting of financial instruments

Financial assets and 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 asset and settle the liability simultaneously.

3.5 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 16, 2008, as per the requirement of the Trust Deed of the Fund.

3.6 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.

MCB DYNAMIC ALLOCATION FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

3.7 Securities under Margin Trading System (MTS)

Securities purchased under an agreement to resell (reverse repo) are included as receivable against MTS transactions at fair value of the consideration given. All purchases and sale of securities that require delivery within the time frame established by the regulations or market convention are recognised at the trade date. Trade date is the date on which the Fund commits to purchase or sell the assets. The MTS transactions are accounted for on the settlement date. The income is accrued at the applicable rate of return specified in the Bid on the outstanding Marginal Trading Transaction Value after adjustment of MTM losses.

3.8 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 ninety percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed among the unit holders.

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 avail 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.

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.

3.9 Accrued expenses

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

3.10 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.

3.11 Issue and redemption of units

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

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

3.12 Proposed distributions

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

3.13 Element of income / (loss) and capital gains / (losses) included in the 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 income per unit 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 income / (losses) held in the Unit Holder's Fund 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.

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

3.14 Revenue recognition

- Mark-up on term finance certificates, government securities and money market placements are recognised on an accrual basis.
- 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 capital gains / (losses) arising on re-measurement of investments classified as ' Financial assets at fair value through profit or loss ' are included in the Income Statement in the period in which they arise.
- Income from spread transactions arising on settlement of ready - future purchases are included in the income statement in the period in which they arise.
- Profits on bank deposits and term deposit receipts are recognised on an accrual basis.
- Dividend income on equity securities is recognised when the right to receive dividend is established.
- Income on MTS transactions is recognised on an accrual basis.

3.15 Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and short term highly liquid investments with original maturities of three months or less.

4. BANK BALANCES

| | Note | 2011 | 2010 |
|--------------------|------|------------------|--------|
| | | (Rupees in '000) | |
| In saving accounts | 4.1 | 102,768 | 66,796 |
| | | 102,768 | 66,796 |

4.1 These carry mark-up at rates ranging from 5% to 13.3% per annum (2010: 5% to 10.5% per annum).

5. INVESTMENTS

| | Note | 2011 | 2010 |
|--|------|------------------|---------|
| | | (Rupees in '000) | |
| Financial assets at fair value through profit or loss - held for trading | 5.1 | 220,931 | 275,290 |
| Loans and receivables | | | |
| - Margin Trading System (MTS) | | 3,206 | - |
| | | 224,137 | 275,290 |

5.1 Financial assets at fair value through profit or loss - held for trading

| | | | |
|--|-----|---------|---------|
| Listed equity securities | 5.2 | 150,485 | 224,993 |
| Listed debt securities | 5.3 | 40,612 | 50,297 |
| Unlisted debt securities | 5.4 | 5,067 | - |
| Government securities | 5.6 | 24,756 | - |
| Derivatives - unrealised gain on letter of right | | 11 | - |
| | | 220,931 | 275,290 |

**MCB DYNAMIC ALLOCATION FUND
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5.2 Listed equity securities

| Name of the Investee company | Number of shares | | | | | Balance as at June 30, 2011 | | | Market value as percentage of net assets | Market value as percentage of total investments | Percentage of paid up capital of investee company held |
|------------------------------|--------------------|-----------------------------|---------------------|--------------------------------|---------------------|-----------------------------|--------------|-----------------------------|--|---|--|
| | As at July 1, 2010 | Purchased during the period | Bonus / Right Issue | Disposed off during the period | As at June 30, 2011 | Cost | Market value | Appreciation / (Dumunation) | | | |

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

Unless stated otherwise, the holdings are in ordinary shares having a face value of Rs. 10 each

Auto Mobile & Parts

| | | | | | | | | | | | |
|------------------------------|--------|---|---|--------|--------|------------|------------|----------|--------------|--------------|-------|
| Indus Motors Company Limited | 23,000 | - | - | 23,000 | - | - | - | - | 0.00% | 0.00% | 0.00% |
| Agriauto Industries Limited | 30,000 | - | - | 20,000 | 10,000 | 690 | 695 | 5 | 0.21% | 0.31% | 0.07% |
| | | | | | | 690 | 695 | 5 | 0.21% | 0.31% | |

Construction & Materials

| | | | | | | | | | | | |
|--------------------------------|--------|---------|---|---------|---|----------|----------|----------|--------------|--------------|-------|
| Dera Ghazi Khan Cement Limited | 52,200 | 552,627 | - | 604,827 | - | - | - | - | 0.00% | 0.00% | 0.00% |
| Lucky Cement Limited | - | 125,000 | - | 125,000 | - | - | - | - | 0.00% | 0.00% | 0.00% |
| | | | | | | - | - | - | 0.00% | 0.00% | |

Chemicals

| | | | | | | | | | | | |
|------------------------------------|---------|---------|-------|---------|---------|---------------|---------------|--------------|---------------|---------------|-------|
| Engro Corporation Limited | 69,887 | 230,960 | 1,128 | 216,975 | 85,000 | 14,440 | 13,876 | (564) | 4.17% | 6.19% | 0.03% |
| Fatima Fertilizers Limited | 5,581 | 773,995 | - | 5,581 | 773,995 | 10,566 | 12,879 | 2,313 | 3.87% | 5.75% | 0.04% |
| Fauji Fertilizer Bin Qasim Limited | 105,479 | 667,437 | - | 762,916 | 10,000 | 430 | 421 | (9) | 0.13% | 0.19% | 0.00% |
| Fauji Fertilizer Company Limited | 92,215 | 241,000 | - | 227,204 | 106,011 | 14,020 | 15,938 | 1,918 | 4.79% | 7.11% | 0.02% |
| | | | | | | 39,456 | 43,114 | 3,658 | 12.96% | 19.24% | |

Banks

| | | | | | | | | | | | |
|---------------------------|---------|---------|--------|-----------|---------|---------------|---------------|--------------|---------------|---------------|-------|
| Allied Bank Limited | - | 120,823 | 3,100 | 19,000 | 104,923 | 6,638 | 6,730 | 92 | 2.02% | 3.00% | 0.01% |
| Meezan Bank Limited | - | 383,597 | 27,539 | 10,000 | 401,136 | 6,755 | 7,008 | 253 | 2.11% | 3.13% | 0.06% |
| Soneri Bank Limited | - | 770,000 | - | - | 770,000 | 3,943 | 3,904 | (39) | 1.17% | 1.74% | 0.13% |
| Bank Alfalah Limited | 297,551 | - | - | 297,551 | - | - | - | - | 0.00% | 0.00% | 0.00% |
| Bank Al-Habib Limited | - | 301,005 | 45,201 | 55,000 | 291,206 | 9,001 | 8,582 | (419) | 0.03% | 3.83% | 0.04% |
| Habib Bank Limited | 25,000 | 10,000 | - | 35,000 | - | - | - | - | 0.00% | 0.00% | 0.00% |
| MCB Bank Limited | 40,219 | 110,000 | 670 | 145,019 | 5,870 | 1,205 | 1,170 | (35) | 0.35% | 0.52% | 0.00% |
| National Bank of Pakistan | 159,040 | 824,720 | 85,876 | 1,042,423 | 27,213 | 1,438 | 1,372 | (66) | 0.41% | 0.61% | 0.00% |
| United Bank Limited | 269,856 | 373,000 | - | 506,273 | 136,583 | 8,726 | 8,456 | (270) | 2.54% | 3.77% | 0.01% |
| | | | | | | 37,706 | 37,222 | (484) | 11.60% | 16.60% | |

Sugar and Allied Industries

| | | | | | | | | | | | |
|-----------|---|--------|---|---|--------|------------|------------|-----------|----------|----------|-------|
| JDW Sugar | - | 10,000 | - | - | 10,000 | 710 | 805 | 95 | 0.24% | 0.36% | 0.02% |
| | | | | | | 710 | 805 | 95 | - | - | |

**MCB DYNAMIC ALLOCATION FUND
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5.2 Listed equity securities

| Name of the Investee company | Number of shares | | | | | Balance as at June 30, 2011 | | | Market value as percentage of net assets | Market value as percentage of total investments | Percentage of paid up capital of investee company held |
|--|--------------------|-----------------------------|---------------------|--------------------------------|---------------------|-----------------------------|----------------|-----------------------------|--|---|--|
| | As at July 1, 2010 | Purchased during the period | Bonus / Right Issue | Disposed off during the period | As at June 30, 2011 | Cost | Market value | Appreciation / (Dumunation) | | | |
| ----- (Rupees in '000) ----- | | | | | | | | | | | |
| Unless stated otherwise, the holdings are in ordinary shares having a face value of Rs. 10 each | | | | | | | | | | | |
| Personal goods | | | | | | | | | | | |
| Nishat (Chunian) Limited | - | 397,607 | - | 397,607 | - | - | - | - | - | 0.00% | 0.00% |
| Nishat Mills Limited | 221,672 | 539,678 | - | 696,350 | 65,000 | 3,840 | 3,272 | (568) | 0.98% | 1.46% | 0.02% |
| | | | | | | 3,840 | 3,272 | (568) | 0.98% | 1.46% | |
| Oil and gas | | | | | | | | | | | |
| Attock Petroleum Limited | 84,890 | 59,981 | - | 139,871 | 5,000 | 1,912 | 1,871 | (41) | 0.56% | 0.83% | 0.01% |
| Oil & Gas Development Company Limited | 5,482 | 15,000 | - | 20,482 | - | - | - | - | 0.00% | 0.00% | 0.00% |
| Pakistan Oil Fields Limited | 84,785 | 340,904 | - | 391,976 | 33,713 | 11,270 | 12,103 | 833 | 3.64% | 5.40% | 0.01% |
| Pakistan Petroleum Limited | 121,375 | 132,747 | 5,762 | 234,884 | 25,000 | 5,292 | 5,177 | (115) | 1.56% | 2.31% | 0.00% |
| Pakistan Stae Oil Company Limited | 35,177 | 333,662 | - | 310,830 | 58,009 | 16,273 | 15,348 | (925) | 4.61% | 6.85% | 0.03% |
| | | | | | | 34,747 | 34,499 | (248) | 10.37% | 15.39% | |
| General Industries | | | | | | | | | | | |
| Packages Limited | 79,376 | 8,574 | - | 70,000 | 17,950 | 2,144 | 1,975 | (169) | 0.59% | 0.88% | 0.02% |
| Thal Limited * | 7,000 | | | 7,000 | - | - | - | - | 0.00% | 0.00% | 0.00% |
| | | | | | | 2,144 | 1,975 | (169) | 0.59% | 0.88% | |
| Electricity | | | | | | | | | | | |
| HUB Power Company Limited | 1,119,292 | 960,609 | - | 1,872,568 | 207,333 | 7,762 | 7,775 | 13 | 2.34% | 3.47% | 0.02% |
| Kot Addu Power Company Limited | 259,906 | 339,505 | - | 361,613 | 237,798 | 9,895 | 10,133 | 238 | 3.05% | 4.52% | 0.03% |
| Nishat Chunian Power Limited | 379,456 | 999,359 | - | 1,213,016 | 165,799 | 2,564 | 2,275 | (289) | 0.68% | 1.02% | 0.05% |
| Nishat Power Limited | 817,031 | 2,975,363 | - | 3,227,648 | 564,746 | 8,898 | 8,720 | (178) | 2.62% | 3.89% | 0.16% |
| | | | | | | 29,119 | 28,903 | (216) | 8.69% | 12.90% | |
| Total - 2011 | | | | | | 148,412 | 150,485 | 2,073 | 45.40% | 66.78% | |
| Total - 2010 | | | | | | 246,653 | 224,993 | (21,660) | 55.81% | 81.71% | |

* The face value of shares held of Thal limited is Rs. 5

5.2.1 Investment in listed equity securities includes shares with market value aggregating to Rs 16.819 million that have been pledged with National Clearing Company of Pakistan Limited for guaranteeing settlement of Fund's trades in terms of Circular no. 11 dated October 23, 2007 issued by SECP.

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5.3 Listed Debt Securities

| 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 period | Disposed off during the period | As at June 30, 2011 | Cost | Market value | Appreciation / (Dumunation) | | |

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

Certificates having a face value of Rs. 5,000 each unless stated otherwise

| | | | | | | | | | |
|-----------------------------|-------|-------|-------|-------|---------------|---------------|--------------|---------------|---------------|
| Bank Al-Habib Limited - III | 520 | - | 520 | - | - | - | - | 0.00% | 0.00% |
| NIB Bank Limited | 2,845 | - | 2,845 | - | - | - | - | 0.00% | 0.00% |
| Askari Bank Limited - III | 5,000 | - | - | 5,000 | 24,593 | 25,842 | 1,249 | 7.77% | 11.53% |
| Bank Alfalah Limited - II | - | 2,000 | - | 2,000 | 10,010 | 10,044 | 34 | 3.02% | 4.48% |
| United Bank Limited - IV | 2,000 | 1,000 | 3,000 | - | - | - | - | 0.00% | 0.00% |
| United Bank Limited - I | - | 1,000 | - | 1,000 | 4,726 | 4,726 | - | 1.42% | 2.11% |
| Total - 2011 | | | | | 39,329 | 40,612 | 1,283 | 10.79% | 16.01% |
| Total - 2010 | | | | | 49,807 | 50,297 | 490 | 12.48% | 18.28% |

5.4 Unlisted Debt Securities

| 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 period | Disposed off during the period | As at June 30, 2011 | Cost | Market value | Appreciation / (Dumunation) | | |

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

Certificates having a face value of Rs. 5,000 each unless stated otherwise

| | | | | | | | | | |
|---------------------------|---|-------|---|-------|--------------|--------------|----------|--------------|--------------|
| Bank Alfalah Limited - IV | - | 1,000 | - | 1,000 | 5,067 | 5,067 | - | 2% | 2% |
| Total - 2011 | | | | | 5,067 | 5,067 | - | 2% | 2% |
| Total - 2010 | | | | | - | - | - | 0.00% | 0.00% |

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5.5 Significant terms and conditions of Term Finance Certificates outstanding at the year end are as follows:

| Name of Security | Number of Certificates | Face Value (Rupees) | Markup rate (per annum) | Maturity | Secured / Unsecured | Rating |
|------------------|------------------------|---------------------|-------------------------|----------|---------------------|--------|
|------------------|------------------------|---------------------|-------------------------|----------|---------------------|--------|

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

Listed debt securities

| | | | | | | |
|---------------------------|-------|-------|-----------------|-------------------|-----------|-----|
| Askari Bank Limited III | 5,000 | 5,000 | 2.50% + 6 month | November 18, 2019 | Unsecured | AA- |
| Bank Alfalah Limited - II | 2,000 | 5,000 | 1.5% + 6 month | November 23, 2012 | Unsecured | AA- |
| United Bank Limited - I | 1,000 | 5,000 | 0.85% + 6 month | August 10, 2012 | Unsecured | AA |

Unlisted debt securities

| | | | | | | |
|---------------------------|-------|-------|-----------------|------------------|-----------|-----|
| Bank Alfalah Limited - IV | 1,000 | 5,000 | 2.50% + 6 month | December 2, 2017 | Unsecured | AA- |
|---------------------------|-------|-------|-----------------|------------------|-----------|-----|

5.5.1 The term finance certificates held by the Fund are generally secured against hypothecation of stocks and receivables and mortgage / pledge of fixed assets of the issuer.

5.6 Investment in government securities - Market Treasury Bills

| Issue Date | -----Face Value ----- | | | | | Balance as at June 30, 2011 | | | Market value as a percentage of net assets | Market value as a percentage of total investment |
|------------|-----------------------|----------------------------|---------------------------|---------------------------------|-----------------------------|-----------------------------|--------------|-----------------------------|--|--|
| | Tenor | Balance as at July 1, 2010 | Purchases during the year | Sales / Matured during the year | Balance as at June 30, 2011 | Cost | Market value | Appreciation / (Dumunation) | | |

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

| | | | | | | | | | |
|-------------------|-----------|---|--------|--------|---|---|---|---|---|
| 22 April 2010 | 03 months | - | 40,000 | 40,000 | - | - | - | - | - |
| 15 July 2010 | 03 months | - | 50,000 | 50,000 | - | - | - | - | - |
| 13 August 2009 | 12 months | - | 25,000 | 25,000 | - | - | - | - | - |
| 13 August 2010 | 03 months | - | 75,000 | 75,000 | - | - | - | - | - |
| 26 August 2010 | 03 months | - | 50,000 | 50,000 | - | - | - | - | - |
| 10 September 2009 | 12 months | - | 15,000 | 15,000 | - | - | - | - | - |
| 09 September 2010 | 03 months | - | 15,000 | 15,000 | - | - | - | - | - |
| 09 September 2010 | 03 months | - | 20,000 | 20,000 | - | - | - | - | - |

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| Issue Date | -----Face Value ----- | | | | | Balance as at June 30, 2011 | | | Market value as a percentage of net assets | Market value as a percentage of total investment |
|----------------------------|-----------------------|----------------------------|---------------------------|---------------------------------|-----------------------------|-----------------------------|---------------|-----------------------------|--|--|
| | Tenor | Balance as at July 1, 2010 | Purchases during the year | Sales / Matured during the year | Balance as at June 30, 2011 | Cost | Market value | Appreciation / (Dumunation) | | |
| ------(Rupees in 000)----- | | | | | | | | | | |
| 26 August 2010 | 03 months | - | 60,000 | 60,000 | - | - | - | - | - | - |
| 09 September 2010 | 03 months | - | 100,000 | 100,000 | - | - | - | - | - | - |
| 03 June 2010 | 06 months | - | 10,700 | 10,700 | - | - | - | - | - | - |
| 13 August 2010 | 03 months | - | 20,000 | 20,000 | - | - | - | - | - | - |
| 04 November 2010 | 03 months | - | 95,000 | 95,000 | - | - | - | - | - | - |
| 07 October 2010 | 03 months | - | 15,000 | 15,000 | - | - | - | - | - | - |
| 07 October 2010 | 03 months | - | 100,000 | 100,000 | - | - | - | - | - | - |
| 07 October 2010 | 03 months | - | 10,000 | 10,000 | - | - | - | - | - | - |
| 04 November 2010 | 03 months | - | 50,000 | 50,000 | - | - | - | - | - | - |
| 27 January 2011 | 03 months | - | 150,000 | 150,000 | - | - | - | - | - | - |
| 24 February 2011 | 03 months | - | 200,000 | 200,000 | - | - | - | - | - | - |
| 13 January 2011 | 03 months | - | 20,000 | 20,000 | - | - | - | - | - | - |
| 13 January 2011 | 03 months | - | 15,000 | 15,000 | - | - | - | - | - | - |
| 27 January 2011 | 03 months | - | 15,000 | 15,000 | - | - | - | - | - | - |
| 21 April 2011 | 06 months | - | 100,000 | 100,000 | - | - | - | - | - | - |
| 05 May 2011 | 03 months | - | 25,000 | - | 25,000 | 24,765 | 24,756 | (9) | - | - |
| 27 January 2011 | 06 months | - | 10,000 | 10,000 | - | - | - | - | - | - |
| Total - 2011 | | - | 1,285,700 | 1,260,700 | 25,000 | 24,765 | 24,756 | (9) | - | - |
| Total - 2010 | | - | - | - | - | - | - | - | - | - |

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| | | 2011 | 2010 |
|---|---|------------------|--------------|
| | | (Rupees in '000) | |
| 6. TERM DEPOSIT RECEIPTS | | - | 50,000 |
| 7. DIVIDEND AND OTHER RECEIVABLES | | | |
| Dividend receivable | | 125 | 8 |
| Income accrued on Term Deposit Receipts | | - | 76 |
| Income accrued on Term Finance Certificates | | 882 | 1,706 |
| Profit receivable on saving deposits | | 563 | 295 |
| Profit receivable on MTS | | 31 | |
| Other receivable | | 3,289 | 257 |
| | | <u>4,890</u> | <u>2,342</u> |
| 8. SECURITY DEPOSITS AND PREPAYMENTS | | | |
| Security deposits with | | | |
| - National Clearing Company of Pakistan Limited | | 4,000 | 3,500 |
| - Central Depository Company of Pakistan Limited | | 100 | 100 |
| | | <u>4,100</u> | <u>3,600</u> |
| 9. PRELIMINARY EXPENSES AND FLOATATION COSTS | | | |
| Opening balance | | 5,000 | 5,000 |
| Less: accumulated amortisation | | 3,290 | 2,290 |
| Closing balance | | <u>1,710</u> | <u>2,710</u> |
| 9.1 | 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 16, 2008. | | |
| 10. PAYABLE TO MANAGEMENT COMPANY | | | |
| | Note | 2011 | 2010 |
| | | (Rupees in '000) | |
| Management fee | 10.1 | 411 | 497 |
| Sales load payable | 10.2 | - | 23 |
| | | <u>411</u> | <u>520</u> |
| 10.1 | Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. In the current year, the Management Company has charged remuneration at a rate of 1.5 percent (2010: 1.5 percent) of the average annual net assets of the Fund. | | |
| 10.2 | Sales load payable comprises of Rs 2 thousand (2010: 23) payable to the Management Company and Nil (2010: Nil) payable to distribution agents of the Fund. | | |
| 11. PAYABLE TO THE TRUSTEE | | | |
| | Note | 2011 | 2010 |
| | | (Rupees in '000) | |
| Trustee fee | 11.1 | 55 | 66 |
| CDC settlement charges | | 9 | 3 |
| | | <u>64</u> | <u>69</u> |

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11.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering Document as per the tariff specified therein, based on the daily net asset value of the Fund. The tariff structure applicable to the Fund in respect of trustee fee for the year ended June 30, 2011 is as follows:

| Amount of funds under management (average NAV) | Tariff per annum |
|---|--|
| Upto Rs 1,000 million | Rs 0.7 million or 0.20% 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. |

The remuneration is paid to the trustee monthly in arrears.

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

Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), a collective investment scheme classified as "Asset allocation scheme" is required to pay as annual fee to the SECP, an amount equal to 0.095 percent of the average annual net assets of the Fund.

13. ACCRUED AND OTHER LIABILITIES

| | 2011 | 2010 |
|-------------------------------------|------------------|--------------|
| | (Rupees in '000) | |
| Auditors' remuneration | 395 | 350 |
| Brokerage payable | - | - |
| Provision for Workers' Welfare Fund | 2,375 | 1,178 |
| Others | 696 | 376 |
| | 3,466 | 1,904 |

14. FINANCIAL INSTRUMENTS BY CATEGORY

| | -----As at June 30, 2011----- | | |
|--|----------------------------------|--|----------------|
| | Loans and receivables | Financial assets 'as fair value through profit or loss' | Total |
| | ----- (Rupees in '000) ----- | | |
| Assets | | | |
| Bank balances | 102,768 | - | 102,768 |
| Investments | - | 224,137 | 224,137 |
| Term Deposit Receipts | - | - | - |
| Receivable against sale of investments | - | - | - |
| Dividend and other receivables | 4,890 | - | 4,890 |
| Security deposits | 4,100 | - | 4,100 |
| | 111,758 | 224,137 | 335,895 |

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| -----As at June 30, 2011----- | | |
|--|-----------------------------|-------|
| Liabilities at fair value through profit or loss | Other financial liabilities | Total |

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

Liabilities

| | | | |
|---|---|--------------|--------------|
| Payable to Management Company | - | 411 | 411 |
| Payable to the Trustee | - | 64 | 64 |
| Payable against purchase of investments | - | 725 | 725 |
| Payable against redemption of units | - | 10 | 10 |
| Accrued and other liabilities | - | 1,091 | 1,091 |
| | - | <u>2,301</u> | <u>2,301</u> |

| -----As at June 30, 2010----- | | |
|-------------------------------|---|-------|
| Loans and receivables | Financial assets 'as fair value through profit or loss' | Total |

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

Assets

| | | | |
|--|----------------|----------------|----------------|
| Bank balances | 66,796 | - | 66,796 |
| Investments | - | 275,290 | 275,290 |
| Term Deposit Receipts | 50,000 | - | 50,000 |
| Receivable against sale of investments | 5,378 | - | 5,378 |
| Dividend and other receivables | 2,342 | - | 2,342 |
| Security deposits | 3,600 | - | 3,600 |
| | <u>128,116</u> | <u>275,290</u> | <u>403,406</u> |

| -----As at June 30, 2010----- | | |
|--|-----------------------------|-------|
| Liabilities at fair value through profit or loss | Other financial liabilities | Total |

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

Liabilities

| | | | |
|---|---|--------------|--------------|
| Payable to Management Company | - | 520 | 520 |
| Payable to the Trustee | - | 69 | 69 |
| Payable against purchase of investments | - | - | - |
| Payable against redemption of units | - | 8 | 8 |
| Accrued and other liabilities | - | 726 | 726 |
| | - | <u>1,323</u> | <u>1,323</u> |

15. CONTINGENCIES AND COMMITMENTS

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

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16. AUDITORS' REMUNERATION

| | 2011 | 2010 |
|----------------------------|------------------|------------|
| | (Rupees in '000) | |
| Annual statutory audit fee | 270 | 250 |
| Half yearly review fee | 180 | 175 |
| Other certifications | 125 | 100 |
| Out of pocket expenses | 50 | 45 |
| | 625 | 570 |

17. PROVISION FOR WORKERS' WELFARE FUND

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

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 2.375 million (including Rs 1.197 million for the current year) in these financial statements.

18. 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. The Fund has not recorded any tax liability in respect of income relating to the current year as the management company has distributed subsequently the required minimum percentage of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders.

19. EARNINGS PER UNIT

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

20. CASH AND CASH EQUIVALENTS

| | Note | 2011 | 2010 |
|-----------------------|------|------------------|----------------|
| | | (Rupees in '000) | |
| Bank balances | 4 | 102,768 | 66,796 |
| Term Deposit Receipts | | - | 50,000 |
| | | 102,768 | 116,796 |

21. TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

21.1 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 of the management company and other associated undertakings.

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

21.3 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.

21.4 Details of the transactions with the connected persons during the year are as follows:

| | June 30, 2011 | June 30, 2010 |
|--|------------------|---------------|
| | (Rupees in '000) | |
| MCB Bank Limited | | |
| - Profit received on saving accounts | 749 | 1,984 |
| - Dividend income received | 44 | 254 |
| - 110,670 shares bought (2010: 548,619 shares) | 23,944 | 98,813 |
| - 145,019 shares sold (2010: 718,400 shares) | 30,013 | 129,990 |
| MCB Asset Management Company Limited | | |
| - Remuneration of the Management Company | 5,509 | 9,059 |
| - Sales load paid | 4 | 18 |
| - Preliminary expenses and flotation costs | 1,000 | 1,000 |
| Hub Power Company Limited | | |
| - 960,609 shares bought (2010: 2,817,609 shares) | 35,213 | 90,766 |
| - 1,873 shares sold (2010: 3,959,317 shares) | 67,464 | 125,940 |
| - Dividend income received | 1,105 | 3,762 |
| D.G Khan Cement Company Limited | | |
| - 552,627 shares bought (2010: 202,200 shares) | 13,820 | 5,583 |
| - 604,827 shares sold (2010: 15,000 shares) | 15,747 | 4,416 |
| - 5,425 bonus units (2010: Nil Units) | 374 | - |
| Nishat Mills Limited | | |
| - 539,678 shares bought (2010: 1,150,839 shares) | 29,746 | 66,360 |
| - 696,350 shares sold (2010: 929,167 shares) | 39,504 | 55,167 |
| - Dividend income received | 573 | 419 |
| Nishat Power Limited | | |
| - 2,975,363 shares bought (2010: 2,701,042) | 37,781 | 28,522 |
| - 3,227,648 shares sold (2010: 1,884,011) | 44,530 | 20,894 |
| Adamjee Insurance Company Limited | | |
| - Nil shares bought (2010: 11,000 shares) | - | 1,273 |
| - Nil shares sold (2010: 11,000 shares) | - | 1,221 |
| Central Depository Company of Pakistan Limited | | |
| - Remuneration of the Trustee | 734 | 1,208 |
| - CDC settlement charges | 54 | 112 |
| Siddiqsons Tin Plate Limited - Staff Provident Fund Trust | | |
| - 5,307 bonus units (2010: Nil Bonus Units) | 367 | - |
| Trustees Karachi Electric Provident Fund | | |
| - 530,698 bonus units (2010: Nil Bonus Units) | 36,660 | - |
| Capital Development Authority | | |
| - 267,402 bonus units (2010: Nil Bonus Units) | 18,472 | - |
| Key management personnel | | |
| - Redemption of Nil units (2010: 300 units) | - | 21 |

**MCB DYNAMIC ALLOCATION FUND
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21.5 Amount outstanding as at year end

| | June 30, 2011 | June 30, 2010 |
|---|-------------------------|----------------------|
| | (Rupees in '000) | |
| MCB Bank Limited | | |
| - Bank balances | 93,233 | 17,567 |
| - Profit receivable on saving accounts | 125 | 104 |
| - Nil units held as at June 30, 2011 (2010: 1,000,000 units) | - | 78,225 |
| - 5,870 shares held by the Fund as at June 30, 2011 (2010: 40,219 shares) | 1,170 | 7,810 |
| - Sales load payable | - | - |
| MCB Asset Management Company Limited | | |
| - Remuneration payable to Management Company | 411 | 497 |
| - Sales load payable | - | 23 |
| Central Depository Company of Pakistan Limited | | |
| - Remuneration payable to the Trustee | 55 | 66 |
| - CDC settlement charges | 9 | 3 |
| - Security deposit | 100 | 100 |
| Capital Development Authority | | |
| - 1,023,707 units held as at June 30, 2011 (2010: 755,805) | 71,456 | 59,123 |
| D.G Khan Cement Company Limited Employees Provident Trust | | |
| - 20,760 units held as at June 30, 2011 (2010: 15,335 units) | 1,450 | 1,200 |
| - Nil shares held by the Fund as at June 30, 2011 (2010: 52,200) | - | 1,233 |
| Hub Power Company Limited | | |
| - 207,333 shares held by the Fund as at June 30, 2011 (2010: 1,119,292 shares) | 7,775 | 35,773 |
| Nishat Mills Limited | | |
| - 65,000 shares held by the Fund as at June 30, 2011 (2010: 221,671) | 3,272 | 9,558 |
| Siddiqsons Tin Plate Limited - Staff Provident Fund Trust | | |
| - 20,307 units held as at June 30, 2011 (2010: 15,000) | 1,418 | 1,173 |
| Trustees Karachi Electric Provident Fund | | |
| - 2,030,698 units held as at June 30, 2011 (2010: 1,500,000) | 141,815 | 117,338 |
| Key management personnel | | |
| - Nil units held as at June 30, 2011: (2010: Nil) | - | - |

22. PARTICULARS OF THE INVESTMENT COMMITTEE AND THE FUND MANAGER

22.1 Details of members of the investment committee of the Fund are as follows:

| 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 | MBA, CFA- Level 1 |

22.2 Mr. M. Asim is the Manager of the Fund. He is also managing MCB Dynamic Stock Fund, Pakistan Premier Fund and Pakistan Pension Fund.

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

| | | 2011 |
|----|---|-------------------|
| | | Percentage |
| 1 | Fortune Securities (Pvt) Ltd | 9.51% |
| 2 | Invisor Securities (Pvt) Limited | 9.34% |
| 3 | KASB Securities Limited | 9.25% |
| 4 | Foundation Securities Limited | 8.86% |
| 5 | Invest & Finance Securities (Pvt) Limited | 8.52% |
| 6 | Next Capital Limited | 5.88% |
| 7 | JS Global Capital Limited | 5.46% |
| 8 | Arif Habib Limited | 4.98% |
| 9 | Topline Securities (Pvt) Ltd | 4.95% |
| 10 | Elixir Securities Pakistan (Pvt) Limited | 4.41% |
| | | 2010 |
| | | Percentage |
| 1 | Invest & Finance Securities (Pvt) Limited | 11.97% |
| 2 | KASB Securities Limited | 9.91% |
| 3 | Jahangir Siddiqui Capital Markets Limited | 9.30% |
| 4 | Invest Capital & Securities (Pvt) Ltd | 8.76% |
| 5 | Invisor Securities (Pvt) Limited | 6.59% |
| 6 | Arif Habib Limited | 6.38% |
| 7 | Foundation Securities Limited | 5.72% |
| 8 | Elixir Securities Pakistan (Pvt) Limited | 4.68% |
| 9 | I.I. Kodvai Securities (Pvt) Ltd | 4.48% |
| 10 | Aqeel Karim Dhedhi Securities (Pvt) Ltd | 4.10% |

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

| As at June 30, 2011 | | | | |
|----------------------------------|---------------------------|------------------------|---|--------------------------------------|
| Category | Number of Unit Holders | Number of Unit Held | Net asset value of the amount invested | Percentage of total investment |
| ------(Rupees in '000)----- | | | | |
| Individuals | 1,290 | 1,081,406 | 75,521 | 23% |
| Associated companies / Directors | 1 | 20,760 | 1,450 | 0% |
| Insurance companies | - | - | - | 0% |
| Banks / DFIs | - | - | - | 0% |
| NBFCs | - | - | - | 0% |
| Retirement funds | 11 | 2,587,068 | 180,669 | 54% |
| Public limited companies | 4 | 1,073,103 | 74,940 | 23% |
| Others | - | - | - | 0% |
| | 1,306 | 4,762,337 | 332,580 | 100% |

**MCB DYNAMIC ALLOCATION FUND
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| Category | As at June 30, 2010 | | | |
|----------------------------------|-----------------------------|---------------------|--|--------------------------------|
| | Number of Unit Holders | Number of Unit Held | Net asset value of the amount invested | Percentage of total investment |
| | ------(Rupees in '000)----- | | | |
| Individuals | 1,700 | 1,124,712 | 87,981 | 22% |
| Associated companies / Directors | 2 | 1,015,335 | 79,424 | 20% |
| Insurance companies | - | - | - | 0% |
| Banks / DFIs | 1 | 237,819 | 18,603 | 4% |
| NBFCs | - | - | - | 0% |
| Retirement funds | 12 | 1,914,969 | 149,799 | 37% |
| Public limited companies | 1 | 995 | 78 | 1% |
| Others | 6 | 858,495 | 67,156 | 16% |
| | 1,722 | 5,152,325 | 403,041 | 100% |

25. ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

As per note 1 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:

| Name of Director | Number of Meetings | | | | Meeting not attended |
|---|--------------------|---------------------|----------|---------------|--------------------------|
| | Held | Attendance required | Attended | Leave Granted | |
| 1 Mr. Mian Umer Mansha | 6 | 6 | 15 | 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, 23rd meeting |
| 6 Mr. Syed Waliullah Shah | 6 | 6 | 4 | 2 | 23rd, 25th meeting |
| 7 Mr. Samir Saigol | 6 | 6 | 6 | - | - |
| 8 Mr. Ismail Arif Rafi * | 5 | 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:

**MCB DYNAMIC ALLOCATION FUND
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| | Name of Director | Number of Meetings | | | Leave Granted | Meeting not attended |
|----|--|--------------------|------------------------|----------|------------------|----------------------|
| | | Held | Attendance required | Attended | | |
| 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

26. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

26.1 Market risk

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

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

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

26.1.1 Currency risk

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

26.1.2 Interest rate risk

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

a) Sensitivity analysis for variable rate instruments

Presently, the Fund holds KIBOR based interest bearing Term Finance Certificates 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, 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 0.064 million (2010: Rs 0.142 million).

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

Fixed rate instruments comprise of Market Treasury Bills, Term Deposit Receipts, bank balance in saving deposits and MTS. The income from these financial assets are substantially independent of changes in market interest rates except for changes, if any, as a result of fluctuation in respective fair value.

Market Treasury Bills which are classified as financial assets 'at fair value through profit or loss' expose the Fund to fair value interest rate risk. In case of 100 basis points increase in rates announced by Financial Market Association on June 30, 2011 with all other variables held constant, the net income for the year and net assets would be lower by Rs. .029 million (2010:Nil). In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2011, with all other variables held constant, the net income for the year and net assets would be higher by Rs. .009 million (2010: Nil).

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.

| Yield / Effective interest rate (%) | 30 June 2011 | | | | |
|---|--------------|-------------------------------|---|-----------------------|--|
| | 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 | | | | | |
| Bank balances | 5.00 - 14.00 | 102,768 | 102,768 | - | - |
| Investments | | | | | |
| - Financial assets at fair value through profit or loss | | 191,097 | 40,612 | - | 150,485 |
| Loans and receivables | | - | - | - | - |
| Receivable against sale of investment | | - | - | - | - |
| Dividend and other receivable | | 4,890 | - | - | 4,890 |
| Security deposits | | 4,100 | - | - | 4,100 |
| | | 302,855 | 143,380 | - | 159,475 |
| Financial liabilities | | | | | |
| Payable to the Management Company | | 411 | - | - | 411 |
| Payable to the Trustee | | 64 | - | - | 64 |
| Payable against redemption of units | | 10 | - | - | 10 |
| Payable against purchase of investments | | 725 | - | - | 725 |
| Accrued and other liabilities | | 1,091 | - | - | 1,091 |
| | | 2,301 | - | - | 2,301 |
| On-balance sheet gap | | 300,554 | 143,380 | - | 157,174 |
| Off-balance sheet financial instruments | | - | - | - | - |

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| 30 June 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 | | |
| ----- (Rupees in '000) ----- | | | | | | |
| On-balance sheet financial instruments | | | | | | |
| Financial assets | | | | | | |
| Bank balances | 5.00 - 10.5 | 66,796 | 66,796 | - | - | - |
| Investments - Financial assets at fair value through profit or loss invest 13.14% to 14.73% | | 275,290 | 50,297 | - | - | 224,993 |
| Loans and receivables 12.5% to 12.6% | | 50,000 | 50,000 | - | - | - |
| Receivable against sale of investment | | 5,378 | - | - | - | 5,378 |
| Dividend and other receivable | | 2,342 | - | - | - | 2,342 |
| Security deposits | | 3,600 | - | - | - | 3,600 |
| | | 403,406 | 167,093 | - | - | 236,313 |
| Financial liabilities | | | | | | |
| Payable to the Management Company | | 520 | - | - | - | 520 |
| Payable to the Trustee | | 69 | - | - | - | 69 |
| Payable against redemption of units | | 8 | - | - | - | 8 |
| Payable against purchase of investments | | - | - | - | - | - |
| Accrued and other liabilities | | 726 | - | - | - | 726 |
| | | 1,323 | - | - | - | 1,323 |
| On-balance sheet gap | | <u>402,083</u> | <u>167,093</u> | <u>-</u> | <u>-</u> | <u>234,990</u> |
| Off-balance sheet financial instruments | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

26.1.3 Price Risk

The fund is exposed to equity price risk because of investments held by the Fund and classified on the Statement of Assets and Liabilities as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Fund diversifies its portfolio within the eligible stocks prescribed in the trust deed. The Fund's constitutive document / NBFC Regulations also limit individual equity securities to no more than 10% of net assets, or issued capital of the investee company and sector exposure limit to 25% of net assets.

In case of 5% increase / decrease in KSE 100 index on June 30, 2011, net income for the year would increase / decrease by Rs. 7.17 million (2010: Rs. 10.689 million) and net assets of the Fund would increase / decrease by the same amount as a result of gains / losses on equity securities at fair value through profit or loss.

The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Fund's equity instruments moved according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index, having regard to the historical volatility of the index. The composition of the Fund's investment portfolio and the correlation thereof to the KSE index, is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2011 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 100 index.

26.2 Credit risk

Credit risk represents the risk of a loss if the counterparties fail to perform as contracted. The Fund's credit risk is primarily attributable to its investment in Term Finance Certificates, Term Deposit Receipts and bank balances. 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.

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The analysis below summarises the credit quality of the Fund's significant financial assets as at June 30:

| | June 30, 2011 | June 30, 2010 |
|---|---------------|---------------|
| Term Finance Certificates by rating category | | |
| A, A-, A+ | 0% | 27% |
| AA, AA-, AA+ | 100% | 73% |
| Bank balances by rating category | | |
| AA+ | 100.00% | 100.00% |

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.

26.3 Liquidity risk

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

The Fund is exposed to daily cash redemptions, if any, at the option of unit holders. The Fund's approach to managing liquidity is to ensure, as far as possible, that the Fund will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. Its policy is therefore to invest the majority of its assets in investments that are traded in an active market and can be readily disposed and are considered readily realisable.

The Regulations allow the Fund to borrow in the short term to ensure settlement. 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 table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

| | ----- June 30, 2011 ----- | | | |
|---|------------------------------|-------------------|-------------------------------------|---------------|
| | Total | Upto three months | Over three months and upto one year | Over one year |
| | ----- (Rupees in '000) ----- | | | |
| Liabilities | | | | |
| Payable to the Management Company | 411 | 411 | - | - |
| Payable to the Trustee | 64 | 64 | - | - |
| Payable against redemption of units | 10 | 10 | - | - |
| Payable against purchase of investments | 725 | 725 | - | - |
| Accrued and other liabilities | 1,091 | 1,091 | - | - |
| | 2,301 | 2,301 | - | - |

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| ----- June 30, 2010 ----- | | | | |
|---|-------------------|-------------------------------------|---------------|----------|
| Total | Upto three months | Over three months and upto one year | Over one year | |
| ----- (Rupees in '000) ----- | | | | |
| Liabilities | | | | |
| Payable to the Management Company | 520 | 520 | - | - |
| Payable to the Trustee | 69 | 69 | - | - |
| Payable against redemption of units | 8 | 8 | - | - |
| Payable against purchase of investments | - | - | - | - |
| Accrued and other liabilities | 726 | 726 | - | - |
| | <u>1,323</u> | <u>1,323</u> | <u>-</u> | <u>-</u> |

27. 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 unit on the redemption date. The relevant movements are shown on the statement of movement in unit holders' fund.

The Fund has no restriction on the offering and redemption of units. There is no specific capital requirement which is applicable to the Fund.

The Fund's objectives when managing unit holders' fund are to safeguard its ability to continue as a going concern so that it can continue to provide returns for unit 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 26, 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 where necessary.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

International Financial Reporting Standard 7, 'Financial Instruments: Disclosure' requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

| ----- As at June 30, 2011 ----- | | | |
|---------------------------------|---------|---------|-------|
| Level 1 | Level 2 | Level 3 | Total |

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

ASSETS

Investment - financial assets 'at fair value through profit or loss'

| | | | | |
|--|----------------|---------------|----------|----------------|
| - Listed equity securities | 150,485 | - | - | 150,485 |
| - Listed debt securities | - | 40,612 | - | 40,612 |
| - Unlisted debt securities | - | 5,067 | - | 5,067 |
| - Government securities | - | 24,756 | - | 24,756 |
| - Derivatives - unrealised gain on letter of right | 11 | - | - | 11 |
| | <u>150,496</u> | <u>70,435</u> | <u>-</u> | <u>220,931</u> |

| ----- As at June 30, 2010 ----- | | | |
|---------------------------------|---------|---------|-------|
| Level 1 | Level 2 | Level 3 | Total |

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

ASSETS

Investment - financial assets 'at fair value through profit or loss'

| | | | | |
|--|----------------|---------------|----------|----------------|
| - Listed equity securities | 224,993 | - | - | 224,993 |
| - Listed debt securities | - | 50,297 | - | 50,297 |
| - Unlisted debt securities | - | - | - | - |
| - Government securities | - | - | - | - |
| - Derivatives - unrealised gain on letter of right | - | - | - | - |
| | <u>224,993</u> | <u>50,297</u> | <u>-</u> | <u>275,290</u> |

29. CORRESPONDING FIGURES

Corresponding figure have been rearranged and reclassified wherever necessary, for the purpose of comparison and better presentation. No significant rearrangement or reclassification were made in this financial statements.

30. GENERAL

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

31. 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 ALLOCATION 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 | | |
| D.G. Khan Cement Company Ltd Employees Provident Fund Trust | 1 | 20,760 |
| Trust | 11 | 2,587,068 |
| Corporate | 4 | 1,073,103 |
| Individuals | 1,290 | 1,081,406 |
| | <u>1,306</u> | <u>4,762,337</u> |

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

| No. of Unit Holders | Units Holdings | Total Units Held |
|----------------------------|-----------------------|-------------------------|
| 1283 | 1 - 10000 | 692,009 |
| 18 | 10001 - 100000 | 458,477 |
| 5 | 100001 - 1000000 | 3,611,851 |
| | 1000001 - onwards | |
| <u>1306</u> | | <u>4,762,337</u> |

MCB DYNAMIC ALLOCATION FUND PERFORMANCE TABLE

| Performance Information | 2011 | 2010 | 2009 | 2008 |
|---|--------|---------|----------|----------|
| Total Net Assets Value – Rs. in million | 333.00 | 403.041 | 714.089 | 1,689.89 |
| Net Assets value per unit – Rupees | 69.84 | 78.23 | 67.02 | 87.65 |
| Highest offer price per unit | 83.63 | 87.47 | 90.16 | 105.99 |
| Lowest offer price per unit | 68.81 | 69.87 | 54.42 | 87.2 |
| Highest Redemption price per unit | 82.37 | 84.85 | 87.46 | 102.81 |
| Lowest Redemption price per unit | 67.78 | 67.78 | 52.79 | 84.58 |
| Distribution per unit (annual) – Rs. | 12.50 | 10.089 | - | - |
| Net Assets Value before distribution | 82.26 | 78.23 | N/a | N/a |
| Net Assets Value after distribution | 69.76 | 68.14 | N/a | N/a |
| Average Annual Return - % | | | | |
| One year | 20.86 | 16.7 | -23.5 | -12.35 |
| Two year (inception date Mar 11, 2008) | 41.07 | -10.8 | -33 | N/a |
| Three year | 7.87 | -21.8 | N/a | N/a |
| Net Income / (loss) for the period – Rs. in million | 58.66 | 57.73 | -219.766 | -238.15 |
| Income Distribution – Rs. in million | 50.56 | 51.981 | - | - |
| Accumulated Capital Growth – Rs. in million | | - | - | - |

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.