



Bachat ka Dusra Naam

**Annual Report
2012**



 **MCB**
**DYNAMIC
ALLOCATION**
FUND

Aik Teer Say Dou Shikar

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

MCB DYNAMIC ALLOCATION FUND

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Vision

To become synonymous with Savings

Mission

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

Core Values

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

MCB DYNAMIC 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 Mr. Nasim Beg Mr. Yasir Qadri Syed Salman Ali Shah Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Samad A. Habib Mr. Mirza Mahmood Ahmad	Chairman(subject to the approval of SECP) Executive Vice Chairman Chief Executive (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director (subject to the approval of SECP) Director Director (subject to the approval of SECP)
Audit Committee	Mr. Haroun Rashid Mr. Nasim Beg Mr. Samad A. Habib Mr. Ali Munir	Chairman Member Member Member
Human Resource Committee	Dr. Salman Shah Mr. Nasim Beg Mr. Haroun Rashid Mr. Ahmed Jahangir Mr. Yasir Qadri	Chairman Member Member Member Member
Company Secretary & CFO of the Management Company	Mr. Muhammad Saqib Saleem	
Trustee	Central Depository Company of Pakistan Limited CDC House, 990B, Block 'B', S.M.C.H.S, Main Shahrah-e-Faisal, Karachi-74400	
Bankers	Bank Al-Falah Limited MCB Bank 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 - Management Quality Rating assigned by PACRA	

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

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

Economy & Money Market Overview and Outlook

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

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

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

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

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

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

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

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

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

Equities Market Overview and Outlook

The local bourses gave an average performance with the KSE-100 index rising by about 10% in FY12 as against 29% return posted in FY11. Pakistan equity market, however, remained the 3rd best performing market in the region this year as well after Philippines and Thailand.

KSE-100 Index made a depressing start with market shedding 13% during the first couple of months and made the yearly bottom at around 10,800 levels. Alongside negative returns, the market continued to remain dull with consistently low turnover throughout the period remained indicative of investor's shyness towards equity asset class. Even a cumulative cut of 200 bps in DR by the SBP during the first half failed to generate strong momentum among equity investors due to fear of aggressive sell off by foreign investors. Global equities market went down significantly during the quarter, which also had an adverse impact on emerging and frontier markets including Pakistan. Other resistive forces that played a dampening role for the market were political unrest, worsened law and order situation, strained Pak-US relations, floods in Sindh and energy crisis. Foreigners were net seller during the first half with an outflow of US\$ 151 million.

MCB DYNAMIC ALLOCATION FUND

REPORT OF THE DIRECTOR OF THE MANAGEMENT COMPANY

FOR THE YEAR ENDED JUNE 30, 2012

After a depressing first half, the Capital Gains Tax amnesty came as a piece of fortune to the investors at the local equities market and the KSE-100 index surged by 22% during the latter half of the year under review. The expectation of reprieving CGT also waved a magic wand on the volumes too where 2HFY12 saw buoyant volumes while marking a 33-month high at 577mn shares traded in a day. Participation from retail investors also returned to the market during the latter part of this year where mid and small-cap stocks remained the highlights of market activities lately. After a significant sell-off during the first half, foreigners' also jumped on to the bandwagon during the latter half with a net inflow of US\$ 62 million.

Macro economic factors remained challenging the KSE performance included sustained high oil and declining cotton prices resulting in higher trade deficit, lack of foreign flows as well IMF repayments depleted FX reserves and caused PKR to depreciate against the US\$ by around 10%. On the positive front, the SBP remained in a monetary easing cycle with a cumulative reduction of 200 bps in the policy discount rate during the year- improving the fundamentals of debt-laden companies.

Sector wise, Cements, Power and Autos outperformed the KSE-100 index while sectors like Chemicals, Textiles and Refineries remained among the underperformers. Best performing stocks included EFOODS, MEBL, BAFL, and DGKC.

We believe that the political arena would turn noisy on the back of election year ahead as well as continued confrontation between government and judiciary. Global economic environment would remain jittery in the near term, which could provide further hiccups to the international as well as local equity markets. However, expectation of monetary easing by the SBP in the upcoming monetary policy on the back of benign inflation as well as release of CSF payment should support the bull-run in the market in the near term while any major deterioration in key macro-indicators going forward could have a toll on the market performance. Strong earnings growth, sizeable discount to regional markets, high dividend yield 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. Period under review is marked with numerous major events on international, political and macroeconomic fronts that not only affected market movements but also kept changing fundamentals of many sectors and companies. Fund kept a vigilant eye on such developments and kept adjusting sector, company and overall equity exposure of the fund accordingly. During the year fund not only kept strong positions in defensive sectors like Oil & Gas and Electricity but also took aggressive positions in Banks and Construction & Materials remained highest earning growth sectors of the year while fund took a cautious stance towards fertilizer companies because of high degree of earnings uncertainty. 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 significant exposure towards high quality TFCs. The fund generated a return of 8.7% during the year, while since inception return of the fund stands at 2.7%. The Fund yields for the period under review remained as follows:

Performance Information (%)	DAF	Benchmark
Last twelve Months Return	8.7%	N/A
Since Inception	2.7%	N/A

During the year your fund earned net income of Rs 8.122 million. The Board in the meeting held on June 25, 2012 has declared final distribution amounting to Rs. 6.912 million (i.e. Rs. 5.2141 per unit).

During the period, units worth Rs.9.672 million (including Rs. 6.805 million worth of bonus units) were issued and units with a value of Rs. 253.464 million were redeemed. As on 30 June 2012 the NAV of the Fund was Rs. 70.69 per unit.

Update on Workers' Welfare Fund

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

Subsequently, clarifications were issued by the Ministry of Labour and Manpower (the Ministry) which stated that mutual funds are not liable to contribute to WWF on the basis of their income. These clarifications were forwarded by the Federal Board of Revenue (FBR) (being the collecting agency of WWF on behalf of the Ministry) to its members for necessary action. Based on these clarifications, the FBR also withdrew notice of demand which it had earlier issued to one of the mutual funds for collection of WWF. Other mutual funds to whom notices were issued by the FBR also took up the matter with FBR for their withdrawal.

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

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

Subsequent to the year ended June 30, 2011, the Honorable Lahore High Court (LHC) in a Constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008, has declared the said amendments as unlawful and unconstitutional. The Management Company is hopeful that the decision of the LHC, will lend further support to the Constitutional Petition which is pending in the SHC.

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

The aggregate unrecognized amount of WWF as at June 30, 2012 amounted to Rs.0.162 million.

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 no disclosure has been made in the Directors' Report of the Management Company.
- k. The detailed pattern of unit holding, as required by NBFC Regulations and the Code of Corporate Governance are enclosed.
- l. The details of attendance of Board of Directors meeting is disclosed in note 23 to the attached financial statements. During the year four meetings of Audit Committee were held on 19th September 2011, 26th October 2012, 26 January 2012 and 24th April 2012, the details of attendance is as follows:

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

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

- m. As required by the Code, all the directors of the Management Company will attend the training Program for directors by the year 2016. Currently, two of the directors are exempt from obtaining mandatory training having the requisite qualification and experience. Further Directors' have also being briefed about the recent changes made in laws and regulations to enable them to effectively manage the affairs of the management company.
- n. No trades in the Units of the Fund were carried out during the year by Directors, CE, CFO/Company Secretary of the Management Company and their spouses and minor children.

External Auditors

The fund's external auditors, A.F. Ferguson & Co., Chartered Accountants, have retired after the conclusion of audit for current year. Since AFF have consented to act as the External Auditors of the Management Company, they are not eligible for reappointment as statutory auditors of the Fund. The audit committee of the Board has recommended appointment of KPMG Taseer Hadi Khalid & Co., Chartered Accountants, (who have given consent to such appointment) as auditors for the year ending June 30, 2013.

Acknowledgement

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

On behalf of the Board

Yasir Qadri
Chief Executive Officer

Karachi: August 15, 2012

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

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

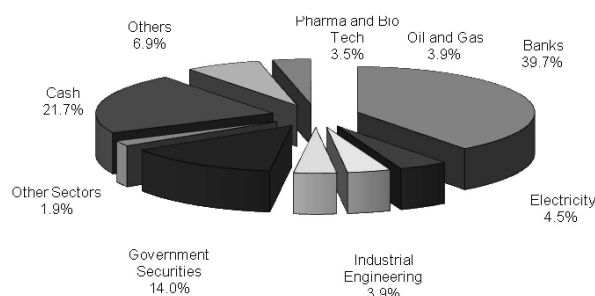
The fund posted a total return of 8.7% during the year under review, while since inception return of the fund stood at 2.7%. The fund continued to follow a risk-averse strategy and hence preferred to take defensive equity market exposures.

The fund opened the year with an equities exposure of 45% which was reduced to around 35% during the first quarter. As the market continued to progress, the fund kept on realizing capital gains by reducing its equity exposure and hence ended the year with an equity exposure of around 18%. Average exposure towards equities during the year under review stood at around 37%. The focus was maintained on defensive high dividend yielding stocks with attractive valuations.

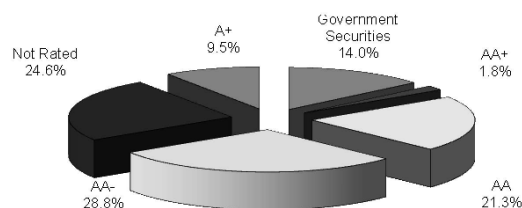
On the fixed income front, the exposure towards government securities was also managed according to the market conditions and their relative risk-return profile. The fund increased its exposure in TFCs, mainly in banking sector to around 40% at year end.

Net Assets of the fund declined to PKR 100 million as on June 30, 2012 from PKR 333 million as on June 30, 2011, a decline of 233%, which was mainly due to redemption pressures during the year.

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



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



Mr. Muhammad Asim, CFA
Fund Manager

Karachi: August 15, 2012

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

**CENTRAL DEPOSITORY COMPANY
OF PAKISTAN LIMITED**

Head Office

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



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TRUSTEE REPORT TO THE UNIT HOLDERS

MCB DYNAMIC ALLOCATION FUND

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

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

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


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

Karachi: October 17, 2012



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

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

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

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

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

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

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

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

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

On behalf of the Board

Yasir Qadri
Chief Executive Officer

Karachi: August 15, 2012

**MCB DYNAMIC ALLOCATION FUND
REVIEW REPORT TO THE UNIT HOLDERS ON THE
STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES
OF THE CODE OF CORPORATE GOVERNANCE**



A. F. FERGUSON & CO.

**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 of **MCB Dynamic Allocation Fund**, to comply with the Listing Regulation No. 35 (Chapter XI) 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. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Fund's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the 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.

Regulation 35 (x) of the Listing Regulations requires the Management Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the above requirements to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance for and on behalf of the Fund, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Fund for the year ended June 30, 2012.

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


Chartered Accountants
Karachi
Dated: September 17, 2012

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
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MCB DYNAMIC ALLOCATION FUND INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS



A. F. FERGUSON & CO.

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of **MCB Dynamic Allocation Fund (hereinafter referred to as 'the Fund')**, which comprise the statement of assets and liabilities as at June 30, 2012, 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 is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

Opinion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Chartered Accountants

Engagement Partner: **Salman Hussain**

Dated: September 17, 2012

Karachi

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
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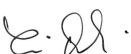
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FINANCIAL STATEMENTS

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

	Note	2012 Rupees in '000	2011
ASSETS			
Bank balances	4	22,560	102,768
Investments	5	74,402	224,137
Receivable against sale of investments		5,785	-
Dividend and other receivables	6	2,164	4,890
Security deposits	7	4,100	4,100
Preliminary expenses and floatation costs	8	707	1,710
Total assets		109,718	337,605
LIABILITIES			
Payable to the Management Company	9	146	411
Payable to the Trustee	10	59	64
Payable to the Securities and Exchange Commission of Pakistan	11	250	349
Payable against redemption of units		-	10
Payable against purchase of investments		5,612	725
Accrued and other liabilities	12	3,247	3,466
Total liabilities		9,314	5,025
NET ASSETS		<u>100,404</u>	<u>332,580</u>
Unit holders' fund (as per statement attached)		<u>100,404</u>	<u>332,580</u>
CONTINGENCIES & COMMITMENTS			
	14		
Number of units			
NUMBER OF UNITS IN ISSUE		<u>1,420,402</u>	<u>4,762,337</u>
-----Rupees-----			
NET ASSET VALUE PER UNIT	3.10	<u>70.69</u>	<u>69.84</u>

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



Chief Executive Officer

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



Director

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

	Note	2012	2011
		Rupees in '000	
INCOME			
Capital gain on sale of investments		1,489	52,919
Loss from spread transactions		(2,049)	(1,076)
Dividend income		14,307	11,109
Profit on bank deposits and term deposit receipts		4,337	4,796
Income from term finance certificates		6,225	7,191
Income from GoP Ijara Sukuk		4,169	-
Income from government securities		244	6,197
Income from MTS		-	44
Other income		13	-
		28,735	81,180
Net unrealised appreciation on re-measurement of investments classified as 'at fair value through profit or loss'		641	3,853
		29,376	85,033
EXPENSES			
Remuneration of the Management Company	9.1	3,950	5,509
Sindh sales tax on remuneration of the Management Company		632	-
Remuneration of the Trustee	10.1	700	734
Annual fee - Securities and Exchange Commission of Pakistan	11	250	349
Brokerage and settlement charges		3,192	2,665
Amortisation of preliminary expenses and floatation costs		1,003	1,000
Auditors' remuneration	16	658	625
Bank charges		38	329
Other expenses		425	612
		10,848	11,823
Net income from operating activities		18,528	73,210
Element of income/(loss) and capital gains/(losses) included in the prices of units issued less those in units redeemed		(10,406)	(13,358)
Provision for Workers' Welfare Fund	15	-	(1,197)
Net income for the year before taxation		8,122	58,655
Taxation	17	-	-
Net income for the year after taxation		8,122	58,655
Other comprehensive income for the year		-	-
Total comprehensive income for the year		8,122	58,655
Earnings per unit	18		

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


Chief Executive Officer

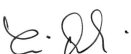
**For Arif Habib Investments Limited
(Management Company)**


Director

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

	2012	2011
	Rupees in '000	
Accumulated loss brought forward		
- Realised loss	(147,507)	(92,514)
- Unrealised income/ (loss)	3,853	(19,678)
	(143,654)	(112,192)
 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, 2012 : On June 25, 2012 at Rs 5.21 per unit (2011: On June 23, 2011 at Rs 12.50 per unit)		
- Cash distribution	(107)	(291)
- Bonus distribution	(6,805)	(50,271)
 Element of income/ (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount that forms part of the unit holders' fund	 100,807	 12,427
 Net income for the year	 8,122	 58,655
 Accumulated loss carried forward	 <u>(41,637)</u>	 <u>(143,654)</u>
 Accumulated loss comprising of:		
- Realised loss	(42,278)	(147,507)
- Unrealised income	641	3,853
	<u>(41,637)</u>	<u>(143,654)</u>

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



Chief Executive Officer

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



Director

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

	2012	2011
	Rupees in '000	
Net assets at beginning of the year	332,580	403,041
Issue of 40,940 units (2011: 1,321,703 units)	2,867	2,082
Issue of 95,860 bonus units (2011: Nil bonus units)	6,805	-
Redemption of 3,478,735 units (2011: 1,711,691 units)	(253,464)	(131,416)
	(243,792)	(129,334)
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	10,406	13,358
- amount representing income/(loss) and capital gains/(losses) that forms part of unit holders' fund - transferred to distribution statement	(100,807)	(12,427)
	(90,401)	931
Net unrealised appreciation on re-measurement of investment classified as 'at fair value through profit or loss'	641	3,853
Capital gain on sale of investments	1,489	52,919
Net income from other operating activities	5,992	1,883
	8,122	58,655
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, 2012: On June 25, 2012 at Rs 5.21 per unit (2011: On June 23, 2011 at Rs 12.50 per unit)		
- Cash distribution	(107)	(291)
- Bonus distribution	(6,805)	(50,271)
Element of income / (loss) and capital gains / (losses) included in prices of units issued less those in units redeemed - amount representing unrealised income	100,807	12,427
Net assets as at the end of the year	100,404	332,580

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



Chief Executive Officer

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



Director

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

	2012	2011
	Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year before taxation	8,122	58,655
Adjustments for non-cash charges and other items:		
Capital gain on sale of investment	(1,489)	(52,919)
Dividend income	(14,307)	(11,109)
Net unrealised appreciation on remeasurement of investment classified as 'at fair value through profit or loss'	(641)	(3,853)
Amortisation of preliminary expenses and floatation costs	1,003	1,000
Income from MTS	-	(44)
Element of (income)/loss and capital (gains)/losses included in the prices of units issued less those in units redeemed	10,406	13,358
	<u>3,094</u>	<u>5,088</u>
Decrease / (increase) in assets		
Investments - net	140,824	138,828
Other receivables	2,242	(2,132)
Profit receivable on MTS	31	(31)
Profit receivable on bank deposits	359	(268)
Security deposits and prepayments	-	(500)
	<u>143,456</u>	<u>135,897</u>
(Decrease) / increase in liabilities		
Payable to the Management Company	(265)	(109)
Payable to the Trustee	(5)	(5)
Payable to the Securities and Exchange Commission of Pakistan	(99)	(225)
Payable against redemption of units	(10)	2
Accrued and other liabilities	(219)	1,562
	<u>(598)</u>	<u>1,225</u>
Dividend income received	14,401	10,992
Net cash inflow from operating activities	<u>160,353</u>	<u>153,202</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts from issue of units	2,867	2,082
Net payments on redemption of units	(253,464)	(131,416)
Distribution paid	(107)	(13,140)
Net cash outflow on financing activities	<u>(250,704)</u>	<u>(142,474)</u>
Net decrease in cash and cash equivalents	<u>(90,351)</u>	<u>10,728</u>
Cash and cash equivalents at the beginning of the year	<u>127,524</u>	<u>116,796</u>
Cash and cash equivalents at the end of the year	<u>4.2</u> <u>37,173</u>	<u>127,524</u>

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



Chief Executive Officer

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



Director

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

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' resolution of MCB Asset Management Company Limited and Arif Habib Investments Limited the two companies 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, Technocity 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 commensurates 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 (PACRA) Limited has assigned an asset manager rating of 'AM2' -positive outlook to the Management Company and a rating of '4-Star' 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:

The following standards, amendments and interpretations to approved accounting standards have been published and are mandatory for the Fund's accounting period beginning on or after July 1, 2011:

MCB DYNAMIC ALLOCATION FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

- a) IFRS 7, 'Financial Instruments: Disclosures' This amendment is effective from January 1, 2011. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Fund's financial statements.
- b) IFRS 7, 'Financial instruments: Disclosures' This amendment is effective from July 1, 2011. The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Fund's financial statements during the current year.
- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any impact on the Fund's financial statements.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. 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 revised standard does not have any impact on the Fund's financial statements.

There are other new and amended standards and 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.

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

The following standards and amendments to standards have been published and are mandatory for accounting periods beginning on or after July 1, 2012:

- a) IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment will not have any significant effect on the Fund's financial statement.
- b) IAS 32, 'Financial instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management of the Fund is in the process of assessing the impact of this amendment on the Fund's financial statements.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 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 its 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, in accordance with the requirements of International Accounting Standards-ISA 39; 'Financial Instruments and Measurement'.

MCB DYNAMIC ALLOCATION FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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', 'loans and receivables' and 'available for sale'. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this classification on 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 market 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. The Fund's loans and receivables comprise of cash and bank balances, receivable against sale of investment, dividend and other receivables and security deposits.

c) Available for sale

These are non-derivative financial assets that are designated as available for sale or are not classified as a) loans and receivables or b) financial assets 'at fair value through profit or loss'.

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' and 'available for sale'

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

- Basis of valuation of debt securities

The investment of the Fund in debt securities is valued on the basis of rates determined by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by SECP for valuation of debt securities vide its Circular No. 1 of 2009 dated January 6, 2009. In the determination of the rates MUFAP takes into account the trading 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 in accordance with the requirements of the NBFC Regulations. Net gains and losses arising from changes in the fair value of financial assets 'at fair value through profit and loss' are taken to the 'income statement'. Net gains and losses arising from changes in fair value of 'available for sale' financial assets are taken to other comprehensive income until these are derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is transferred to income before statement.

MCB DYNAMIC ALLOCATION FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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

b) Loans and receivable

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.

3.1.5 Impairment

The Fund assesses at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Financial assets classified as 'available for sale'

a) Equity securities

In the case of AFS equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired.

b) Debt securities and other exposures

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization.

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

If evidence of impairment exists, the cumulative loss previously recognised in other comprehensive income is removed from other comprehensive income and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

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 the 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, 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.

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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 obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

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 at 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 probable that the related tax benefit will be realised. However, the Fund has not recognised any amount in respect of deferred tax in these financial statements as the Fund intends to continue 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 and other liabilities

Accrued and other liabilities 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, determined by the Management Company for the applications received by the distributors during business hours on that date. The offer price represents the net asset value per unit as of the close of the business day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable. The sales load is payable to the investment facilitators, distributors and the Management Company. Transaction costs are recorded as the income of the Fund.

Units redeemed are recorded at the redemption price, applicable to units for which the distributors receive redemption requests during business hours of that day. The redemption price represents the net asset value per unit as of the close of the business day less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

3.12 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.

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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.

3.14 Revenue recognition

- Mark-up on term finance certificates, government securities and money market placements are recognised on an accrual basis.
- Realized 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 gain/ (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 transaction is recognised on an accrual basis

3.15 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of assets and liabilities at cost. Cash and cash equivalents comprise of bank balances and short term highly liquid investments with original maturities of three months or less.

	Note	2012	2011
		Rupees in '000	
4 BANK BALANCES			
In savings accounts	4.1	21,381	102,768
In current account		1,179	-
		<u>22,560</u>	<u>102,768</u>

4.1 These carry mark-up at rates ranging from 6% to 11.50% per annum (2011: 5% to 13.3% per annum).

	Note	2012	2011
		Rupees in '000	
4.2 Cash and cash equivalents			
Bank balances		22,560	102,768
Treasury Bills having maturity of three months or less	5.6	14,613	24,756
		<u>37,173</u>	<u>127,524</u>

	Note	2012	2011
		Rupees in '000	
5 INVESTMENTS			
Financial assets at fair value through profit or loss - held for trading	5.1	74,402	220,931
Margin Trading System (MTS)		-	3,206
		<u>74,402</u>	<u>224,137</u>

5.1 Financial assets at fair value through profit or loss - held for trading			
Listed equity securities	5.2	18,462	150,485
Listed debt securities	5.3	36,350	40,612
Unlisted debt securities	5.4	4,977	5,067
Government securities	5.6	14,613	24,756
Derivatives- Unrealised gain on letter of right		-	11
		<u>74,402</u>	<u>220,931</u>

MCB DYNAMIC ALLOCATION FUND

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5.2 Listed equity securities

Name of investee company	Number of shares				As at June 30, 2012	Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investment	Percentage of paid up capital of investee company held
	As at July 1, 2011	Purchased during the year	Bonus/ rights issue	Disposed off during the year		Carrying value	Market value	Appreciation/ (diminution)			
------(Rupees in '000)-----											
Unless stated otherwise, the holdings are in ordinary shares having a face value of Rs 10 each											
Auto Mobile & Parts											
Millat Tractors Limited	-	8,500	-	-	8,500	4,105	4,104	(1)	4.09%	5.52%	0.02%
Agriauto Industries Limited	10,000	-	-	10,000	-	4,105	4,104	(1)	4.09%	5.52%	-
Construction & Materials											
D.G Khan Cement Limited	-	42,000	-	42,000	-	-	-	-	-	-	-
Cherat Cement Limited	-	37,000	-	37,000	-	-	-	-	-	-	-
Lafarge Pakistan Cement Limited	-	368,000	-	168,000	200,000	1,134	864	(270)	0.86%	1.16%	0.02%
Lucky Cement Limited	-	723,828	-	723,828	-	-	-	-	-	-	-
Chemicals											
Engro Corporation Limited	85,000	485,100	9,000	579,100	-	-	-	-	-	-	-
Fatima Fertilizers Limited	773,995	1,333,246	-	2,063,995	43,246	1,071	1,067	(4)	1.06%	1.43%	0.00%
Fauji Fertilizer Bin Qasim Limited	10,000	-	-	10,000	-	-	-	-	-	-	-
Fauji Fertilizer Company Limited	106,011	425,181	11,828	543,020	-	-	-	-	-	-	-
Banks											
Allied Bank Limited	104,923	100,000	-	204,923	-	-	-	-	-	-	-
Meezan Bank Limited	401,136	-	25,142	426,278	-	-	-	-	-	-	-
Soneri Bank Limited	770,000	58,000	60,960	888,960	-	-	-	-	-	-	-
Bank Al Falah Limited	-	25,400	-	25,400	-	-	-	-	-	-	-
Bank Al-Habib Limited	291,206	12,615	12,245	316,066	-	-	-	-	-	-	-
MCB Bank Limited	5,870	47,964	400	54,234	-	-	-	-	-	-	-
National Bank of Pakistan	27,213	345,000	-	372,213	-	-	-	-	-	-	-
United Bank Limited	136,583	158,186	-	294,769	-	-	-	-	-	-	-
Sugar and Allied Industries											
JDW Sugar Mills Limited	10,000	1,000	-	11,000	-	-	-	-	-	-	-
Personal goods											
Nishat (Chunian) Limited	-	409,044	-	409,044	-	-	-	-	-	-	-
Nishat Mills Limited	65,000	240,000	-	305,000	-	-	-	-	-	-	-
Oil and gas											
Attock Petroleum Limited	5,000	84,712	-	89,712	-	-	-	-	-	-	-
Attock Refinery Limited	-	103,794	-	103,794	-	-	-	-	-	-	-
National Refinery Limited	-	48,000	-	48,000	-	-	-	-	-	-	-
Oil and Gas Development Company Limited	-	52,805	-	50,305	2,500	365	401	36	0.40%	0.54%	0.00%
Pakistan Oil Fields Limited	33,713	163,702	-	197,415	-	-	-	-	-	-	-
Pakistan Petroleum Limited	25,000	332,000	2,820	340,200	19,620	3,761	3,695	(66)	3.68%	4.97%	0.00%
Pakistan State Oil Company Limited	58,009	94,080	-	152,089	-	-	-	-	-	-	-
General Industries											
Packages Limited	17,950	1	-	17,951	-	-	-	-	-	-	-
Food Producers											
Engro Foods Limited	-	20,000	-	20,000	-	-	-	-	-	-	-
Electricity											
The Hub Power Company Limited	207,333	1,608,527	-	1,712,617	103,243	4,202	4,325	123	4.31%	5.81%	0.01%
Kot Addu Power Company Limited	237,798	396,464	-	634,262	-	-	-	-	-	-	-
Nishat Chunian Power Limited	165,799	1,281,544	-	1,446,890	453	7	7	-	0.00%	0.01%	0.00%
Nishat Power Limited	564,746	1,102,195	-	1,644,555	22,386	325	329	4	0.33%	0.44%	0.01%
Pharma and BioTech											
Glaxosmithkline Pakistan Limited	-	39,000	-	-	39,000	2,502	2,466	(36)	2.46%	3.31%	0.02%
Abbot Laboratories Pakistan Limited	-	10,114	-	-	10,114	1,173	1,204	31	1.20%	1.62%	0.01%
Insurance											
Adamjee Insurance Company Limited	-	500	-	500	-	-	-	-	-	-	-
Fixed Line Telecommunication											
Pakistan Telecommunication Company Limited	-	2,240,983	-	2,240,983	-	-	-	-	-	-	-
Total - 2012						18,645	18,462	(183)	18.39%	24.81%	
Total - 2011						148,412	150,485	2,073	45.40%	66.78%	

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5.2.1 Investment in listed equity securities includes shares with market value aggregating to Rs 4.5 million (2011: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.

5.3 Listed Debt Securities

Name of investee company	Number of Certificates			Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investments	
	As at July 1, 2011	Purchased during the year	Disposed off during the year	As at June 30, 2012	Carrying value	Market value			Appreciation / (Diminution)
------(Rupees in '000)-----									
Certificates having a face value of Rs 5,000 each unless stated otherwise									
NIB Bank Limited	-	2,000	-	2,000	9,883	9,939	56	9.90%	13.36%
Askari Bank Limited III	5,000	-	-	5,000	25,833	26,411	578	26.30%	35.50%
Total - 2012					35,716	36,350	634	36.20%	48.86%
Total - 2011					39,329	40,612	1,283	10.79%	16.01%

5.4 Unlisted Debt Securities

Name of investee company	Number of Certificates			Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investments	
	As at July 1, 2011	Purchased during the year	Disposed off during the year	As at June 30, 2012	Carrying value	Market value			Appreciation / (Diminution)
------(Rupees in '000)-----									
Bank AL Falah Limited - IV	1,000	-	1,000	-	-	-	-	-	-
Bank AL Falah - II	2,000	-	-	2,000	3,394	3,339	(55)	3.33%	4.49%
United Bank Limited-1	1,000	-	-	1,000	1,401	1,638	237	1.63%	2.20%
Total - 2012					4,795	4,977	182	4.96%	6.69%
Total - 2011					5,067	5,067	-	2%	2%

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)	Mark up rate (per annum)	Maturity	Secured/ Unsecured	Rating
Listed Debt Securities						
NIB Bank Limited	2,000	5,000	1.15% + 6 month	March 5, 2016	Unsecured	A+
Askari Bank Limited III	5,000	5,000	2.50% + 6 month	November 18, 2019	Unsecured	AA-
Unlisted Debt Securities						
Bank AL Falah - II	2,000	5,000	1.5% + 6 month	November 23, 2012	Unsecured	AA-
United Bank Limited-1	1,000	5,000	8.45%	August 10, 2012	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	Tenor	Face value			Balance as at June 30, 2012			Market value as a percentage of net assets	Market value as a percentage of total investment	
		As at July 1, 2011	Purchased during the year	Sales/Matured during the year	As at June 30, 2012	Carrying value	Market value			Appreciation / (Diminution)
------(Rupees in '000)-----										
28-Jun-12	3 months	25,000	15,000	25,000	15,000	14,605	14,613	8	14.55%	19.64%
Total - 2012		25,000	15,000	25,000	15,000	14,605	14,613	8	14.55%	19.64%
Total - 2011		-	1,285,700	1,260,700	25,000	24,765	24,756	(9)	7.44%	11.05%

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	2012	2011
	Rupees in '000	
6 DIVIDEND AND OTHER RECEIVABLES		
Dividend receivable	31	125
Interest receivable on term finance certificates	968	882
Profit receivable on saving deposits	204	563
Profit receivable on MTS	-	31
Other receivables	961	3,289
	<u>2,164</u>	<u>4,890</u>
7 SECURITY DEPOSITS AND PREPAYMENTS		
Security deposits with		
- National Clearing Company of Pakistan Limited	4,000	4,000
- Central Depository Company of Pakistan Limited	100	100
	<u>4,100</u>	<u>4,100</u>
8 PRELIMINARY EXPENSES AND FLOATATION COSTS		
Opening balance	5,000	5,000
Less: accumulated amortisation	4,293	3,290
Closing balance	<u>707</u>	<u>1,710</u>

8.1 Preliminary expenses and floatation costs represent expenditure incurred prior to the commencement of operations of the Fund. This expenditure is being amortised over a period of five years commencing from March 16, 2008.

	Note	2012	2011
		Rupees in '000	
9 PAYABLE TO THE MANAGEMENT COMPANY			
Management fee	9.1	144	411
Sales load payable		2	-
		<u>146</u>	<u>411</u>

9.1 Under the provisions of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Management Company of the Fund is entitled to a remuneration during the first five years of the Fund, of an amount not exceeding three percent of the average annual net assets of the Fund and thereafter of an amount equal to two percent of such assets of the Fund. In the current year, the Management Company has charged remuneration at a rate of 1.5 percent (2011:1.5 percent) of the average annual net assets of the Fund.

	Note	2012	2011
		Rupees in '000	
10 PAYABLE TO THE TRUSTEE			
Trustee fee	10.1	57	55
CDC settlement charges		2	9
		<u>59</u>	<u>64</u>

10.1 The Trustee is entitled to a monthly remuneration for services rendered to the Fund under the provisions of the Trust Deed and Offering 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, 2012 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.

11 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.

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12 ACCRUED AND OTHER LIABILITIES	2012	2011
	Rupees in '000	
Auditors' remuneration	425	395
Provision for Workers' Welfare Fund	2,375	2,375
Others	447	696
	<u>3,247</u>	<u>3,466</u>

13 FINANCIAL INSTRUMENTS BY CATEGORY

-----As at June 30, 2012-----			
	Financial		
	Assets at fair	value through	Total
	Loans and	receivables	
	profit or loss		
	------(Rupees in '000)-----		
Assets			
Bank balances	22,560	-	22,560
Investments	-	74,402	74,402
Receivable against sale of investments	5,785	-	5,785
Dividend and other receivables	2,164	-	2,164
Security deposits	4,100	-	4,100
	<u>34,609</u>	<u>74,402</u>	<u>109,011</u>

-----As at June 30, 2012-----			
	Liabilities at	Other	
	fair value	financial	Total
	through	liabilities	
	profit or loss		
	-----Rupees in '000-----		
Liabilities			
Payable to the Management Company	-	146	146
Payable to the Trustee	-	59	59
Payable against purchase of investment	-	5,612	5,612
Accrued and other liabilities	-	872	872
	<u>-</u>	<u>6,689</u>	<u>6,689</u>

-----As at June 30, 2011-----			
	Financial		
	Assets at fair	value through	Total
	Loans and	receivables	
	profit or loss		
	------(Rupees in '000)-----		
Assets			
Bank balances	102,768	-	102,768
Investments	-	224,137	224,137
Dividend and other receivables	4,890	-	4,890
Security deposits	4,100	-	4,100
	<u>111,758</u>	<u>224,137</u>	<u>335,895</u>

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

14 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as at June 30, 2012 and 2011 except as disclosed in note 15.

15 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.

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 June 30, 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 Sindh High Court (SHC).

However, pending the decision of the said constitutional petition, the Management Company believes that the Fund is not liable to contribute to WWF and hence no provision has been recognised by the Management Company in the current year. The aggregate liability of the Fund towards WWF for all previous periods and till June 30, 2012 amounts to Rs 2.537 million. Out of this amount Rs 2.375 million has been recognised by the Fund while the balance amount of Rs 0.162 million remains unrecognised

	Note	2012	2011
		Rupees in '000	
16 AUDITORS' REMUNERATION			
Annual statutory audit fee		300	270
Half yearly review fee		200	180
Other certifications		125	125
Out of pocket expenses		33	50
		<u>658</u>	<u>625</u>

17 TAXATION

The income of the Fund is exempt from income tax under clause 99 of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90 percent of its accounting income for the year, as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders. The Fund has not recorded provision for taxation as the management company has distributed more than percent of the Fund's accounting income for the year as reduced by capital gains (whether realised or unrealised) to its unit holders.

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18 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.

19 TRANSACTIONS WITH CONNECTED PERSONS / OTHER RELATED PARTIES

19.1 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 and persons holding 10% or more units of the Fund.

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

19.3 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.

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

	Year ended June 30, 2012	Year ended June 30, 2011
	Rupees in '000	
MCB Bank Limited		
- Profit on saving accounts	101	749
- Dividend income	75	44
Arif Habib Investments Limited		
- Remuneration of the Management Company	3,950	5,509
- Sales load charged	2	4
- Preliminary expenses and flotation costs	1,003	1,000
Central Depository Company of Pakistan Limited		
- Remuneration of the Trustee	700	734
- CDC settlement charges	43	54
Capital Development Authority		
- Nil Bonus units (2011: 267,402 bonus units)	-	18,472
- Redemption of 1,023,207 units (2011: Nil units)	75,480	-
D.G Khan Cement Company Limited		
- Nil bonus units (2011: 5425 units)	-	374
Nishat Mills Limited		
- Dividend income	-	573
Nishat Power Limited		
- Dividend income	138	-
Nishat (Chunian) Power Limited		
- Dividend income	1,303	-
Arif Habib Limited		
- Brokerage expense	230	123
D.G Khan Cement Company Limited Employees Provident Fund Trust		
- Issue of 1,525 bonus units (2011: Nil bonus units)	108	-

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Trustees Karachi Electric Provident Fund		
- Nil bonus units (2011: 530,698 bonus units)	-	36,660
- Redemption of 2,030,698 units (2011: Nil units)	147,212	-
SSG Non-Executive Staff Pension Fund		
- Issue of 9,957 bonus units (2011: Nil bonus units)	707	-
Trustee Pakistan Services Limited (Employees Provident Fund)		
- Issue of 61,033 bonus units (2011: Nil bonus units)	4,282	-
Mr. Rehyan Mansoor		
- Issue of 34,178 bonus units (2011: Nil units)	2,398	-
	2012	2011
19.5	Rupees in '000	
Amount outstanding as at year end		
MCB Bank Limited		
- Bank balances	1,868	93,233
- Profit receivable on saving accounts	3	125
- Nil shares held by the Fund as at June 30, 2012 (2011: 5,870 shares)	-	1,170
Arif Habib Investments Limited		
- Remuneration payable to the Management Company	144	411
- Sales load payable	2	-
Fatima Fertilizer Limited		
- 43,246 shares held by the Fund as at June 30, 2012 (2011: 773,995 shares)	1,067	12,879
Central Depository Company of Pakistan Limited		
- Remuneration payable to the Trustee	57	55
- CDC settlement charges	2	9
- Security Deposit	100	100
Capital Development Authority		
- Nil units held as at June 30, 2012 (2011: 1,023,707 units)	-	71,546
Nishat Mills Limited		
- Nil shares held by the Fund as at June 30, 2012 (2011: 65,000 shares)	-	3,272
Nishat Power Limited		
- 22,386 shares held by the Fund as at June 30, 2012 (2011: 564,746 shares)	329	8,720
Nishat (Chunian) Power Limited		
- 453 shares held by the Fund as at June 30, 2012 (2011: 165,799 shares)	7	2,275
Arif Habib Limited		
- Brokerage payable	19	9
D.G Khan Cement Company Limited Employees Provident Fund Trust		
- 22,285 units held as at June 30, 2012 (2011: 20,760 units)	1,575	1,450
Trustees Karachi Electric Provident Fund		
- Nil units held as at June 30, 2012 (2011: 2,030,698 units)	-	141,815
Trustee Pakistan Services Limited (Employees Provident Fund)		
- 290,467 units held as at June 30, 2012 (2011: 229,614 units)	20,542	16,036
SSG Non-Executive Staff Pension Fund		
- 145,517 units held as at June 30, 2012 (2011: 135,560 units)	10,285	9,468
Mr. Rehyan Mansoor		
- 162,762 units held as at June 30, 2012 (2011: 128,584 units)	11,504	8,980

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

20 PARTICULARS OF THE INVESTMENT COMMITTEE AND THE FUND MANAGER

20.1 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	17	MBA
2	Mr. Kashif Rafi	Senior Vice President - Investments	11	MBA & CFA Level I
3	Mr. Muhammad Asim	Vice President - Head of Equities/ Fund Manager	9	MBA & CFA
4	Mr. Syed Akbar Ali	Vice President - Head of Research	7	MBA & CFA
5	Mr. Mohsin Pervaiz	Vice President - Investments	11	MBA & CFA Level I

20.2 Mr. Muhammad Asim is the Fund Manager. Other funds being managed by the fund manager are as follows:

- a) Pakistan Premier Fund
- b) Pakistan Pension Fund
- c) MCB Dynamic Stock Fund

21 TOP TEN BROKERS / DEALERS BY PERCENTAGE OF COMMISSION PAID

	2012 (Percentage)
1 Invest & Finance Securities (Pvt) Limited	10.60%
2 Fortune Securities (Pvt) Limited	9.80%
3 Arif Habib Limited	8.20%
4 KASB Securities Limited	7.40%
5 Foundation Securities Limited	5.80%
6 Taurus Securities Limited	4.56%
7 BMA Capital Management Company Limited	4.50%
8 Elixier Securities Pakistan (Pvt) Limited	4.10%
9 Invisor Securities (Pvt) Limited	4.01%
10 Optimus Capital Management (Pvt) Limited	4.00%
	2011 (Percentage)
1 Fortune Securities (Pvt) Limited	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) Limited	4.95%
10 Elixier Securities Pakistan (Pvt) Limited	4.41%

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

22 PATTERN OF UNIT HOLDING

----- As at June 30, 2012 -----				
Category	Number of unit holders	Number of units held	Net asset value of the amount invested	Percentage of total investment
			(Rupees in '000)	%
Individuals	1,098	859,931	60,786	70%
Associated companies / Directors	-	-	-	0%
Retirement funds	8	550,639	38,923	30%
Public limited companies	-	-	-	0%
Others	2	9,832	695	0%
	1,108	1,420,402	100,404	100%
----- As at June 30, 2011 -----				
Category	Number of unit holders	Number of units 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%
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%

23 ATTENDANCE AT MEETINGS OF BOARD OF DIRECTORS

The 89th, 90th, 91st, 92nd, 93rd, 94th, 95th, 96th and 97th BoD meetings of the Fund were held on July 4, 2011, August 8, 2011, September 10, 2011, September 29, 2011, October 26, 2011, January 27, 2012, March 29, 2012, April 27, 2012 and June 25, 2012 respectively. Information in respect of attendance by Directors in the meetings is given below:

	Name of Directors	Number of meetings held	Number of Meetings		Meetings not attended
			Attended	Leave granted	
1	Mian Muhammad Mansha	9	4	5	89th, 90th, 93rd, 96th and 97th meetings
2	Mr. Nasim Beg	9	9	-	-
3	Syed Salman Ali Shah	9	8	1	92nd meeting
4	Mr. Haroun Rashid	9	6	3	91st, 92nd and 95th meetings
5	Mr. Ahmed Jahangir	9	7	2	91st and 92nd meetings.
6	Mr. Samad A. Habib	9	6	3	89th, 91st and 96th meetings
7	Mr. Mirza Mahmood Ahmad	9	7	2	89th and 97th meetings
8	Mr. Yasir Qadri (Chief Executive Officer)	9	9	-	-

24 FINANCIAL RISK MANAGEMENT

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

24.1 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.

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

24.1.1 Currency risk

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

24.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate as a result 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 cashflow 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 0.07 million (2011: Rs 0.064 million).

b) Sensitivity analysis for fixed rate instruments

Fixed rate instruments comprise of Market Treasury Bills and Bank balances in saving deposits. 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, 2012 with all other variables held constant, the net income for the year and net assets would be lower by Rs 0.0315 million (2011: 0.029 million). In case of 100 basis points decrease in rates announced by Financial Market Association on June 30, 2012, with all other variables held constant, the net income for the year and net assets would be higher by Rs. 0.0317 million (2011: 0.009 million).

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

June 30, 2012					
Yield / effective interest rate	Total	Exposed to interest rate risk			Not exposed to interest rate risk
		Upto three months	More than three months and upto one year	More than one year	
%					Rupees in '000

On-balance sheet financial instruments

Financial assets

Bank balances	6.00 - 11.50	22,560	22,560	-	-	-
Investments	8.45 - 14.52					
- Financial assets at fair value through profit or loss		74,402	14,613	41,327	-	18,462
Receivable against sale of investment		5,785	-	-	-	5,785
Dividend and other receivable		2,164	-	-	-	2,164
Security deposits		4,100	-	-	-	4,100
		109,011	37,173	41,327	-	30,511

Financial liabilities

Payable to the Management Company		146	-	-	-	146
Payable to the Trustee		59	-	-	-	59
Payable against purchase of investments		5,612	-	-	-	5,612
Accrued and other liabilities		872	-	-	-	872
		6,689	-	-	-	6,689

On-balance sheet gap

	102,322	37,173	41,327	-	23,822
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Off-balance sheet financial instruments

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

June 30, 2011					
Yield / effective interest rate	Total	Exposed to interest rate risk			Not exposed to interest rate risk
		Upto three months	More than three months and upto one year	More than one year	

On-balance sheet financial instruments

Financial assets

	%	Rupees in '000			
Bank balances	5.00 - 14.00	102,768	102,768	-	-
Investments	8.45 - 16.29				
- Financial assets at fair value through profit or loss		191,097	40,612	-	150,485
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
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Off-balance sheet financial instruments

	-	-	-	-	-
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24.1.3 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, 2012, net income for the year would increase / decrease by Rs. 0.72 million (2011: Rs. 7.17 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, 2012 is not necessarily indicative of the effect on the Fund's net assets of future movements in the level of KSE 100 index.

24.2 Credit risk

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

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

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

Term Finance Certificates by rating category	June 30, 2012	June 30, 2011
A, A-, A+	24%	0%
AA, AA-, AA+	76%	100%
Bank balances by rating category		
A1+	100%	100%

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

Concentration of credit risk

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

24.3 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, 2012			
	Total	Upto three months	Over three months and upto one year	Over one year
	------(Rupees in '000)-----			
Liabilities				
Payable to the Management Company	146	146	-	-
Payable to the Trustee	59	59	-	-
Payable against purchase of investments	5,612	5,612	-	-
Accrued expenses and other liabilities	872	872	-	-
	6,689	6,689	-	-

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

----- 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
Payable to the Trustee
Payable against redemption of units
Payable against purchase of investments
Accrued expenses and other liabilities

411	411	-	-
64	64	-	-
10	10	-	-
725	725	-	-
1,091	1,091	-	-
2,301	2,301	-	-

25 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 24, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption requests, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

26 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 book value as the items are either short-term in nature or periodically repriced.

International Financial Reporting Standard 7, 'Financial Instruments: Disclosure' requires the Fund to clarify fair value measurements using 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)
- Inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs) level 3).

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

	----- As at June 30, 2012-----			Total
	Level 1	Level 2	Level 3	
----- Rupees in '000 -----				
ASSETS				
Investment- financial assets 'at fair value through profit or loss'				
- Listed equity securities	18,462	-	-	18,462
- Listed debt securities	-	36,350	-	36,350
- Unlisted debt securities	-	4,977	-	4,977
- Government securities	-	14,613	-	14,613
	<u>18,462</u>	<u>55,940</u>	<u>-</u>	<u>74,402</u>

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

27 CORRESPONDING FIGURES

Corresponding figure have been rearranged and reclassified wherever necessary, for the purpose of better presentation. No significant rearrangements or reclassifications were made in these financial statements.

28 GENERAL

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

29 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on August 15, 2012 by the Board of Directors of the Management Company.



Chief Executive Officer

For Arif Habib Investments Limited
(Management Company)



Director

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

	Number of Unit Holders	Units
Associated Company, Undertakings, and Related Parties	-	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance, Insurance Companies, Modarbas and Mutual Funds.	-	-
Director, CEO and their spouses and minor children		
Executives	-	-
Trust	6	114,476
Corporate	-	-
Individuals	1,096	624,507
Others	2	9,832
Shareholder holding 5% or more		
Trustee Pakistan Services Ltd (Employees Provident Fund)	1	290,647
Rehyan Mansoor	1	162,762
SSG Non -Executive Staff Pension Fund	1	145,517
Farhat Saleem	1	72,662
	4	671,588
	1,108	1,420,402

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

MCB Dynamic Allocation Fund		
No. of Unit Holders	Units Holdings	Total Units Held
1,074	(SHAREHOLDING FROM 1.0000 TO 5000.0000)	375,922.79
19	(SHAREHOLDING FROM 5001.0000 TO 10000.0000)	144,337.73
5	(SHAREHOLDING FROM 10001.0000 TO 15000.0000)	68,420.49
3	(SHAREHOLDING FROM 20001.0000 TO 25000.0000)	65,903.42
1	(SHAREHOLDING FROM 35001.0000 TO 40000.0000)	36,100.45
1	(SHAREHOLDING FROM 55001.0000 TO 60000.0000)	58,129.40
1	(SHAREHOLDING FROM 70001.0000 TO 75000.0000)	72,661.75
1	(SHAREHOLDING FROM 145001.0000 TO 150000.0000)	145,516.84
1	(SHAREHOLDING FROM 160001.0000 TO 165000.0000)	162,762.33
1	(SHAREHOLDING FROM 290001.0000 TO 295000.0000)	290,647.02
1,108	Total :	1,420,402

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

Performance Information	2012	2011	2010	2009	2008
Total Net Assets Value – Rs. in million	104.40	333.00	403.041	714.089	1,689.89
Net Assets value per unit – Rupees	70.69	69.84	78.23	67.02	87.65
Highest offer price per unit	78.62	83.63	87.47	90.16	105.99
Lowest offer price per unit	68.11	68.81	69.09	54.42	87.2
Highest Redemption price per unit	76.33	82.37	84.85	87.46	102.81
Lowest Redemption price per unit	66.12	67.78	67.02	52.79	84.58
Distribution per unit (annual) – Rs.	5.21	12.50	10.089	-	-
Net Assets Value before distribution	76.18	82.26	78.23	N/a	N/a
Net Assets Value after distribution	70.97	69.76	68.14	N/a	N/a
Average Annual Return - %					
One year	8.70	20.86	16.7	-23.5	-12.35
Two year (inception date Mar 11, 2008)	15.70	41.07	-10.8	-33	N/a
Three year	17.80	7.87	-21.8	N/a	N/a
Net Income / (loss) for the period – Rs. in million	8.12	58.66	57.73	-219.766	-238.15
Income Distribution – Rs. in million	6.91	50.56	51.981	-	-
Accumulated Capital Growth – Rs. in million	1.21	8.1	5.75	-	-

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.