

**Punjab Pension Fund Trust (“the Trust”)**

Financial statements for the year ended  
30 June 2012



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
53 L Gulberg III  
Lahore Pakistan

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## **Independent Auditors' Report to the Management Committee**

We have audited the annexed statement of assets and liabilities of **Punjab Pension Fund Trust** ("the Trust") as at 30 June 2012 and the related income statement and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Fund's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of Punjab Pension Fund Act 2007 ("the Act") and Punjab Pension Fund Rules 2007 ("the Rules"). Our responsibility is to express an opinion on these statements based on our audit.

We conduct our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of account have been kept by the Fund as required by the Act and the Rules as well as other laws, to the extent these are applicable.
- b) in our opinion
  - i) the financial statements together with the notes forming part thereof have been drawn up in conformity with the Act and the Rules and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;

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KPMG Taseer Hadi & Co.

- ii) the costs and expenses debited to the Fund were for the purpose of Fund's business and as specified in the Act and the Rules as well as other laws, to the extent these are applicable; and
- iii) the business conducted, investments made and expenditure incurred during the year were in accordance with the objects of the Fund.
- c) in our opinion and to the best of our information and according to the explanations given to us, the financial statements together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Act and the Rules in the manner so required and respectively give a true and fair view of the state of the Fund's affairs as at 30 June 2012 and its net income and cash flows for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Date 05 DEC 2012

Lahore

*KPMG Taseer Hadi & Co.*  
KPMG Taseer Hadi & Co.  
Chartered Accountants  
(Bilal Ali)

Punjab Pension Fund Trust  
 Statement of Assets and Liabilities  
 at 30 June 2012

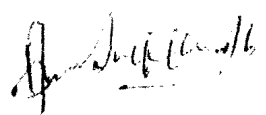
	Note	2012 Rupees
<b>Assets</b>		
Investments	4	9,703,882,047
Short term investments	5	150,000,000
Security Deposits - Central Depository Company		100,000
Accrued interest	6	434,446,734
Cash and cash equivalents	7	5,320,020,775
<b>Total assets</b>		<u>15,608,449,556</u>
<b>Liabilities</b>		
Trustee fee payable		337,369
Brokerage payable		75,000
<b>Total liabilities</b>		<u>412,369</u>
<b>Contingencies and commitments</b>	8	-
<b>Net assets</b>		<u><u>15,608,037,187</u></u>
<b>Represented by:</b>		
Accumulated Pension Fund		<u><u>15,608,037,187</u></u>

The annexed notes 1 to 12 form an integral part of these financial statements.

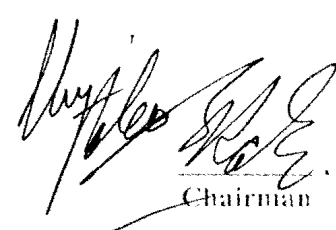
PHCFM



Lahore General Manager



Private Member



Chairman

# Punjab Pension Fund Trust

## Income Statement

For the period 27 September 2011 to 30 June 2012

For the period  
27 September 2011  
to 30 June 2012  
Rupees

### Income

Income from Term Deposit Receipts and Saving account	546,795,474
Income from Pakistan Investment Bonds	860,779,710
Income from Term Finance Certificates	58,875,371
Income from Market Treasury Bills	7,354,603
	<hr/>
	1,473,805,158

### Expenditure

Fund's operational expenses	16,999,000
Trustee Fee and custody charges	3,052,719
Bank charges	12,299
	<hr/>
	20,064,018

Net income for the period

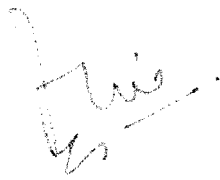
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1,453,741,140

The annexed notes 1 to 12 form an integral part of these financial statements.

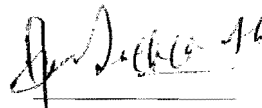
10/11/12



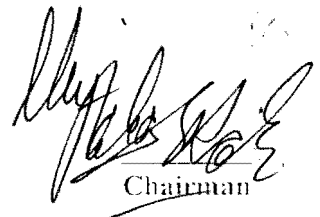
General Manager

Lahore

05 DEC 2012



Private Member



Chairman

Punjab Pension Fund Trust  
Statement of Comprehensive Income  
For the period 27 September 2011 to 30 June 2012

For the period  
27 September 2011  
to 30 June 2012  
Rupees

Net income for the period	1,453,741,140
Net unrealized appreciation in fair value of available - for sale investments	9,091,407
Total comprehensive income for the period	<u><u>1,462,832,547</u></u>


The annexed notes 1 to 12 form an integral part of these financial statements.

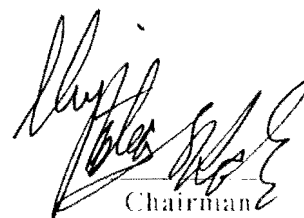
*Wahid Raza*

Lahore

7- DEC 2012

  
\_\_\_\_\_  
General Manager

  
\_\_\_\_\_  
Private Member

  
\_\_\_\_\_  
Chairman

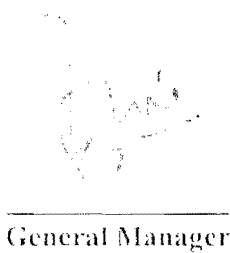
Punjab Pension Fund Trust  
 Statement of Movement in Accumulated Pension Fund  
 For the period 27 September 2011 to 30 June 2012

For the period  
 27 September 2011  
 to 30 June 2012  
 Rupees

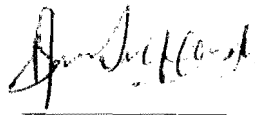
Balance at the beginning of the period	
Assets transferred in from Punjab Pension Fund	14,145,204,640
Total comprehensive income for the period	
Net income for the period	1,453,741,140
Net unrealized appreciation in fair value of available - for - sale investments	9,091,407
	1,462,832,547
Balance at the end of the period	15,608,037,187

The annexed notes 1 to 12 form an integral part of these financial statements.

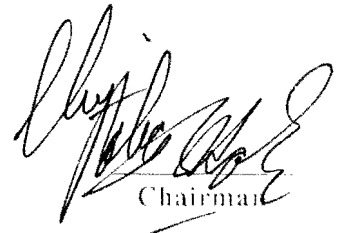
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General Manager



Private Member



Chairman

Lahore

05 DEC 2012

Punjab Pension Fund Trust  
 Cash Flow Statement (Un-Audited)  
 For the period 27 September 2011 to 30 June 2012

For the period  
 27 September 2011  
 to 30 June 2012  
 Rupees

Cash flow from operating activities

Net income for the period 1,453,741,140

Adjustments for non cash and other items:

Discount on Pakistan Investment Bonds	(19,095,689)
Discount on Marketable Treasury Bills	(6,592,363)
Discount on Term Finance Certificates	(1,256,286)
	(26,944,338)

(Increase) in assets:

Investments	(9,667,846,302)
Short term investments	(150,000,000)
Security Deposits - Central Depository Company	(100,000)
Accrued interest	(434,446,734)
	(10,252,393,036)

Increase in liabilities:

Trustee fee payable	337,369
Brokerage payable	75,000
	412,369

Cash used in operating activities (8,825,183,865)

Transfer of funds

Assets transferred in from Punjab Pension Fund	14,145,204,640
Transfer in of fund Assets	14,145,204,640

Net increase in cash and cash equivalents during the period 5,320,020,775

Cash and cash equivalents at the beginning of the period

Cash and cash equivalents at the end of the period 5,320,020,775

The annexed notes 1 to 12 form an integral part of these financial statements.

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Lahore

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General Manager

Private Member

Chairman



# Punjab Pension Fund Trust

## Notes to the Financial Statements

For the period 27 September 2011 to 30 June 2012

### 1 Status and nature of the business

The Punjab Pension Fund Trust (the Trust) has been established under the Punjab Pension Fund Act 2007 (the Act) and given the status of Trust under a trust deed executed on 27 September 2011 between Punjab Pension Fund (the Fund) and Central Depository Company of Pakistan Limited (CDC) as Trustee. The Fund, through the Management Committee and the Trustee, have created the Trust for the benefit of the Reserve Pension Fund created under Section 3 of the Act. The Trust shall be of a perpetual nature and shall continue until the Trust is dissolved upon receipt of directions from the Government of Punjab. The Fund shall manage, operate and administer the Trust and the Trustee will act as the custodian of the investments made by the Fund.

Accordingly the investments previously held under the investment account of the Fund have been transferred to the Trust with effect from 27 September 2011 (Transfer Date). The return on the investment upto the Transfer Date are included in income statement of the investment account and subsequent return is included in the income statement of the Trust.

The purpose of the Fund is to generate revenue for the discharge of pension liabilities of the Government of the Punjab. The Fund is a body corporate with perpetual succession. The Fund shall perform such functions and exercise such powers as are vested in it under the Act and the Punjab Pension Fund Rules 2007 (the Rules). The management and administration of the Fund vests in the Management Committee notified under section 5 of the Act.

This is the first year of establishment of the Trust, therefore, there are no corresponding figures in these financial statements. These financial statements have been prepared from 27 September 2011.

### 2 Statement of compliance and significant disclosures

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Punjab Pension Fund Act 2007, Punjab Pension Fund Rules 2007 and the approved International Financial Reporting Standards (IFRSs) as applicable in Pakistan. Approved accounting standards comprise of such IFRSs as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Punjab Pension Fund Act 2007 and Punjab Pension Fund Rules 2007 differ with the requirements of these standards, the requirements of Punjab Pension Fund Act 2007 and Punjab Pension Fund Rules 2007 shall prevail.

#### 2.2 Significant estimates

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities and income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized 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 area where various assumptions and estimates are significant to Fund's financial statements or where judgments were exercised in application of accounting policies is classification and valuation of financial assets.

### 3 Summary of significant accounting policies

#### 3.1 Basis of preparation

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

#### 3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after 1 July 2012. However, these are not relevant to the Fund except in few cases these may require additional disclosures.

- Amendments to IAS 12 - deferred tax on investment property.
- Amendments to IAS 19 - Employee Benefits.
- Amendments to IAS 1 - Presentation of Items of Other Comprehensive Income.
- Amendments IAS 27 - Separate Financial Statements (2011) - Disclosures.
- Amendments to IAS 28 - Investments in Associates and Joint Ventures (2011).
- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 7 - Offsetting Financial Assets and Financial Liabilities.
- Annual Improvements 2009 - 2011.
  - o *IAS 1 Presentation of Financial Statements*
  - o *IAS 16 Property, Plant and Equipment*
  - o *IAS 32 Financial Instruments: Presentation*
  - o *IAS 34 Interim Financial Reporting*
- Amendments to IFRIC 20 - Stripping cost in the production phase of a surface mining.

#### 3.3 Investments

The Fund classifies its investments as held to maturity, available-for-sale and at fair value through profit or loss.

##### **Initial measurement**

All investments are initially recognized at cost being the fair value of the consideration given including acquisition cost, except in case of financial assets at fair value through profit or loss, in which case the transaction costs are taken directly to the income statement in the period in which they arise.

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## Subsequent measurement

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

These include investments which are acquired principally for the purpose of generating profit from short term fluctuations in prices are classified as financial assets at fair value through profit or loss. These are stated at fair values with any resulting surplus/(deficit) recognized in the income statement.

### Held to maturity

The investments with fixed maturity or determinable payments where management has both intent and ability to hold to maturity are classified as held to maturity. These are stated at amortized cost using the effective interest rate method less impairment, if any. The amortization for the period is taken to the income statement.

### Available-for-sale

Investments which can not be classified as loans and receivables, held to maturity or at fair value through profit or loss are classified as available-for-sale.

Investments intended to be held for an unidentified period of time, which may be sold in response to need for liquidity or changes to interest rates or equity prices are classified as available-for-sale.

Available-for-sale investments are measured at subsequent reporting dates at fair value. However investments for which fair value cannot be determined are valued at cost. Surplus/(deficit) on re-measurement is kept in accumulated pension fund, until the security is disposed off or is determined to be impaired, at which time, the cumulative surplus/(deficit) is included in the income statement.

Fair value of financial assets is determined as follows:

a) **Government securities**

Fair value of government securities is determined on the basis of rates announced by the Financial Market Association.

b) **National saving schemes**

Fair value of national saving schemes is determined on the basis of redemption value for each scheme.

c) **Debt securities**

Fair value of debt securities, other than government securities, is determined on the basis of prices announced by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the Securities and Exchange Commission of Pakistan (SECP) Circular No. 1 of 2009 dated 6 January 2009.

d) **Listed shares**

Fair value of listed shares is determined on the basis of closing quoted market prices available at the Karachi stock exchange.

e) **Mutual Fund**

Fair value of mutual fund's units is determined with reference to the net asset value declared by the respective fund.

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### 3.4 Revenue recognition

- a) Gains / losses arising on sale of investments are included in the income statement on the date at which the transaction takes place.
- b) Dividend income is recognized when the Fund's right to receive dividend is established. Dividend received on marketable securities acquired after the announcement of dividend till the book closure date is accounted for as reduction in the cost of investment.
- c) Income on government securities, national saving schemes, bonds and term finance certificates is recognized on an accrual basis using the effective interest rate method.
- d) Income on bank deposits is recognized on accrual basis.

### 3.5 Financial instruments

- (i) Financial assets and financial liabilities are recognized when the Fund becomes a party to the contractual provisions of the instrument.
- (ii) Financial assets are de-recognized when the Fund loses control of the contractual rights that comprise the financial asset.
- (iii) Financial liabilities are de-recognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.
- (iv) Any gain or loss on de-recognition of the financial assets and financial liabilities is taken to the income statement in the period in which it arises.
- (v) Financial liabilities, other than those at fair value through profit or loss, are measured at amortized cost using the effective yield method.
- (vi) The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

### 3.6 Off setting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of assets and liabilities if the Fund has a legal enforceable right to set off the recognized amounts and intends either to settle on net basis or to realize the assets and settle the liabilities simultaneously.

### 3.7 Provisions

A provision is recognized in the statement of assets and liabilities when the Fund has legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the reliable estimate can be made of the amount of the obligation. The provisions are reviewed at each reporting date and are adjusted to reflect the current best estimates.

### 3.8 Impairment

The carrying amounts of the assets are reviewed at each reporting date to identify the circumstances indicating the occurrence of impairment loss or reversal of previous impairment losses. If any such indication exists, the recoverable amount of such asset is estimated and impairment loss is recognized in the income statement. Where an impairment loss subsequently reverses, the carrying amount of such asset is increased to the revised recoverable amount. A reversal of the impairment loss is recognized in income statement.

Provision for non-performing debt securities is made on the basis of time based criteria in accordance with the SECP Circular No. 1 of 2009 dated 6 January 2009.

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As allowed under SFCP Circular No. 13 of 2009 dated 4 May 2009, the management may also make provision against debt securities over and above the minimum provision requirement prescribed in the aforesaid circular, in accordance with a provisioning policy approved by the Management Committee.

### 3.9 Foreign currency translation

Transactions denominated in foreign currencies are translated to Pak Rupee at the foreign exchange rate ruling at the date of transaction. Assets and liabilities in foreign currency are translated at the rates of exchange prevailing on the reporting date. All exchange gains/losses are taken to the income statement.

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

The Fund enters into transactions involving purchase of an equity security in the ready market and simultaneous sale of the same security in the future market. The security purchased in ready market is classified as "Investment at fair value through profit or loss" and carried in the statement of assets and liabilities at fair value till their eventual disposal, with the resulting gain / loss taken to the income statement account. The forward sale of the security in the future market is treated as a separate derivative transaction and is carried at fair value with the resulting gain / loss taken to the income statement account in accordance with the requirements of International Accounting Standard 39: 'Financial Instruments: Recognition and Measurement'.

### 3.11 Regular way contracts

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

### 3.12 Transactions with related parties

The Fund enters into transaction with related parties on an arm's length basis. Prices for transactions with related parties are determined using admissible valuation methods.

### 3.13 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of assets and liabilities at cost. Cash and cash equivalents includes balances with banks.

### 3.14 Taxation

The income of the Fund is exempt from tax under Section 57(3)(xii) of Part I of the Second Schedule to the Income Tax Ordinance 2001, therefore no provision for taxation has been made in these financial statements.

## 4 Investments - Available for sale

		Carrying value 2012	Fair value 2012
	<i>Note</i>	Rupees	Rupees
Pakistan Investment Bonds	4.1	9,066,775,622	9,052,357,959
Market Treasury Bills	4.2	138,920,364	138,870,340
Term Finance Certificates	4.3	489,094,654	512,653,748
		9,694,790,640	9,703,882,047
Fair value adjustment		9,091,407	
		9,703,882,047	

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Grand Total

1-Feb-08	United Bank Limited	5,000	-	5,000	23,501,203	25,172,160	1,670,957	0.16	0.26
18-Mar-08	Engro Perpetual I	10,000	-	10,000	189,973,939	190,200,000	9,226,061	1.22	1.96
18-Mar-08	Engro Perpetual II	6,800	-	6,800	30,300,968	33,566,191	3,265,226	0.22	0.35
15-Jun-09	Bank Abahid Limited III	20,000	-	20,000	101,378,311	101,171,806	(206,505)	0.67	1.07
30-Jun-11	Bank Abahid Limited IV	30,000	-	30,000	119,910,000	159,593,588	9,683,588	1.02	1.61
101,800		101,800	-	101,800	489,094,654	512,653,748	23,559,094		
Grand Total		9,023,000,000	-	9,023,000,000	9,573,000,000	9,666,775,622	(9,052,357,959)		

Issue date	Name of issuer	As at 27 September 2011	Transferred in from Punjab Pension Fund	Purchase during the period	Sales / Matured during the period	As at 30 June 2012	Carrying value	Fair value	Appreciation / (diminution)	Fair value as percentage of net assets	Fair value as percentage of total investments
Term Finance Certificates											
21-Apr-11	6 Months	-	-	150,000,000	-	150,000,000	-	138,870,340	(50,024)	0.89	1.43
26-Jan-12	6 Months	-	-	140,000,000	-	140,000,000	138,920,364	138,870,340	(50,024)	0.89	1.43
Total		-	-	290,000,000	-	290,000,000	138,920,364	138,870,340	(50,024)		

Issue date	Tenor - Months	As at 27 September 2011	Transferred in from Punjab Pension Fund	Purchase during the period	Sales / Matured during the period	As at 30 June 2012	Carrying value	Fair value	Appreciation / (diminution)	Fair value as percentage of net assets	Fair value as percentage of total investments
Market Treasury Bills											
30-Aug-08	10 - Years	500,000,000	-	-	-	500,000,000	486,005,096	476,194,430	(9,810,666)	3.05	4.91
3-Sep-09	10 - Years	3,050,000,000	-	-	-	3,050,000,000	2,985,966,766	2,882,305,345	(103,661,421)	18.47	29.70
22-Jul-10	10 - Years	2,300,000,000	-	-	-	2,300,000,000	2,073,539,971	2,160,621,193	87,081,222	13.84	22.27
18-Aug-11	10 - Years	-	500,000,000	-	-	500,000,000	466,088,210	466,933,802	845,592	2.99	4.81
31-Oct-06	15 - Years	68,000,000	-	-	-	68,000,000	57,120,710	56,279,751	(840,959)	0.36	0.58
30-Aug-08	15 - Years	1,400,000,000	-	-	-	1,400,000,000	1,340,480,101	1,333,615,578	(6,864,523)	8.51	13.74
18-Aug-11	15 - Years	25,000,000	-	-	-	25,000,000	23,548,272	23,548,146	109,874	0.15	0.24
30-Aug-08	20 - Years	900,000,000	-	-	-	900,000,000	865,448,913	871,784,798	6,335,885	5.59	8.98
31-Oct-06	20 - Years	25,000,000	-	-	-	25,000,000	21,046,923	20,585,769	(461,151)	0.13	0.21
20-Jan-04	20 - Years	5,000,000	-	-	-	5,000,000	4,140,814	4,030,540	(110,274)	0.03	0.04
30-Aug-08	30 - Years	750,000,000	-	-	-	750,000,000	743,499,816	756,658,607	13,158,791	4.85	7.80
Total		9,023,000,000	500,000,000	500,000,000	-	9,573,000,000	9,052,357,959	9,052,357,959	(14,172,663)		

Issue date	Tenor - Months	As at 27 September 2011	Transferred in from Punjab Pension Fund	Purchase during the period	Sales / Matured during the period	As at 30 June 2012	Carrying value	Fair value	Appreciation / (diminution)	Fair value as percentage of net assets	Fair value as percentage of total investments
Number of Certificates											
Total		290,000,000	-	290,000,000	-	290,000,000	138,920,364	138,870,340	(50,024)		

Issue date	Tenor - Years	As at 27 September 2011	Transferred in from Punjab Pension Fund	Purchase during the period	Sales / Matured during the period	As at 30 June 2012	Carrying value	Fair value	Appreciation / (diminution)	Fair value as percentage of net assets	Fair value as percentage of total investments
Balance as at 30 June 2012											
Total		9,023,000,000	500,000,000	500,000,000	-	9,573,000,000	9,052,357,959	9,052,357,959	(14,172,663)		

Issue date	Tenor - Years	As at 27 September 2011	Transferred in from Punjab Pension Fund	Purchase during the period	Sales / Matured during the period	As at 30 June 2012	Carrying value	Fair value	Appreciation / (diminution)	Fair value as percentage of net assets	Fair value as percentage of total investments
Balance as at 30 June 2012											
Total		9,023,000,000	500,000,000	500,000,000	-	9,573,000,000	9,052,357,959	9,052,357,959	(14,172,663)		

Issue date	Tenor - Years	As at 27 September 2011	Transferred in from Punjab Pension Fund	Purchase during the period	Sales / Matured during the period	As at 30 June 2012	Carrying value	Fair value	Appreciation / (diminution)	Fair value as percentage of net assets	Fair value as percentage of total investments
Balance as at 30 June 2012											
Total		9,023,000,000	500,000,000	500,000,000	-	9,573,000,000	9,052,357,959	9,052,357,959	(14,172,663)		

Issue date	Tenor - Years	As at 27 September 2011	Transferred in from Punjab Pension Fund	Purchase during the period	Sales / Matured during the period	As at 30 June 2012	Carrying value	Fair value	Appreciation / (diminution)	Fair value as percentage of net assets	Fair value as percentage of total investments
Balance as at 30 June 2012											
Total		9,023,000,000	500,000,000	500,000,000	-	9,573,000,000	9,052,357,959	9,052,357,959	(14,172,663)		

	<i>Note</i>	2012 Rupees
<b>5 Short term investments</b>		
Term Deposit Receipts	5.1	<u>150,000,000</u>

5.1 Term Deposit Receipts are placed with commercial banks for one year term at the rates 12.43% per annum.

	<i>Note</i>	2012 Rupees
<b>6 Accrued interest</b>		
Accrued interest on:		
Term Deposit Receipts		9,941,636
Pakistan Investment Bonds		412,775,024
Term Finance Certificates		11,730,074
		<u>434,446,734</u>

<b>7 Cash and cash equivalents</b>		
Cash at bank		
Saving account	7.1	130,281,823
Term deposit receipts	7.2	5,189,738,952
		<u>5,320,020,775</u>

7.1 This carries interest @ of 11.00% per annum.

7.2 Term Deposit Receipts are placed with commercial banks for one year term at the rates ranging from 12.20% to 14% per annum.

#### **8 Contingencies and commitments**

There were no contingencies and commitments as at 30 June 2012.

#### **9 Financial instruments**

The Trust has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Management Committee has overall responsibility for the establishment and oversight of Trust's risk management framework. The Management Committee is also responsible for developing and monitoring the Trust's risk management policies.

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This note presents information about the Trust's exposure to each of the above risks, the Trust's objectives, policies and processes for measuring and managing risk.

The Trust's risk management policies are established to identify and analyze the risks faced by the Trust to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to react to changes in market conditions and the Trust's activities.

#### 9.1 Credit risk

Credit risk is the risk that a counter party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Trust, resulting in a financial loss to the Trust. At the year end it arises principally from debt securities held, term deposits, bank balances and profit/ markup recoverable, etc. Out of the total financial assets of Rs 15,608 million financial assets which are subject to credit risk amount to Rs 6,004 million.

The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is:

	<u>2012</u> Statement of assets and liabilities Rupees
Bank balances	130,281,823
Investments	512,653,748
Short term investments	150,000,000
Term Deposit Receipts	5,189,738,952
Mark-up receivable	21,671,710
	<u>6,004,346,233</u>

Differences in the balances as per the statement of assets and liabilities and maximum exposure in investments is due to the fact that investments of Rs 9,604 million relates to investments in Government Securities which are not considered to carry credit risk.

#### Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Trust's total credit exposure. Around 61.53 % of the Trust's financial assets are in Government securities which are not exposed to the credit risk, while the remaining portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentrations of credit risk.

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Details of Trust's concentration of credit risk of financial instruments by industrial distribution are as follows:

	2012	
	Rupees	Percentage
Commercial banks	5,479,962,411	91.27%
Miscellaneous	524,383,822	8.73%
	<u>6,004,346,233</u>	<u>100%</u>

### Settlement risk

The Trust's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed on sale.

For the vast majority of transactions the Trust mitigates this risk by conducting settlements through a broker or bank to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

## 9.2 Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. For this purpose the Trust has effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

The following are the contractual maturities of financial liabilities as on 30 June 2012 :

	Carrying amount	Six months or less	Six to twelve months	One to Two years	Two to five years
	-----Rupees-----				
Trustee fee payable	337,369	337,369	-	-	
Brokerage payable	75,000	75,000	-	-	
2012	<u>412,369</u>	<u>412,369</u>	-	-	

## 9.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will effect the Trust's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

### Management of market risks

The Trust manages market risk by monitoring exposure on marketable securities by following the internal management policies and investment guidelines approved by the Management Committee and regulations down by the Punjab Pension Trust Act 2007 and Punjab Pension Trust Rules 2007. The maximum risk result from financial instruments equals their fair values.

The Trust is exposed to interest rate risk only.

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9.3.1 Interest rate risk

9.3.1.1 Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently the Funds interest rate exposure arises on investment in Government securities, term finance certificates, term deposit receipts with banks and balance with bank on saving account. Currently all of the Fund's investment carry fixed interest rates except for investments in some of the Term Finance Certificates. In addition the Fund may change the mix of its portfolio to enhance the earning potential of the Fund subject to the above defined guidelines. Other risk management procedures are the same as those mentioned in the credit risk management.

9.3.1.2 At 30 June, details of the interest rate profile of the Fund's interest bearing financial assets were as follows:

**Financial assets**

	2012 Effective rate (in Percentage)	2012 Fair value Rupees
<u>Fixed rate instruments</u>		
Market Treasury Bills	11.97	138,870,340
Pakistan Investment Bonds	12.84 to 14.57	9,052,357,959
Term Finance Certificates	15.03 to 15.73	263,715,394
Term Deposit Receipts	12.20 to 14.00	5,189,738,952
Bank balances	11.00	130,281,823
Short term investments	12.43	150,000,000
		14,924,964,468

Variable rate instruments

Term Finance Certificates	KIBOR + 0.85 to KIBOR + 1.7	248,928,354
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Fair value sensitivity analysis for fixed rate instruments

The Trust does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect income statement.

Cash flow sensitivity analysis for variable rate instruments

	Profit and loss 100 bps	
	Increase Rupees	Decrease Rupees
As at 30 June 2012		
Cash flow sensitivity-Variable rate financial asset	2,489,384	(2,489,384)

None of the financial liabilities carry any interest rate.

The sensitivity analysis prepared is not necessarily indicative of the effects on profit/ (loss) for the year and assets / liabilities of the Trust.

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10 Related party transactions

The related parties comprise local associated companies, related group companies, Management Committee members of the Fund, Company where Management Committee members also hold directorship, and key management employees. The Trust in the normal course of business carries out transactions with related parties. Amounts due from related parties are shown under accrued interest and cash and cash equivalents. Details of transactions with related parties are as follows:

	2012 Rupees
<b>Transactions with The Bank of Punjab</b>	
Investments in Term Deposit Receipts	2,800,000,000
Accrued interest on Term Deposit Receipts	1,055,738
Cash at bank	112,871,601
Income from Term Deposit Receipts and Saving Account	291,731,599
<b>Transactions with Central Depository Company of Pakistan Limited (CDC) - Trustee</b>	
Trustee fee expense	3,041,519
Custody fee - CDS Charges	11,200
Security Deposits - Central Depository Company	100,000

11 Date of authorization for issue

The financial statements were authorized for issue on the Fund.

05 DEC 2012

by the Management Committee of

12 General

Figures have been rounded off to the nearest rupee.

Handwritten signature

Lahore

General Manager

Private Member

Chairman

05 DEC 2012